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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

HALO COMPANIES, INC.
(Exact name of registrant as specified in Charter)

Delaware	000-15862	13-3018466
(State or other jurisdiction of incorporation or organization)	**(Commission File No.)**	**(IRS Employee Identification No.)**

7800 N. Dallas Parkway, Suite 320
Plano, Texas 75024
(Address of Principal Executive Offices)

214-644-0065
(Issuer Telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.

Yes ☐ No ☒

State the number of shares outstanding of each of the issuer's classes of common equity, November 14, 2016: 48,562,750 shares of Common Stock, $.001 par value per share outstanding.

Halo Companies, Inc.
INDEX

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Part 1 – Financial Information
Item 1. Financial Statements

Halo Companies, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 8,495	$ 20,544
Trade accounts receivable, net of allowance for doubtful accounts of $0 and $0, respectively	26,883	43,365
Total current assets	35,378	63,909
PROPERTY, EQUIPMENT AND SOFTWARE, net	43,102	47,172
OTHER ASSETS	54,033	10,000
TOTAL ASSETS	$ 132,513	$ 121,081
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 645,209	$ 488,253
Accrued and other liabilities (including $398,975 and $177,724 to related parties, respectively)	1,719,426	1,328,662
Deferred revenue	–	20,000
Current portion of subordinated debt	595,000	20,000
Current portion of notes payable	2,322,660	2,099,475
Current portion of notes payable to related parties	2,563,956	2,822,452
Total current liabilities	7,846,251	6,778,842
SUBORDINATED DEBT, LESS CURRENT PORTION	50,000	65,000
NOTES PAYABLE TO RELATED PARTIES, LESS CURRENT PORTION	267,569	–
DERIVATIVE LIABILITY	651	2,434
Total liabilities	8,164,471	6,846,276
SHAREHOLDERS' DEFICIT		
Series Z Convertible Preferred Stock, par value $0.01 per share; 82,508 shares authorized; 0 shares issued and outstanding at September 30, 2016 and December 31, 2015	–	–
Preferred Stock, par value $0.001 per share; 917,492 shares authorized; 0 shares issued and outstanding at September 30, 2016 and December 31, 2015	–	–
Series X Convertible Preferred Stock, par value $0.01 per share; 53,677 and 143,677 shares authorized; 0 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	–	–
Series E Convertible Preferred Stock, par value $0.001 per share; 100,000 shares authorized; 70,000 shares issued and outstanding at September 30, 2016 and December 31, 2015, liquidation preference of $700,000	70	70
Halo Group, Inc. Preferred Stock, par value $0.001 per share; 2,000,000 shares authorized		
Series A Convertible Preferred Stock; 372,999 shares issued and outstanding at September 30, 2016 and December 31, 2015, liquidation preference of $826,298	373	373
Series B Convertible Preferred Stock; 229,956 shares issued and outstanding at September 30, 2016 and December 31, 2015, liquidation preference of $693,556	230	230
Series C Convertible Preferred Stock; 124,000 shares issued and outstanding at September 30, 2016 and December 31, 2015, liquidation preference of $469,312	124	124
Common Stock, par value $0.001 per share; 375,000,000 shares authorized; 48,562,750 and 48,562,750 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	48,563	48,563
Additional paid-in capital	6,871,298	6,871,298
Accumulated deficit	(14,952,616)	(13,645,853)
Total shareholders' deficit	(8,031,958)	(6,725,195)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 132,513	$ 121,081

The accompanying notes are an integral part of these consolidated financial statements.

Halo Companies, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
REVENUE (including $80, $104,153, $33,217 and $334,538 from related parties, respectively)	$ 215,275	$ 1,024,960	$ 669,551	$ 3,023,625
OPERATING EXPENSES				
Sales and marketing expenses	118,184	366,006	224,809	1,244,843
General and administrative expenses (including $63,331, $111,780, $78,331 and $245,339 to related parties, respectively)	273,111	200,067	644,817	642,429
Salaries, wages, and benefits	282,892	307,619	563,095	1,952,782
Total operating expenses	674,187	873,692	1,432,720	3,840,054
OPERATING INCOME (LOSS)	(458,912)	151,268	(763,169)	(816,429)
OTHER INCOME (EXPENSE)				
Gain on change in fair value of derivative	659	–	1,783	–
Interest expense (including $74,450, $92,619, $221,250 and $215,875 to related parties, respectively)	(214,220)	(181,689)	(545,377)	(474,223)
Net income (loss) from operations, before income tax provision	(672,473)	(30,421)	(1,306,763)	(1,290,652)
INCOME TAX PROVISION	–	–	–	13,144
NET INCOME (LOSS)	$ (672,473)	$ (30,421)	$ (1,306,763)	$ (1,303,796)
Loss per share:				
Basic & Diluted	$ (0.01)	$ (0.00)	$ (0.03)	$ (0.02)
Weighted Average Shares Outstanding				
Basic & Diluted	48,562,750	48,562,750	48,562,750	57,463,417

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
For the Nine Months Ended September 30, 2016 and 2015
(Unaudited)

	Halo Companies, Inc. Common Stock		Halo Companies, Inc. Series X Convertible Preferred Stock		Halo Companies, Inc. Series E Convertible Preferred Stock		Halo Group, Inc. Series A Convertible Preferred Stock		Halo Group, Inc. Series B Convertible Preferred Stock		Halo Group, Inc. Series C Convertible Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2014	66,364,083	$ 66,364	143,677	$ 1,437	70,000	$ 70	372,999	$ 373	229,956	$ 230	124,000	$ 124	$7,638,764	$(11,864,863)	$(4,157,501)
Redemption of Series X Convertible Preferred Stock per settlement agreement (FN 16)	–	–	(90,000)	(900)	–	–	–	–	–	–	–	–	(249,100)	–	(250,000)
Issuance of Common Shares	6,667	7	–	–	–	–	–	–	–	–	–	–	60	–	67
Cancellation of Common Shares per settlement agreement (FN 16)	(17,808,000)	(17,808)	–	–	–	–	–	–	–	–	–	–	17,808	–	–
Net loss	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,303,796)	(1,303,796)
Balance at September 30, 2015	48,562,750	48,563	53,677	537	70,000	70	372,999	373	229,956	230	124,000	124	7,407,532	(13,168,659)	(5,711,230)
Redemption of Series X Convertible Preferred Stock (FN 16)	–	–	(53,677)	(537)	–	–	–	–	–	–	–	–	(536,234)	–	(536,771)
Net loss	–	–	–	–	–	–	–	–	–	–	–	–	–	(477,194)	(477,194)
Balance at December 31, 2015	48,562,750	48,563	–	–	70,000	70	372,999	373	229,956	230	124,000	124	6,871,298	(13,645,853)	(6,725,195)
Net loss	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,306,763)	(1,306,763)
Balance at September 30, 2016	48,562,750	$ 48,563	–	$ –	70,000	$ 70	372,999	$ 373	229,956	$ 230	124,000	$ 124	$6,871,298	$(14,952,616)	$(8,031,958)

The accompanying notes are an integral part of these consolidated financial statements.

Halo Companies, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2016 and 2015
(Unaudited)

	September 30, 2016	September 30, 2015
CASH FLOWS FROM OPERATIONS		
Net (loss) income	$ (1,306,763)	$ (1,303,796)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	16,462	17,693
Amortization of loan origination costs	18,625	10,000
Capitalization of interest into note payable and notes payable to related parties	232,259	224,556
Bad debt expense	–	116
Gain on change in fair value of derivative	(1,783)	–
Notes receivable write off	–	125,000
Changes in operating assets and liabilities:		
Trade accounts receivable	16,483	50,565
Other assets	(28,158)	–
Accounts payable	156,956	(110,639)
Accrued and other liabilities	390,764	1,026,050
Deferred revenue	(20,000)	51,700
Net cash provided by (used in) operating activities	(525,156)	91,245
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in affiliate	–	(125,000)
Purchases of property and equipment	(12,393)	–
Net cash used in investing activities	(12,393)	(125,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable to related parties	–	100,000
Principal payments on notes payable to related parties	–	(25,000)
Proceeds from subordinated debt	540,500	–
Principal payments on subordinated debt	(15,000)	(26,250)
Proceeds received from issuance of common stock	–	67
Net cash provided by financing activities	525,500	48,817
Net increase (decrease) in cash and cash equivalents	(12,049)	15,062
CASH AND CASH EQUIVALENTS, beginning of period	20,544	72,982
CASH AND CASH EQUIVALENTS, end of period	$ 8,495	$ 88,044
SUPPLEMENTAL INFORMATION		
Cash paid for taxes - Texas Margin Tax	$ –	$ 13,144
Cash paid for interest	$ 106,589	$ 92,858
NONCASH SUPPLEMENTAL INFORMATION		
Cancellation of stock for settlement payment	$ –	$ 250,000
Loan Origination Fees	$ 34,500	$ –

The accompanying notes are an integral part of these consolidated financial statements.

Halo Companies, Inc.
Notes To Consolidated Financial Statements
September 30, 2016

NOTE 1. ORGANIZATION AND RECENT DEVELOPMENTS

Halo Companies, Inc. ("Halo", "HCI" or the "Company") was incorporated under the laws of the State of Delaware on December 9, 1986. Its principal executive offices are located at 7800 N. Dallas Pkwy, Suite 320, Plano TX 75024. On August 1, 2016, the Company moved from its previous office location at 18451 N. Dallas Parkway, Suite 100, Dallas, Texas 75287.

Unless otherwise provided in footnotes, all references from this point forward in this Report to "we," "us," "our company," "our," or the "Company" refer to the combined Halo Companies, Inc. entity, together with its subsidiaries.

Halo has multiple wholly-owned subsidiaries including Halo Group Inc. ("HGI"), Halo Asset Management, LLC ("HAM"), Halo Portfolio Advisors, LLC ("HPA"), and Halo Benefits, Inc. ("HBI"). HGI is the management and shared services operating company. HAM provides asset management and mortgage servicing services to investors and asset owners including all aspects of buying and managing distressed real estate owned ("REO") and non-performing loans. HPA exists to market the Company's operations as a turnkey solution for strategic business to business opportunities with HAM's investors and asset owners, major debt servicers and field service providers, lenders, and mortgage backed securities holders. HBI was originally established as an association benefit services to customers throughout the United States and although a non-operating entity, remains a subsidiary due to its historical net operating loss carryforward.

Halo has determined that the asset management and portfolio services have threatened sustainability long term and need to shift its resources to pursue other lines of revenue. Fortunately, management has been analyzing this trend for some time and made moves to begin capitalizing on its internally developed technology assets. As further discussed in Note 2 below, Halo has successfully secured multiple software license and support agreements and will continue to evaluate the best method to deliver and monetize Halo's technology assets in the market.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements are unaudited; however, in the opinion of management, all adjustments considered necessary for fair presentation of the results of the interim periods have been included (consisting of normal recurring accruals). The accompanying consolidated financial statements as of September 30, 2016, and for the three and nine months ended September 30, 2016 and 2015, include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim information. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

Revenue Recognition, Accounts Receivable and Deferred Revenue

The Company recognizes revenue in the period in which services are earned and realizable. To further understand the Company's business, HAM earns fees from its clients for its boarding and initial asset management fee, success fees, and its monthly servicing fee. The boarding and initial asset management services are performed in the first 30-60 days of assets being boarded and include; IRR analysis of loans boarded, detailed asset level workout exit strategy analysis, boarding the assets onto HAM's proprietary software platform and the integrated servicing platform, identification and oversight of custodial files, oversight of mortgage/deed assignment from previous servicer, oversight of title policy administration work, and delinquent property tax research and exposure review. HAM's monthly success fees are earned for completing its default and asset disposition services including note sales, originating owner finance agreements, and cash sales of REO properties owned by the client. HAM's servicing fees are earned monthly and are calculated on a monthly unit price for assets under management.

The Company is currently exploring potential opportunities with several client relationships that would allow the Company to implement its internally developed asset management software platform as an external service for those customers. This is commonly known as Software as a Service ("SaaS"). Cash receipts from customers in advance of revenue recognized are recorded as deferred revenue and will be earned over the entire SaaS contract period.

HAM and HPA receivables are typically paid the month following services performed. As of September 30, 2016, and December 31, 2015, the Company's accounts receivable are made up of the following percentages; HAM at 30% and 47%, HPA at 59% and 53%, and HGI at 11% and 0% respectively.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: past transaction history with the customer, current economic and industry trends, and changes in customer payment terms. The Company provides for estimated uncollectible amounts through an increase to the allowance for doubtful accounts and a charge to earnings based on actual historical trends and individual account analysis. Balances that remain outstanding after the Company has used reasonable collection efforts are written-off through a charge to the allowance for doubtful accounts. The below table summarizes the Company's allowance for doubtful accounts as of September 30, 2016 and December 31, 2015:

	Balance at Beginning of Period	Increase in the Provision	Accounts Receivable Write-offs	Balance at End of Period
Three and nine months ended September 30, 2016				
Allowance for doubtful accounts	$ 0	$ 0	$ 0	$ 0
Year ended December 31, 2015				
Allowance for doubtful accounts	$ 375,665	$ 0	$ 375,655	$ 0

Net Income (Loss) Per Common Share

Basic net income (loss) per share is computed by dividing (i) net income (loss) available to common shareholders (numerator), by (ii) the weighted average number of common shares outstanding during the period (denominator). Diluted net income (loss) per share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period. At September 30, 2016 and 2015, there were 4,518,505 and 4,623,959 shares, respectively, underlying potentially dilutive convertible preferred stock and stock options outstanding. These shares were not included in dilutive weighted average shares outstanding for the three and nine months ended September 30, 2016 and 2015 because their effect is anti-dilutive due to the Company's reported net loss.

Use of Estimates and Assumptions

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect 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 reported period. Actual results could differ from those estimates. Significant estimates include the Company's revenue recognition method and derivative liabilities.

Principles of Consolidation

The consolidated financial statements of the Company for the three and nine months ended September 30, 2016 and 2015 include the financial results of HCI, HGI, HBI, HPA and HAM. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all liquid investments with a maturity of 90 days or less to be cash equivalents.

Property, Equipment and Software

Property, equipment, and software are stated at cost. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives, ranging from three to seven years. Provisions for depreciation are made using the straight-line method.

Major additions and improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon sale or retirement, the cost of the property and equipment and the related accumulated depreciation are removed from the respective accounts, and any resulting gains or losses are credited or charged to other general and administrative expenses.

Fair Value of Financial Instruments

The carrying value of trade accounts receivable, accounts payable, and accrued and other liabilities approximate fair value due to the short maturity of these items. The estimated fair value of the notes payable and subordinated debt approximates the carrying amounts as they bear market interest rates.

The Company considers the warrants related to its subordinated debt to be derivatives, and the Company records the fair value of the derivative liabilities in the consolidated balance sheets. Changes in fair value of the derivative liabilities are included in gain (loss) on change in fair value of derivative in the consolidated statements of operations. The Company's derivative liability has been classified as a Level III valuation according to Accounting Standards Codification ("ASC") 820.

Internally Developed Software

Internally developed legacy application software consisting of database, customer relations management, process management and internal reporting modules are used in each of the Company's subsidiaries. The Company accounts for computer software used in the business in accordance with ASC 350 "Intangibles-Goodwill and Other". ASC 350 requires computer software costs associated with internal use software to be charged to operations as incurred until certain capitalization criteria are met. Costs incurred during the preliminary project stage and the post-implementation stages are expensed as incurred. Certain qualifying costs incurred during the application development stage are capitalized as property, equipment and software. These costs generally consist of internal labor during configuration, coding, and testing activities. Capitalization begins when (i) the preliminary project stage is complete, (ii) management with the relevant authority authorizes and commits to the funding of the software project, and (iii) it is probable both that the project will be completed and that the software will be used to perform the function intended. Management has determined that a significant portion of costs incurred for internally developed software came from the preliminary project and post-implementation stages; as such, no costs for internally developed software were capitalized.

Long-Lived Assets

Long-lived assets are reviewed on an annual basis or whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is generally measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by that asset. If it is determined that the carrying amount of an asset may not be recoverable, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is the estimated value at which the asset could be bought or sold in a transaction between willing parties. There were no impairment charges for the three and nine months ended September 30, 2016 and 2015.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes". ASC 740 requires the use of the asset and liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets.

The Company then assesses the likelihood of realizing benefits related to such assets by considering factors such as historical taxable income and the Company's ability to generate sufficient taxable income of the appropriate character within the relevant jurisdictions in future years. Based on the aforementioned factors, if the realization of these assets is not likely a valuation allowance is established against the deferred tax assets.

The Company accounts for its position in tax uncertainties under ASC 740-10. ASC 740-10 establishes standards for accounting for uncertainty in income taxes. ASC 740-10 provides several clarifications related to uncertain tax positions. Most notably, a "more likely-than-not" standard for initial recognition of tax positions, a presumption of audit detection and a measurement of recognized tax benefits based on the largest amount that has a greater than 50 percent likelihood of realization. ASC 740-10 applies a two-step process to determine the amount of tax benefit to be recognized in the financial statements. First, the Company must determine whether any amount of the tax benefit may be recognized. Second, the Company determines how much of the tax benefit should be recognized (this would only apply to tax positions that qualify for recognition.) The Company has not taken a tax position that, if challenged, would have a material effect on the financial statements or the effective tax rate during the three and nine months ended September 30, 2016 or 2015.

The Company incurred no penalties or interest for taxes for the three and nine months ended September 30, 2016 or 2015. The Company is subject to a three-year statute of limitations by major tax jurisdictions. The Company files income tax returns in the U.S. federal jurisdiction.

Recent Accounting Standards

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (*"ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP.

The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2018.

On February 25, 2016, the FASB completed its Leases project by issuing ("ASU 2016-02"), *Leases* (Topic 842). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. To that end, the new guidance (1) results in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases, (2) results in fewer opportunities for organizations to structure leasing transactions to achieve a particular accounting outcome on the statement of financial position, improves understanding and comparability of lessees' financial commitments regardless of the manner they choose to finance the assets used in their businesses, (3) aligns lessor accounting and sale and leaseback transactions guidance more closely to comparable guidance in Topic 606, Revenue from Contracts with Customers, and Topic 610, Other Income, (4) provides users of financial statements with additional information about lessors' leasing activities and lessors' exposure to credit and asset risk as a result of leasing, and (5) clarifies the definition of a lease to address practice issues that were raised about the previous definition of a lease and to align the concept of control, as it is used in the definition of a lease, more closely with the control principle in both Topic 606, and Topic 810, Consolidation.

The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company will further study the implications of this statement in order to evaluate the expected impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 781), Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which amends and simplifies the accounting for share-based payment awards in three areas: (1) income tax consequences, (2) classification of awards as either equity or liabilities, and (3) classification on the statement of cash flows. For public companies, ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company will further study the implications of this statement in order to evaluate the expected impact on its consolidated financial statements.

NOTE 3. CONCENTRATIONS OF CREDIT RISK

The Company maintains aggregate cash balances, at times, with financial institutions, which are in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). During the three and nine months ended September 30, 2016, the FDIC insured deposit accounts up to $250,000. At September 30, 2016, the Company's cash accounts were all less than the $250,000 FDIC insured amount and as such were insured in full.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable.

In the normal course of business, the Company extends unsecured credit to its customers. Because of the credit risk involved, management has provided an allowance for doubtful accounts which reflects its estimate of amounts which will eventually become uncollectible. In the event of complete non-performance by the Company's customers, the maximum exposure to the Company is the outstanding accounts receivable balance at the date of non-performance.

NOTE 4. OPERATING SEGMENTS

The Company has several operating segments as listed below and as defined in Note 1. The results for these operating segments are based on our internal management structure and review process. We define our operating segments by service industry. If the management structure and/or allocation process changes, allocations may change. See the following summary of operating segment reporting;

Operating Segments	For the Three Months Ended	For the Nine Months Ended

	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue				
Halo Asset Management	$ 80	$ 425,429	$ 38,319	$ 942,148
Halo Portfolio Advisors	1,200	569,531	44,632	1,947,583
Halo Group, Inc.	213,995	30,000	586,600	133,894
Net Revenue	$ 215,275	$ 1,024,960	$ 669,551	$ 3,023,625
Operating income (loss):				
Halo Asset Management	$ 80	$ 366,583	$ 37,514	$ 682,695
Halo Portfolio Advisors	(601)	212,155	35,742	728,450
Other	–	–	–	–
Less: Corporate expenses (a)	(671,952)	(609,159)	(1,380,019)	(2,714,941)
Operating income (loss):	$ (672,473)	$ (30,421)	$ (1,306,763)	$ (1,303,796)

a. Corporate expenses include salaries, benefits and other expenses, including rent and general and administrative expenses, related to corporate office overhead and functions that benefit all operating segments. Corporate expenses also include interest expense. Corporate expenses are expenses that the Company does not directly allocate to any segment above. Allocating these indirect expenses to operating segments would require an imprecise allocation methodology. Further, there are no material amounts that are the elimination or reversal of transactions between the above reportable operating segments.

The assets of the Company consist primarily of cash, trade accounts receivable, and property, equipment and software. Cash is managed at the corporate level of the Company and not at the segment level. Each of the remaining primary assets have been discussed in detail, including the applicable operating segment for which the assets and liabilities reside, in the consolidated notes to the financial statements. As such, the duplication is not warranted in this footnote.

All debt of the Company is recorded at the corporate parent companies HCI and HGI. All interest expense is included in corporate expenses above. Interest expense is discussed in further detail in Notes 8, 9, 10 and 11.

For the three and nine months ended September 30, 2016 or 2015, there have been no material transactions between reportable units that would materially affect an operating segment profit or loss. Intercompany transactions are eliminated in the consolidated financial statements.

NOTE 5. GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the Company will need to manage additional asset units under contract and/or additional financing to fully implement its business plan, including continued growth and expansion to the Company’s software development and technology services.

The Company is actively seeking growth of its asset units under management, both organically and via new client relationships. Management, in the ordinary course of business, is trying to raise additional capital through sales of common stock as well as seeking financing via equity or debt, or both from third parties. There are no assurances that additional financing will be available on favorable terms, or at all. If additional financing is not available, the Company will need to reduce, defer or cancel development programs, planned initiatives and overhead expenditures. The failure to adequately fund its capital requirements could have a material adverse effect on the Company’s business, financial condition and results of operations. Moreover, the sale of additional equity securities to raise financing will result in additional dilution to the Company’s stockholders, and incurring additional indebtedness could involve an increased debt service cash obligation, the imposition of covenants that restrict the Company operations or the Company’s ability to perform on its current debt service requirements. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company has incurred an accumulated deficit of $14,952,616 as of September 30, 2016. However, of the accumulated deficit, $2,110,748 of expense was incurred as stock-based compensation, $620,581 in depreciation expense, and $279,241 in impairment loss on investment in portfolio assets, all of which are noncash expenses. Further, $906,278 of the accumulated deficit is related to the issuance of stock dividends, also non cash reductions. The $3,916,848 total of these non-cash retained earnings reductions represents 26% of the total deficit balance.

NOTE 6. PROPERTY, EQUIPMENT AND SOFTWARE

Property, equipment and software consist of the following as of September 30, 2016 and December 31, 2015, respectively:

	September 30, 2016	December 31, 2015
Computers and purchased software	$ 115,577	$ 147,800
Furniture and equipment	214,227	203,427
	329,804	351,227
Less: accumulated depreciation	(286,702)	(304,055)
	$ 43,102	$ 47,172

Depreciation totaled $5,973, $5,728, $16,462, and $17,693 for the three and nine months ended September 30, 2016 and 2015, respectively.

NOTE 7. ACCRUED AND OTHER LIABILITIES

The Company had $1,719,426 in accrued liabilities at September 30, 2016. Included in this accrual is $660,895 in accrued interest ($261,920 of this balance is related to interest on the secured asset promissory note discussed in more detail in Note 11). The accrual also includes $954,143 in deferred compensation to several senior management personnel. The Company had $1,328,662 in accrued liabilities at December 31, 2015. Included in this accrual is $423,623 in accrued interest ($245,663 of this balance is related to interest on the secured asset promissory note discussed in more detail in Note 11). The accrual also includes $724,208 in deferred compensation to several senior management personnel.

NOTE 8. NOTES PAYABLE TO RELATED PARTIES

During March 2011, the Company entered into one unsecured promissory note with a related party (a previous company director) in the amount of $250,000 (the “2011 Related Party Note”). The 2011 Related Party Note had a fixed interest amount of $50,000 and a maturity date of July 31, 2011. On September 20, 2011, the 2011 Related Party Note was amended to include the 2011 Related Party Note plus $52,426 of accrued interest for a total note balance of $302,426. The 2011 Related Party Note has a 6% interest rate and is a monthly installment note with final balloon payment at maturity in September 2014. At the time of the filing of these consolidated financial statements, the Company and the related party had not finalized an extended maturity date, and as such the entire $206,709 2011 Related Party Note balance is included in current portion of notes payable to related parties as of September 30, 2016. As of December 31, 2015, the 2011 Related Party Note was $197,636, all of which is included in current portion of notes payable to related parties.

On September 1, 2011, several previous related party notes totaling $370,639 were amended and consolidated (“the 2011 Consolidated Related Party Note”). This note bears interest of 6% and has a maturity date of December 31, 2020. As of December 31, 2015, the 2011 Consolidated Related Party Note balance was $267,569, all of which is included in current portion of notes payable to related parties. In October 2016, the Company secured a renewal and extension of the 2011 Consolidated Related Party Note through December 31, 2020. As of September 30, 2016, the 2011 Consolidated Related Party Note balance was $267,569, all of which is included in long-term portion of notes payable to related parties.

As of December 31, 2015, a Company director had an outstanding advance to the Company of $500,000 for short term capital. As of September 30, 2016, the outstanding advance balance was $500,000. The maturity date for the advance repayment has been extended through September 30, 2016, and as such the entire balance is included in current portion of notes payable to related parties. Through March 31, 2015, the advance accrued interest at a rate of 15%. Effective in April 2015 and through September 30, 2015, the advance began accruing interest at a flat rate of $25,000 per month ($300,000 annualized fixed rate). As part of the extension for repayment of the advance through September 30, 2016, the annualized fixed interest amount will apply.

As of December 31, 2015, a Company director had an outstanding advance to the Company of $960,476 for short term capital. As of September 30, 2016, the outstanding advance balance was $960,476 and is due October 1, 2016; as such the entire balance is included in current portion of notes payable to related parties. The debt accrues interest at a rate of 15%.

As of December 31, 2015, the Company’s CEO and Director of the Board had an outstanding advance balance of $515,000 for short term capital. As of September 30, 2016, the outstanding advance balance was $515,000 and is due December 28, 2016; as such the entire balance is included in current portion of notes payable to related parties. The debt accrues interest at a rate of 15%.

As of December 31, 2015, the Company’s President and Chief Legal Officer had an outstanding advance balance of $345,000 for short term capital. As of September 30, 2016, the outstanding advance balance was $345,000 and is due December 28, 2016; as such the entire balance is included in current portion of notes payable to related parties. The debt accrues interest at a rate of 15%.

As of September 30, 2016, the notes payable to related party balance totaled $2,831,525, $2,563,956 of which is included in current portion of notes payable to related parties in the consolidated financial statements. As of December 31, 2015, the notes payable to related party balance totaled $2,822,452, all of which is included in current portion of notes payable to related parties in the consolidated financial statements.

The Company incurred $74,450, $92,619, $221,250, and $215,875 of interest expense to directors, officers, and other related parties during the three and nine months ended September 30, 2016 and 2015, respectively. Accrued interest due to directors and other related parties totaled $398,975 at September 30, 2016, all of which is included in accrued and other current liabilities. Accrued interest due to directors and other related parties totaled $177,724 at December 31, 2015, all of which is included in accrued and other current liabilities.

NOTE 9. NOTE PAYABLE

In October 2013, the Company entered into a senior unsecured convertible promissory note agreement of $1,500,000. The terms of the note include an interest rate of 15% with a maturity date of October 10, 2016. The Company, although not required, is entitled to capitalize any accrued interest into the outstanding principal balance of the note up until maturity. At the maturity date, all unpaid principal and accrued interest is due. As part of the promissory note, the Company was required to pay origination fees and expenses associated with this note agreement (discussed in Other Assets Note 2), pay the subordinated debt originated in January 2010, pay $375,000 to a related party note held by a director, with the remaining use of proceeds for general corporate purposes including payment of deferred compensation to several management personnel. Additionally, the noteholder has the right, but not the obligation, to convert up to $1,000,000 of the principal balance of the note into common shares of the Company. The $1,000,000 maximum conversion ratio would entitle the noteholder to a maximum total of 10% of the then outstanding common stock of the Company, calculated on a fully diluted basis. Any conversion of the principal amount of this note into common stock would effectively lower the outstanding principal amount of the note. As of, October 31, 2016 the Company amended the promissory note agreement to extend the maturity date until November 20, 2016 and is continuing conversations with the Noteholder with regard to a long-term agreement. As of September 30, 2016, the note payable balance was $2,322,660, which includes capitalized interest of $822,660. As of December 31, 2015, the note payable balance was $2,099,475, which includes capitalized interest of $599,475.

NOTE 10. SUBORDINATED DEBT

During January 2010, the Company authorized a $750,000 subordinated debt offering (“Subordinated Offering”), which consisted of the issuance of notes paying a 16% coupon with a 1% origination fee at the time of closing. The maturity date of the notes was December 31, 2013. In October 2013, the Company entered into a senior unsecured convertible promissory note (discussed in Note 9) which required the use of those financing proceeds to pay down the subordinated debt. As such, as of December 31, 2013, the remaining balance was $0.

As part of the Subordinated Offering, the Company granted to investors common stock purchase warrants (the “Warrants”) to purchase an aggregate of 200,000 shares of common stock of the Company at an exercise price of $0.01 per share. The 200,000 shares of common stock contemplated to be issued upon exercise of the Warrants are based on an anticipated cumulative debt raise of $750,000. The investors are granted the Warrants pro rata based on their percentage of investment relative to the $750,000 aggregate principal amount of notes contemplated to be issued in the Subordinated Offering. A total of 112,000 warrants were issued. The Warrants shall have a term of seven years, exercisable from January 31, 2015 to January 31, 2017. During 2015, 6,667 of the 112,000 warrants were purchased for $67 and converted to common stock.

The Company follows the provisions of ASC 815, “Derivatives and Hedging”. ASC 815 requires freestanding contracts that are settled in a company’s own stock to be designated as an equity instrument, assets or liability. Under the provisions of ASC 815, a contract designated as an asset or liability must be initially recorded and carried at fair value until the contract meets the requirements for classification as equity, until the contract is exercised or until the contract expires. Accordingly, the Company determined that the warrants should be accounted for as derivative liabilities and has recorded the initial value as a debt discount which was amortized into interest expense using the effective interest method. As of December 31, 2013, the balance of the debt discount was $0 (fully amortized). Subsequent changes to the marked-to-market value of the derivative liability are recorded in earnings as derivative gains and losses. As of September 30, 2016 and December 31, 2015, there were 105,333 warrants outstanding, respectively, with a derivative liability of $651 and $2,434. The Warrants were valued using the Black-Scholes model, which resulted in the fair value of the warrants at $0.02 per share using the following assumptions:

	September 30, 2016
Risk-free rate	0.29%
Expected volatility	308.26%
Expected remaining life (in years)	0.33
Dividend yield	0.00%

During October 2014, the Company entered into an additional $100,000 subordinated term note with the current holder of the Company's subordinated debt. The note pays an 18% coupon rate with a maturity date of September 30, 2017. There are no warrants associated with this subordinated term note. Repayment terms of the note include interest only payments through March 31, 2015. Thereafter, level monthly payments of principal and interest are made as calculated on a 60-month payment amortization schedule with final balloon payment due at maturity. The rights of the holder of this note is subordinated to any and all liens granted by the Company to the As of September 30, 2016, the remaining balance of this note totals $70,000, of which $20,000 is included in current portion of subordinated debt. As of December 31, 2015, the remaining balance of this note totals $85,000, of which $20,000 is included in current portion of subordinated debt.

During June 2016, the Company entered into a $425,000 subordinated term note. The note pays an 12% coupon rate with a maturity date of June 30, 2017. As part of the promissory note, the Company was required to pay origination fees and expenses associated with this note agreement (discussed in Other Assets Note 2) in the amount of $25,500 with the remaining $399,500 in proceeds to be used for general corporate purposes. There are no warrants associated with this subordinated term note. Repayment terms of the note include interest only payments through December 31, 2016. Thereafter, level monthly payments of principal and interest are made as calculated on a 36-month payment amortization schedule with final balloon payment due at maturity. The rights of the holder of this note is subordinated to any and all liens granted by the Company to the holder of the note payable discussed in Note 9 above. During July 2016, the note amount was increased by $150,000 with all other terms remaining the same. As part of principal increase, the Company was required to pay origination fees and expenses associated with this note agreement (discussed in Other Assets Note 2) in the amount of $9,000 with the remaining $141,000 in proceeds to be used for general corporate purposes. As of September 30, 2016, the remaining balance of this note totals $575,000, of which $575,000 is included in current portion of subordinated debt.

NOTE 11. SECURED ASSET PROMISSORY NOTE

During December 2010, the Company authorized a debt offering to be secured by real estate assets purchased in connection with Equitas Housing Fund, LLC, ("Equitas Offering"). The Equitas Offering generated $1,200,000 in proceeds. Of the $1,200,000 in proceeds received in December 2010, $300,000 was used to acquire non-performing, residential mortgage notes and the balance was used for mortgage note workout expenses and operational expenses of Halo Asset Management. The Secured Asset Promissory Notes consisted of a 25% coupon. In May 2013, the Secured Asset Promissory Note was paid in full, along with $150,000 of the outstanding accrued interest balance. Halo and the secured asset promissory note holder agreed to include the remaining accrued interest in a promissory note due December 31, 2014. The promissory note will accrue interest at a 10% annual rate, with interest only payments due periodically and final balloon payment due at maturity. At the time of the filing of these consolidated financial statements, the Company and note holder have not finalized an extended maturity date. As such, as of September 30, 2016, the entire accrued interest balance of $261,920 is included in current portion of accrued interest. As of December 31, 2015, the entire accrued interest balance of $245,663 is included in current portion of accrued interest. For the three and nine months ended September 30, 2016 and 2015, the Company incurred $5,419, $5,419, $16,257, and $16,257, respectively, in interest expense on the note.

NOTE 12. RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2016 and 2015, HAM recognized monthly servicing fee revenue totaling $80, $33,217, $104,153 and $334,538, respectively, from an entity that is an affiliate of the Company. Further, facilities rent expense discussed in Note 14 was expensed and paid to the same affiliate. Additionally, for the three and nine months ended September 30, 2016 and 2015, the Company incurred $0, $0, $75,000, and $125,000, respectively, in the write off of a note receivable it invested during the three months ended June 30, 2015 in the same affiliate of the Company. The write offs are included in general and administrative expenses on the consolidated statements of operations and discussed further in section Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations below.

For the three and nine months ended September 30, 2016 and 2015, the Company incurred interest expense to related parties (See Note 8).

For the three and nine months ended September 30, 2016 and 2015, the Company incurred $0, $0, $0 and $20,000, respectively, in commission expense to an entity that is an affiliate of the Company.

For the three and nine months ended September 30, 2016 and 2015, the Company incurred $0, $15,000, $15,000 and $35,000, respectively, in consulting expense to an entity that is an affiliate of the Company.

NOTE 13. INCOME TAXES

For the three and nine months ended September 30, 2016 and 2015, the effective tax rate of 0% varies from the U.S. federal statutory rate primarily due to state income taxes, net losses, certain non-deductible expenses and an increase in the valuation allowance associated with the net operating loss carryforwards. Our deferred tax assets related to net operating loss carryforwards remain fully reserved due to uncertainty of utilization of those assets.

Deferred tax assets and liabilities are computed by applying the effective U.S. federal and state income tax rate to the gross amounts of temporary differences and other tax attributes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. At December 31, 2015 and September 30, 2016, the Company believed it was more likely than not that future tax benefits from net operating loss carry-forwards and other deferred tax assets would not be realizable through generation of future taxable income and are fully reserved.

The Company has net operating loss ("NOL") carry-forwards of approximately $8,000,000 available for federal income tax purposes, which expire from 2024 to 2035. Separately, because of the changes in ownership that occurred on June 30, 2004 and September 30, 2009, prior to GVC merging with HCI, and based on the Section 382 Limitation calculation, the Company will be allowed approximately $6,500 per year of GVC Venture Corp.'s federal NOLs generated prior to June 30, 2004 until they would otherwise expire. The Company would also be allowed approximately $159,000 per year of GVC Venture Corp.'s federal NOLs generated between June 30, 2004 and September 30, 2009 until they would otherwise expire.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The Company leases very limited office equipment, each under a non-cancelable operating lease providing for minimum monthly rental payments. In relation to its office facilities, the Company has entered into a 39 month office lease.

Future minimum rental obligations as of September 30, 2016 are as follows:

Years Ending December 31:		
2016	$	28,158
2017		115,813
2018		119,630
2019		120,267
2020		–
Thereafter		–
Total minimum lease commitments	$	383,868

For the three and nine months ended September 30, 2016 and 2015, the Company incurred facilities rent expense totaling $0, $0, $21,780, and $65,339, respectively.

In the ordinary course of conducting its business, the Company may be subject to loss contingencies including possible disputes or lawsuits.

NOTE 15. STOCK OPTIONS

The Company granted stock options to certain employees under the HGI 2007 Stock Plan, as amended (the "Plan"). The Company was authorized to issue 2,950,000 shares subject to options, or stock purchase rights under the Plan. These options (i) vest over a period no greater than two years, (ii) are contingently exercisable upon the occurrence of a specified event as defined by the option agreements, and (iii) expire three months following termination of employment or five years from the date of grant depending on whether or not the options were granted as incentive options or non-qualified options. At September 30, 2009, pursuant to the terms of the merger, all options granted prior to the merger were assumed by the Company and any options available for issuance under the Plan but unissued, have been forfeited and consequently the Company has no additional shares subject to options or stock purchase rights available for issuance under the Plan. As of September 30, 2016, 438,300 option shares have been exercised. Total stock options outstanding as of September 30, 2016 total 170,000. The weighted average remaining contractual life of the outstanding options at September 30, 2016 is approximately 1 year.

A summary of stock option activity in the Plan is as follows:

	Number of Options	Exercise Price Per Option	Weighted Average Exercise Price

Outstanding at December 31, 2014	170,000	$ 0.01	$ 0.01
Granted	–	–	–
Exercised	–	–	–
Canceled	–	–	–
Outstanding at December 31, 2015	170,000	$ 0.01	$ 0.01
Granted	–	–	–
Exercised	–	–	–
Canceled	–	–	–
Outstanding at September 30, 2016	170,000	$ 0.01	$ 0.01

All stock options granted under the Plan became exercisable upon the occurrence of the merger that occurred on September 30, 2009. As such, equity-based compensation for the options was recognized in earnings from issuance date of the options over the vesting period of the options effective December 31, 2009.

On July 19, 2010, the board of directors approved the Company's 2010 Incentive Stock Plan ("2010 Stock Plan"). The 2010 Stock Plan allows for the reservation of 7,000,000 shares of the Company's common stock for issuance under the plan. The 2010 Stock Plan became effective July 19, 2010 and terminates July 18, 2020. As of September 30, 2016, 20,000 shares had previously been granted (all granted in the year ended December 31, 2012) under the 2010 Stock Plan with an exercise price of $0.34 per option. These are the only shares that have been issued under the 2010 Stock Plan. The shares granted vested immediately and can become exercisable for so long as the Company remains a reporting company under the Securities Exchange Act of 1934. As of September 30, 2016, none of the shares issued under the 2010 Stock Plan have been exercised.

NOTE 16. SHAREHOLDERS' (DEFICIT) EQUITY

Common Stock

On December 13, 2010 ("the Closing"), the Company was party to an Assignment and Contribution Agreement (the "Agreement"). Pursuant to the terms of Agreement, the members of Equitas Asset Management, LLC, ("EAM"), a non Halo entity, which owned 100% of the interests of Equitas Housing Fund, LLC ("EHF"), assigned and contributed 100% of the interests of EAM to HAM (a Halo subsidiary) in exchange for shares of 21,200,000 shares of the Company's Common Stock, $0.001 par value, of the Company. The Agreement did not constitute a business combination.

The Company issued 7,500,000 shares of Halo common stock in exchange for $3,000,000 in debt or equity capital. The aggregate of 7,500,000 shares of Halo common stock will be subject to clawback (and cancellation) by Halo in the event that EAM does not generate at least three million dollars ($3,000,000) in new capital to Halo within twelve months following the closing. Halo shall have the right to claw back 2.5 shares of Halo common stock for every dollar not raised within the twelve months. Any cash generated by EAM will need to be designated for use in Halo's general operations and not that of the EHF business to release the clawback rights.

The Company issued 13,700,000 shares of Halo common stock for the purchase of intangible assets owned by EAM which included trade secrets and business processes used in the EHF business. The aggregate 13,700,000 shares of Halo common stock shall be subject to clawback (and cancellation) by Halo in the event that EAM fails to generate at least $10,000,000 of net operating cash flows from the EHF business within twenty-four months following the closing. Halo shall have the right to claw back 1.37 shares of Halo common for every dollar not generated from the net operating cash flows of the EHF business. Once the $10,000,000 in net operating cash flows from the EHF business is generated, the clawback rights will be released.

In applying the guidance of ASC 505 "Equity" to the above transactions, the clawback provisions create a performance commitment that has not been met. As such, although the transaction did provide for a grant date at which time the equity shares are issued and outstanding, the equity shares have not met the measurement date requirements required by ASC 505. Accordingly, the par value of the shares issued and outstanding have been recorded at the grant date and as the clawback rights are released and the measurement dates established, the fair value of the transactions will be determined and recorded. The pro-rata fair value of equity issued in connection with fund raising efforts at each measurement date will be recorded as debt issuance costs or a reduction in the equity proceeds raised by the counter party. The pro-rata fair value of equity issued in connection with the purchase of intangible assets at the measurement date will be recorded as amortization expense because the amortization period of the underlining asset purchase and the clawback release rights are commensurate.

As mentioned above, the Agreement provides for "clawback" provisions, pursuant to which all of the shares of Halo Common Stock issued to the member of EAM are subject to forfeiture in the event certain financial metrics are not timely achieved. The financial metrics call for significant cash generation by EHF within the first 12 months, and within the first 24 months following the closing date. We refer you to Section 2(b)(i) and (ii) of the Agreement, for the specifics of the clawback provisions. As of

December 31, 2012, no cash was generated by EHF. The times to meet both the 12 month and 24 month financial metrics have lapsed and the metrics have not been met. Based upon the events that have transpired, and the lack of progress toward the financial metrics, the Company demanded that the recipients of the shares of Halo Common Stock give effect to both clawback provisions and immediately forfeit back all of the Halo shares issued to such recipients – an aggregate of 21,200,000 shares. Additionally, the Company has instructed the Company's transfer agent to cancel all of the shares of Company Common Stock issued pursuant to the Agreement. As of December 31, 2014, the Company's transfer agent had refused to cancel the shares without either (i) presentation of the physical certificates to the transfer agent, or (ii) a court order requiring the transfer agent to cancel.

During March 2015, the Company entered into a $250,000 compromise and settlement agreement with the court appointed receivership holding 17,808,000 shares of the Company's 21,200,000 common stock noted above. The physical stock certificate was sent to the Company's transfer agent to immediately cancel those respective outstanding shares of that Agreement. Upon receipt by the transfer agent of the stock certificates noted above, the transfer agent did cancel the respective 21,200,000 shares of common stock. An additional 1,272,000 shares of the company's common stock, all subject to the clawback provisions of the Agreement have also been sent to the Company's transfer agent to immediately cancel those respective common shares of that Agreement but as of the time of this filing those shares have not yet been canceled. Some of the shares were returned to the Company by the Transfer Agent requiring a medallion guarantee. The Company expects to have these shares cancelled sometime in 2016. Secondarily, the Company is actively pursuing the procurement of an additional physical certificate from a respective individual still in possession of the common stock certificate. As of the time of these consolidated financials 3,392,000 of the 21,200,000 shares issued as part of the Agreement remain outstanding.

The Company's total common shares outstanding totaled 48,562,750 at September 30, 2016.

Preferred Stock

In connection with the 2009 merger, the Company authorized 1,000,000 shares of Series Z Convertible Preferred Stock with a par value of $0.01 per share (the "Series Z Convertible Preferred"). The number of shares of Series Z Preferred Stock may be decreased by resolution of the Board; provided, however, that no decrease shall reduce the number of Series Z Preferred Shares to less than the number of shares then issued and outstanding. In the event any Series Z Preferred Shares shall be converted, (i) the Series Z Preferred Shares so converted shall be retired and cancelled and shall not be reissued and (ii) the authorized number of Series Z Preferred Shares set forth in this section shall be automatically reduced by the number of Series Z Preferred Shares so converted and the number of shares of the Corporation's undesignated Preferred Stock shall be deemed increased by such number. The Series Z Convertible Preferred is convertible into common shares at the rate of 45 shares of common per one share of Series Z Convertible Preferred. The Series Z Convertible Preferred has liquidation and other rights in preference to all other equity instruments. Simultaneously upon conversion of the remaining Series A Preferred, Series B Preferred, and Series C Preferred and exercise of any outstanding stock options issued under the HGI 2007 Stock Plan into Series Z Convertible Preferred, they will automatically, without any action on the part of the holders, be converted into common shares of the Company. Since the merger, in connection with the exercise of stock options into common stock and converted Series A Preferred, Series B Preferred and Series C Preferred as noted above, 82,508 shares of Series Z Convertible Preferred were automatically authorized and converted into shares of the Company's common stock leaving 917,492 shares of authorized undesignated Preferred Stock in the Company in accordance with the Series Z Convertible Preferred certificate of designation. As of September 30, 2016, there were 82,508 shares of Series Z Preferred authorized with zero shares issued and outstanding.

The Company authorized 175,000 shares of Series X Convertible Preferred Stock with a par value of $0.01 per share (the "Series X Preferred"). The number of shares of Series X Preferred may be decreased by resolution of the Board; provided, however, that no decrease shall reduce the number of Series X Preferred to less than the number of shares then issued and outstanding. In the event any Series X Preferred Shares shall be redeemed, (i) the Series X Preferred so redeemed shall be retired and cancelled and shall not be reissued and (ii) the authorized number of Series X Preferred Shares set forth in this section shall be automatically reduced by the number of Series X Preferred Shares so redeemed and the number of shares of the Corporation's undesignated Preferred Stock shall be deemed increased by such number. The Series X Preferred Shares rank senior to the Company's common stock to the extent of $10.00 per Series X Preferred Shares and on a parity with the Company's common stock as to amounts in excess thereof. The holders of Series X Preferred shall not have voting rights. Holders of the Series X Preferred shall be entitled to receive, when and as declared by the board of directors, dividends at an annual rate of 9% payable in cash when declared by the board. Holders of Series X Preferred have a liquidation preference per share equal to $10.00. During March 2015, as part of the $250,000 compromise and settlement agreement with the court appointed receivership discussed above, the settlement agreement calls for a relinquishment and abandonment of any and all claims against Halo on 90,000 shares of the Company's Series X Preferred stock belonging to the receivership. The liquidation preference was $536,770 as of September 30, 2015. During December 2015, the Company exercised its redemption right and redeemed the remaining issued and outstanding 53,677 shares in exchange for promissory notes. As such, as of September 30, 2016, there were no shares authorized, issued or outstanding.

In April 2012, the Company authorized 100,000 shares of Series E Convertible Preferred Stock (the "Series E Preferred") with a par value of $0.001 per share, at ten dollars ($10.00) per share with a conversion rate of fifty (50) shares of the Company's common stock for one share of Series E Preferred. The number of shares of Series E Preferred may be decreased by resolution of the Board; provided, however, that no decrease shall reduce the number of Series E Preferred to less than the number of shares then issued and outstanding. In the event any Series E Preferred Shares shall be converted, (i) the Series E Preferred so converted shall be retired and cancelled and shall not be reissued and (ii) the authorized number of Series E Preferred Shares set forth shall be automatically reduced by the number of Series E Preferred Shares so converted and the number of shares of the Corporation's undesignated Preferred Stock shall be deemed increased by such number. The Series E Preferred Shares rank senior to the Company's common stock to the extent of $10.00 per Series E Preferred Shares and on a parity with the Company's common stock as to amounts in excess thereof. The holders of Series E Preferred shall not have voting rights. Holders of the Series E Preferred shall be entitled to receive, when and as declared by the board of directors, dividends at an annual rate of 9% payable in cash or common stock when declared by the board. Holders of Series E Preferred have a liquidation preference per share equal to $10.00. The liquidation preference was $700,000 as of September 30, 2015. Each share of Series E Preferred, if not previously converted by the holder, will automatically be converted into common stock at the then applicable conversion rate after thirty-six months from the date of purchase. As of September 30, 2016, there were 70,000 shares issued and outstanding with total cash consideration of $700,000, convertible into 3,500,000 shares of the Company's common stock.

The HGI Series A Convertible Preferred Stock (the "Series A Preferred") has a par value of $0.001 per share and has a liquidation preference of the greater of (a) the consideration paid to the Company for such shares plus all accrued but unpaid dividends, if any or (b) the per share amount the holders of the Series A Preferred would be entitled to upon conversion, as defined in the Series A Preferred certificate of designation. The liquidation preference was $826,298, of which $266,799 is an accrued (but undeclared) dividend as of September 30, 2016. Holders of the Series A Preferred are entitled to receive, if declared by the board of directors, dividends at a rate of 8% payable in cash or common stock of the Company. The Series A Preferred is convertible into the Company's common stock at a conversion price of $1.25 per share. The Series A Preferred is convertible, either at the option of the holder or the Company, into shares of the Company's Series Z Convertible Preferred Stock, and immediately, without any action on the part of the holder, converted into common stock of the Company. The Series A Preferred is redeemable at the option of the Company at $1.80 per share prior to conversion. As of September 30, 2016, there have been 127,001 shares of Series A Preferred converted or redeemed. The Series A Preferred does not have voting rights. The Series A Preferred ranks senior to the following capital stock of the Company: (a) Series B Preferred, and (b) Series C Preferred.

The HGI Series B Convertible Preferred Stock (the "Series B Preferred") has a par value of $0.001 per share and has a liquidation preference of the greater of (a) the consideration paid to the Company for such shares plus all accrued but unpaid dividends, if any or (b) the per share amount the holders of the Series B Preferred would be entitled to upon conversion. The liquidation preference was $693,556, of which $233,644 is an accrued (but undeclared) dividend as of September 30, 2016. Holders of the Series B Preferred are entitled to receive, if declared by the board of directors, dividends at a rate of 8% payable in cash or common stock of the Company. The Series B Preferred is convertible into the Company's common stock at a conversion price of $1.74 per share. The Series B Preferred is convertible, either at the option of the holder or the Company, into shares of the Company's Series Z Convertible Preferred Stock, and immediately, without any action on the part of the holder, converted into common stock of the Company. The Series B Preferred is redeemable at the option of the Company at $2.30 per share prior to conversion. As of September 30, 2016, there have been 270,044 shares of Series B Preferred converted or redeemed. The Series B Preferred does not have voting rights. Series B Preferred ranks senior to the following capital stock of the Company: the Series C Preferred.

The HGI Series C Convertible Preferred Stock (the "Series C Preferred") has a par value of $0.001 per share and has a liquidation preference of the greater of (a) the consideration paid to the Company for such shares plus all accrued but unpaid dividends, if any or (b) the per share amount the holders of the Series C Preferred would be entitled to upon conversion. The liquidation preference was $469,312, of which $159,312 is an accrued (but undeclared) dividend as of September 30, 2016. Holders of the Series C Preferred are entitled to receive, if declared by the board of directors, dividends at a rate of 8% payable in cash or common stock of the Company. The Series C Preferred is convertible into the Company's common stock at an initial conversion price of $2.27 per share. The Series C Preferred is convertible, either at the option of the holder or the Company, into shares of the Company's Series Z Convertible Preferred Stock, and immediately, without any action on the part of the holder, converted into common stock of the Company. The Series C Preferred is redeemable at the option of the Company at $2.75 per share prior to conversion. As of September 30, 2016, there have been 28,000 shares of Series C Preferred converted or redeemed. The Series C Preferred does not have voting rights. Series C Preferred ranks senior to the following capital stock of the Company: None.

The Company had issued and outstanding at September 30, 2016, 372,999 shares of Series A Preferred, 229,956 shares of Series B Preferred, and 124,000 shares of Series C Preferred, all with a par value of $0.001.

NOTE 17. SUBSEQUENT EVENTS

There are no subsequent events to disclose.

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

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact constitute "forward-looking statements". Words such as "expect," "estimate," "project," "budget," "forecast," "anticipate," "intend," "plan," "may," "will," "could," "should," "believes," "predicts," "potential," "continue," and similar expressions are intended to identify such forward-looking statements but are not the exclusive means of identifying such statements. Although the Company believes that the current views and expectations reflected in these forward-looking statements are reasonable, those views and expectations, and the related statements, are inherently subject to risks, uncertainties, and other factors, many of which are not under the Company's control. Those risks, uncertainties, and other factors could cause the actual results to differ materially from those in the forward-looking statements. Those risks, uncertainties, and factors (including the risks contained in the section of this report titled "Risk Factors") that could cause the Company's actual results, performance or achievements to differ materially from those described or implied in the forward-looking statements and its goals and strategies to not be achieved. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Report. The Company expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any change in its views or expectations. The Company can give no assurances that such forward-looking statements will prove to be correct.

The following discussion of the financial condition and results of operation of the Company should be read in conjunction with the consolidated financial statements and the notes to those statements included in this Report.

Company Overview

The Company, through its subsidiaries has historically operated a nationwide distressed asset services company, providing technology-driven asset management, portfolio due diligence, acquisition, repositioning and liquidation strategies for the private investment and mortgage servicing industry. Founded in 2004, Halo began operating in the mortgage origination sector, expanding quickly to an award-winning consumer financial services company. Halo's years of experience, key leadership and industry knowledge, laid the foundation for its emergence as a premier distressed asset services company.

Halo has focused its distressed asset services, portfolio due diligence, and asset liquidation strategies primarily on single family residential real estate across the United States for its business customers (typically distressed debt investors or debt servicers) to market turnkey solutions for improved performance and monetization of their portfolios. In today's economy, lenders are experiencing an overflow of distressed assets. Many mortgage debt servicers are currently overwhelmed with externally imposed programs that are stretching the limits of their human resources, money and time. Halo's technology systems are bundled with transparency, accountability, efficiency, and flexibility. This unique strategy directs borrowers into an intelligent, results-driven process that establishes affordable, long-term mortgages while also achieving an improved return for lenders and investors, when compared to foreclosure.

As with any industry, the mortgage and distressed residential industry is dynamic and continues to have strategy shift creating both challenges and opportunities. There is an ongoing consolidation of assets from middle-market investors to institutional investors causing many of Halo clients to sell their inventory and move to other sectors to deploy capital. The margin restrictions caused by this consolidation coupled with the increased regulatory burden and operating costs are making it difficult for smaller investors to compete. As such, Halo is seriously evaluating the viability of its asset management and portfolio services business and has begun to make moves to reposition the Company.

The Company is currently exploring potential opportunities with several client relationships that would allow the Company to implement its internally developed and used asset management software platform as an external service for those customers. This is commonly known as Software as a Service ("SaaS"). The Company entered into a consulting and development agreement with a customer during late 2014, and then entered into a SaaS contract with that client who prepaid for a 12-month service plan during March 2015. Cash receipts from customers in advance of revenue recognized are recorded as deferred revenue and will be earned over the entire SaaS contract period. During the three and nine months ended September 30, 2016, the Company has secured additional contracts and continues to evaluate both product lines and target markets to pursue in the future.

Plan of Operations

The Company is pursuing the licensing and support of its internally developed Financial Technology ("FinTech") across the special finance industry. Finance is one of the last industries to be disrupted by technology, behind industries like telecom, music, and retail over a decade ago, and transportation and tourism more recently. Leaving it as a final frontier, ripe for innovation. Over the last five years, there has been an explosion of tech start-ups rapidly innovating the finance sector. These start-ups are slicing up the financial services industry and creating innovative ways to disrupt the traditional banking industry by providing financial technology that is faster, better value and fairer. FinTech is on the verge of becoming a mainstream consumer trend.

According to a recent survey there are five main market conditions that will create the perfect storm for FinTech adoption.

- The loss of trust in the banks and financial markets due to the global financial crisis of 2008
- Expectations of better technology
- The rise of the millennials
- The rise of the mobile internet
- Regulation that truly looks after the rights of the consumer

These factors and many others have created an environment where businesses and consumers are not only looking, but expecting to find, better solutions to their financial technology needs. Specifically, real estate management, mortgage origination, and servicing are woefully behind other sectors in terms of quality innovation in technology. This is the result of the fact that when real estate cycles are hot, companies are focused on closing transactions at all cost and not in developing better technology. When there is a down-turn in the market, it is usually steep and deep and companies no longer have the appetite or budget to continue development. Therefore, in almost every sector of real estate, technology is outdated, cumbersome, and what makes it even worse is that it is expensive. As an alternative, companies often find themselves having to turn to cheap, vanilla tools such as Sales Force, ACT, etc.

The Company has core technology that is not only cutting-edge, but also proven which is more than most 3rd party software development firms can say. This technology can make a major impact to the real estate investment and servicing sectors immediately, while the Company continues to identify other opportunities to expand its product line.

Significant effort and investment capital has been incurred by the Company over the past eleven years in order to attract and maintain a qualified and capable staff, develop proprietary software platforms, and implement systems, procedures, and infrastructure to execute the business plan on a large scale. The Company is actively managing multiple SaaS contracts and continues to develop new prospects for additional SaaS engagements and custom development opportunities.

Results of Operations for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015

To completely understand the Company's results, the below discussion should be read in conjunction with Note 4 Operating Segments of the consolidated financial statements.

Revenues

For the three months ended September 30, 2016, revenue decreased $809,686 and 79% to $215,275 from $1,024,960 for the three months ended September 30, 2015. The variance is primarily attributable to revenue decreases of $425,350 in HAM, $568,331 in HPA offset by an increase in revenue of $183,995 related to the Company's SaaS contract which is discussed in Company Overview section above.

As discussed in Note 2 of the consolidated financial statements, HAM revenues include boarding and initial asset management fees, success fees, and its monthly servicing fee. HAM revenues decreased $425,350 and 99% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Attributable to the variance, the Company experienced a reduction in its success fees, asset management, and servicing oversight fees during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 directly related to shift in the business plan and the loss of assets under management.

The HPA revenue decrease of $568,331 and 99% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 is primarily attributable to less volume of assets being managed and a reduction of portfolio acquisition support performed during the current quarter which directly resulted in a decrease of property valuation analysis and the due diligence fee associated with this portfolio acquisition support.

Looking forward, it should be noted that the Company does not expect any incremental revenue from its asset management and portfolio services as it has completely transitioned out of the business lines and the only remaining revenue would be incidental and immaterial to the Company's overall revenue.

For the nine months ended September 30, 2016, revenue decreased $2,354,074 and 78% to $669,551 from $3,023,625 for the nine months ended September 30, 2015. The decrease is primarily attributable to the $2,808,102 decrease in revenue due to the reduction in asset management fees, servicing over-sight fees, and success fees correlated to the reduction in asset management services as mentioned above offset by an increase in revenue of $452,706 related to the Company's software development and technology services business. For the three months ended September 30, 2016 the revenue decreased $809,686 and 79% to $215,275 from $1,024,960 for the three months ended September 30, 2015. The decrease is primarily attributable to the same reasons mentioned above related to the shift from asset management services to technology services. It should be noted that the decrease in revenue period over period will begin to slow as the asset management revenue in previous periods continues to decrease while the new revenue associated with the SaaS service lines begins to ramp. The decrease in the nine months ended September 30, 2016 of $2,354,074 as compared to the nine months ended September 30, 2015 was primarily a result of several portfolio acquisition support and due diligence projects completed during the first nine months of 2015 and the general shift in the business plan away from asset management services towards technology services.

Overall, looking forward to the remainder of 2016, in late August 2016, as part of its ordinary course of business, the Company delivered a semi-custom software application to a client. As such, the Company is expecting to see an increase in its software licensing fees, while the remainder of the asset management and success fees will likely continue to decrease. The Company continues to evaluate and refine its sales and marketing strategy as well as manage its expenses, including corporate, personnel, and vendor relationships, in line with its revenue. The Company is actively seeking growth of its SaaS and software development services both organically and via new client relationships.

Operating Expenses

Sales and marketing expenses include direct sales costs and marketing incurred with business development for the SaaS and custom software development services, for HPA for property preservation, tax and title reporting, eviction filing, mobile notary services, asset valuation, credit reports, and all other contract service commissions. Sales and marketing expenses decreased $247,822 and 68% to $118,184 for the three months ended September 30, 2016 from $366,006 for the three months ended September 30, 2015. The decrease is primarily related to the variable expense associated with the above noted decrease in revenues in HPA (for portfolio acquisition support) over the same time period. For the nine months ended September 30, 2016, sales and marketing expenses decreased $1,020,034 and 82% to $224,809 from $1,244,843 for the nine months ended September 30, 2015, primarily related to the portfolio acquisition support and due diligence projects completed during the first three months of 2015 as noted above offset by the decrease in revenue for the nine months ended September 30, 2016.

General and administrative expenses increased $73,044 and 37% to $273,111 for the three months ended September 30, 2016 from $200,067 for the three months ended September 30, 2015. The variance is primarily attributable to additional operating costs associated with launching the SaaS and custom software development services that occurred during the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The $73,044 increase is comprised of several immaterial variances in other general and administrative expenses including depreciation, legal, travel and entertainment, and consulting during the three months ended September 30, 2016 compared to the three months ended September 30, 2015. General and administrative expenses increased $2,388 and 0.4% to $644,817 for the nine months ended September 30, 2016 from $642,429 for the nine months ended September 30, 2015 primarily due to lower costs associated with the reduction in asset management service for the nine months ended September 30, 2016 as compared to September 30, 2015.

Salaries, wages and benefits decreased $24,727 and 8% to $282,892 for the three months ended September 30, 2016 from $307,619 for the three months ended September 30, 2015. Salaries, wages and benefits decreased $1,389,687 and 71% to $563,095 for the nine months ended September 30, 2016 from $1,952,782 for the nine months ended September 30, 2015. The decrease is primarily attributable to a decrease in variable wages payable to several senior management personnel and a reduction in overall employee headcount primarily in HAM from the second quarter and second quarter year to date analysis above. Looking forward to the remainder of 2016, the Company will continue to gauge its headcount as it relates to additional resources needed to support the SaaS and custom software development services. As salaries, wages and benefits are one of the most significant costs to the Company, management actively monitors this cost to ensure it is in line with our business plan.

Interest expense is discussed in full detail in all applicable footnotes of the financial statements and as such the duplication is not warranted here.

The Company experienced an overall increase in its net loss of $642,053 and 2111% to a net loss of $672,473 for the three months ended September 30, 2016 from a net loss of $30,421 for the three months ended September 30, 2015, primarily attributable to the reasons noted above. The Company experienced an overall increase in its net loss of $2,968 and 0.2% to a net loss of $1,306,763 for the nine months ended September 30, 2016 from a net loss of $1,303,796 for the nine months ended September 30, 2015, primarily attributable to the reasons noted above.

Significant Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's consolidated financial statements. These policies are contained in Note 2 to the consolidated financial statements and included in Note 2 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no significant changes in our significant accounting policies since the last fiscal year end 2015.

Liquidity and Capital Resources

As of September 30, 2016, the Company had cash and cash equivalents of $8,495. The decrease of $12,049 in cash and cash equivalents from $20,544 at December 31, 2015 was due to net cash used in operating activities of $525,156 and in investing activities of $12,393, offset by net cash provided from financing activities of $525,500.

Net cash used in operating activities was $525,156 for the nine months ended September 30, 2016, compared to $91,245 net cash provided by operating activities for the nine months ended September 30, 2015. The net cash used in operating activities for the nine months ended September 30, 2016 was due to net loss of $1,306,763, adjusted primarily by the following: an increase of $390,764 in accrued and other liabilities, an decrease of $20,000 in deferred revenue, an increase of $156,956 in accounts payable (specifically related to cash flows from operating and discussed further below), non cash capitalization of interest primarily in the note payable of $232,259 (discussed in note 9 of the consolidated financial statements), and $16,483 decrease in gross trade accounts receivable primarily attributable to the timing of revenue cash collections. The remaining immaterial variance is related to non cash depreciation and amortization of loan origination costs.

The $390,764 increase in accrued and other liabilities is primarily related to the increase in deferred compensation and wages payable to a portion of the management team and an increase in accrued interest. The $20,000 decrease in deferred revenue is from the recognition of the Company's remaining deferred revenue relating to one of its SaaS contracts (as discussed in the Company Overview above).

On the balance sheet, accounts payable increased by $156,956 at September 30, 2016 from December 31, 2015. This is a result of the accrual of payables primarily related to vendors associated with a recent software development contract secured in April of 2016 along with the overall cash flow management of the Company.

Net cash used in investing activities was $12,393 for the nine months ended September 30, 2016, compared to $125,000 net cash used in investing activities during the nine months ended September 30, 2015. The $12,393 of cash used in investing activities was associated with the purchase of office furniture and a computer. The Company invested in notes receivable of $125,000 (investment was done in a $50,000 and $75,000 advance) in an affiliated company for working capital advances. The payments were made as a strategic investment in the affiliate as that affiliate provides revenue sourcing to the Company. As there is not a high probability of recollecting those proceeds advanced, the Company wrote off the notes receivable prior to September 30, 2015.

Net cash provided by financing activities was $525,500 for the nine months ended September 30, 2016, compared to net cash provided by financing activities of $48,817 for the nine months ended September 30, 2015. Financing activities for the nine months ended September 30, 2016 consisted primarily of $540,500 in proceeds from subordinated debt, offset by the $15,000 in principal payments on notes payable subordinated debt.

As shown below, at September 30, 2016, our contractual cash obligations totaled approximately $6,123,945, all of which consisted of operating lease obligations and debt principal and accrued interest repayment.

	Payments due by December 31,				
Contractual Obligations	**2016**	**2017-2018**	**2019-2020**	**2021 & Thereafter**	**Total**
Debt Obligations	$ 4,827,508	$ 645,000	$ 267,569	$ 0	$ 5,740,077
Operating Lease Obligations	$ 28,158	$ 235,443	$ 120,267	$ 0	$ 383,868
Total Contractual Cash Obligations	$ 4,855,666	$ 880,443	$ 387,836	$ 0	$ 6,123,945

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the Company will need to manage additional asset units under contract and/or additional financing to fully implement its business plan, including continued growth and establishment of the SaaS and custom software development services. Management, in the ordinary course of business, is trying to raise additional capital through sales of common stock as well as seeking financing via equity or debt, or both from third parties. There are no assurances that additional financing will be available on favorable terms, or at all. If additional financing is not available, the Company will need to reduce, defer or cancel development programs, planned initiatives and overhead expenditures. The failure to adequately fund its capital requirements could have a material adverse effect on the Company's business, financial condition and results of operations. Moreover, the sale of additional equity securities to raise financing will result in additional dilution to the Company's stockholders, and incurring additional indebtedness could involve an increased debt service cash obligation, the imposition of covenants that restrict the

Company operations or the Company’s ability to perform on its current debt service requirements. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Off Balance Sheet Transactions and Related Matters

Other than operating leases discussed in Note 14 to the consolidated financial statements, there are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources of the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. Our business is highly leveraged and, accordingly, is sensitive to fluctuations in interest rates. Any significant increase in interest rates could have a material adverse effect on our financial condition and ability to continue as a going concern.

Item 4T. Controls and Procedures.

As of the end of the period covered by this report, our principal executive officer and principal financial officer, evaluated the effectiveness of our “disclosure controls and procedures,” as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, we concluded that, as of the date of the evaluation, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our periodic filings under the Securities Exchange Act of 1934 is accumulated and communicated to management, including the officers, to allow timely decisions regarding required disclosures. It should be noted that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports.

During the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

We will need additional financing to implement our business plan. The Company will need additional financing to fully implement its business plan in a manner that not only continues to expand an already established direct-to-consumer approach, but also allows the Company to establish a stronger brand name in all the areas in which it operates, including mortgage servicing and distressed asset sectors. In particular, the Company will need substantial financing to:

- further develop its product and service lines and expand them into new markets;
- expand its facilities, human resources, and infrastructure;
- increase its marketing efforts and lead generation; and
- expand its business into purchasing and servicing distressed asset portfolios.

There are no assurances that additional financing will be available on favorable terms, or at all. If additional financing is not available, the Company will need to reduce, defer or cancel development programs, planned initiatives and overhead expenditures. The failure to adequately fund its capital requirements could have a material adverse effect on the Company's business, financial condition and results of operations. Moreover, the sale of additional equity securities to raise financing will result in additional dilution to the Company's stockholders, and incurring additional indebtedness could involve the imposition of covenants that restrict the Company's operations.

Our products and services are subject to changes in applicable laws and government regulations. In the United States, we are regulated pursuant to laws applicable to businesses in general. And in some areas of our business, we are subject to specific laws regulating the availability of certain material related to, or to the obtaining of, personal information. Adverse developments in the legal or regulatory environment relating to the debt collection, mortgage servicing and mortgage origination industries in the United States could have a material adverse effect on our business, financial condition and operating results.

We rely on key executive officers, and their knowledge of our business and technical expertise would be difficult to replace. We are highly dependent on our executive officers. If one or more of the Company's senior executives or other key personnel are unable or unwilling to continue in their present positions, the Company may not be able to replace them easily or at all, and the Company's business may be disrupted. Such failure could have a material adverse effect on the Company's business, financial condition and results of operations.

We may never pay dividends to our common stockholders. The Company currently intends to retain its future earnings to support operations and to finance expansion and therefore the Company does not anticipate paying any cash dividends in the foreseeable future other than to holders of Halo Group preferred stock.

The declaration, payment and amount of any future dividends on common stock will be at the discretion of the Company's Board of Directors, and will depend upon, among other things, earnings, financial condition, capital requirement, level of indebtedness and other considerations the Board of Directors considers relevant. There is no assurance that future dividends will be paid on common stock or, if dividends are paid, the amount thereof.

Our common stock is quoted through the OTCPink, which may have an unfavorable impact on our stock price and liquidity. The Company's common stock is quoted on the OTCPink marketplace, which is a significantly more limited market than the New York Stock Exchange or NASDAQ. The trading volume may be limited by the fact that many major institutional investment funds, including mutual funds, follow a policy of not investing in Over the Counter stocks and certain major brokerage firms restrict their brokers from recommending Over the Counter stock because they are considered speculative and volatile.

The trading volume of the Company's common stock has been and may continue to be limited and sporadic. As a result, the quoted price for the Company's common stock on the OTCPink may not necessarily be a reliable indicator of its fair market value.

Additionally, the securities of small capitalization companies may trade less frequently and in more limited volume than those of more established companies. The market for small capitalization companies is generally volatile, with wide price fluctuations not necessarily related to the operating performance of such companies.

Our common stock is subject to price volatility unrelated to our operations. The market price of the Company's common stock could fluctuate substantially due to a variety of factors, including market perception of the Company's ability to achieve its planned growth, operating results of it and other companies in the same industry, trading volume of the Company's common stock, changes in general conditions in the economy and the financial markets or other developments affecting the Company or its competitors.

Our common stock is classified as a "penny stock." Rule 3a51-1 of the Securities Exchange Act of 1934 establishes the definition of a "penny stock," for purposes relevant to us, as any equity security that has a minimum bid price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to a limited number of exceptions which are not available to us. It is likely that the Company's common stock will be considered a penny stock for the immediately foreseeable future.

For any transactions involving a penny stock, unless exempt, the penny stock rules require that a broker or dealer approve a person's account for transactions in penny stocks and the broker or dealer receive from the investor a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased. In order to approve a person's account for transactions in penny stocks, the broker or dealer must obtain financial information and investment experience and objectives of the person and make a reasonable determination that the transactions in penny stocks are suitable for that person and that person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also provide disclosures to its customers, prior to executing trades, about the risks of investing in penny stocks in both public offerings and in secondary trading in commissions payable to both the broker-dealer and the registered representative, and the rights and remedies available to an investor in cases of fraud in penny stock transactions.

Because of these regulations, broker-dealers may not wish to furnish the necessary paperwork and disclosures and/or may encounter difficulties in their attempt to buy or sell shares of the Company's common stock, which may in turn affect the ability of Company stockholders to sell their shares.

Accordingly, this classification severely and adversely affects any market liquidity for the Company's common stock, and subjects the shares to certain risks associated with trading in penny stocks. These risks include difficulty for investors in purchasing or disposing of shares, difficulty in obtaining accurate bid and ask quotations, difficulty in establishing the market value of the shares, and a lack of securities analyst coverage.

We may continue to encounter substantial competition in our business. The Company believes that existing and new competitors will continue to improve their products and services, as well as introduce new products and services with competitive price and performance characteristics. The Company expects that it must continue to innovate, and to invest in product development and productivity improvements, to compete effectively in the several markets in which the Company participates. Halo's competitors could develop a more efficient product or service or undertake more aggressive and costly marketing campaigns than those implemented by the Company, which could adversely affect the Company's marketing strategies and could have a material adverse effect on the Company's business, financial condition and results of operations.

Important factors affecting the Company's current ability to compete successfully include:

- lead generation and marketing costs;
- service delivery protocols;
- branded name advertising; and
- product and service pricing.

In periods of reduced demand for the Company's products and services, the Company can either choose to maintain market share by reducing product service pricing to meet the competition or maintain its product and service pricing, which would likely sacrifice market share. Sales and overall profitability would be reduced in either case. In addition, there can be no assurance that additional competitors will not enter the Company's existing markets, or that the Company will be able to continue to compete successfully against its competition.

We may not successfully manage our growth. Our success will depend upon the expansion of our operations and the effective management of our growth, which will place significant strain on our management and our administrative, operational and financial resources. To manage this growth, we may need to expand our facilities, augment our operational, financial and management systems and hire and train additional qualified personnel. If we are unable to manage our growth effectively, our business would be harmed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32	Section 1350 Certifications.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HALO COMPANIES, INC.

Date: November 14, 2016

By: /s/ Brandon Cade Thompson
Brandon Cade Thompson
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2016

By: /s/ Paul Williams
Paul Williams
Chief Financial Officer
(Principal Financial Officer)