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WARP 9, INC.
Form 10-Q
February 18, 2010

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended December 31, 2009

or

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from _____ to _____

Commission File Number: 0-13215

WARP 9, INC.

(Exact name of registrant as specified in its charter)

CALIFORNIA

30-0050402

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

50 CASTILIAN DRIVE, SUITE 101, SANTA BARBARA, CA 93117

(Address of principal executive offices) (Zip Code)

(805) 964-3313

Registrant's telephone number, including area code

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes[___]

No[_X_]

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

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Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of February 10, 2010 the number of shares outstanding of the registrant's class of common stock was 340,579,815.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

- Item 1. Consolidated Financial Statements
Consolidated Balance Sheets as of December 31, 2009 (unaudited) and June 30, 2009 (unaudited)
Consolidated Statements of Income for the Three and Six Months ended December 31, 2009 and December 31, 2008 (unaudited)
Consolidated Statement of Shareholders' Equity for the Six Months ended December 31, 2009
Consolidated Statements of Cash Flows for the Six Months ended December 31, 2009 and December 31, 2008 (unaudited)
Notes to Consolidated Financial Statements (unaudited)
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosures About Market Risk
- Item 4T. Controls and Procedures

PART II - OTHER INFORMATION

- Item 1. Legal Proceedings
- Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
- Item 3. Defaults Upon Senior Securities
- Item 4. Submission of Matters to a Vote of Security Holders
- Item 5. Other Information
- Item 6. Exhibits and Reports on Form 8-K

Signatures

PART I. - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

-2-

WARP 9, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Unaudited)
December 31, 2009 June 30, 2009

CURRENT ASSETS ASSETS

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Cash	\$ 1,030,481	\$ 849,508
Restricted Cash	93,000	93,000
Accounts Receivable, net	228,177	324,668
Prepaid and Other Current Assets	8,126	11,804
Current Portion of Deferred Tax Asset	134,547	165,167
	-----	-----
TOTAL CURRENT ASSETS	1,494,331	1,444,147
	-----	-----
PROPERTY & EQUIPMENT, at cost		
Furniture, Fixtures & Equipment	89,485	89,485
Computer Equipment	514,450	511,889
Commerce Server	50,000	50,000
Computer Software	20,033	9,476
	-----	-----
	673,968	660,850
Less accumulated depreciation	(636,107)	(621,829)
	-----	-----
NET PROPERTY AND EQUIPMENT	37,861	39,021
	-----	-----
OTHER ASSETS		
Lease Deposit	8,756	9,749
Internet Domain, net	806	891
Long Term Deferred Tax Asset	1,726,626	1,762,727
	-----	-----
TOTAL OTHER ASSETS	1,736,188	1,773,367
	-----	-----
TOTAL ASSETS	\$ 3,268,380	\$ 3,256,535
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 12,546	\$ 70,573
Credit Cards Payable	-	254
Accrued Expenses	84,593	87,194
Note Payable, Other	35,362	33,916
Customer Deposit	39,386	48,431
Capitalized Leases, Current Portion	2,793	8,138
	-----	-----
TOTAL CURRENT LIABILITIES	174,680	248,506
	-----	-----
LONG TERM LIABILITIES		
Note payable, Other	28,729	46,542
	-----	-----
TOTAL LONG TERM LIABILITIES	28,729	46,542
	-----	-----
TOTAL LIABILITIES	203,409	295,048
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$0.001 Par Value; 495,000,000 Authorized Shares; 340,579,815 Shares Issued and Outstanding	340,579	340,579
Additional Paid In Capital	6,902,749	6,897,311
Accumulated Deficit	(4,178,357)	(4,276,403)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	3,064,971	2,961,487

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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,268,380	\$ 3,256,535
	=====	=====

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

-3-

WARP 9, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	December 31, 2009	December 31, 2008
	-----	-----
REVENUE	\$ 502,470	\$ 620,159
COST OF SERVICES	38,479	42,159
	-----	-----
GROSS PROFIT	463,991	578,000
	-----	-----
OPERATING EXPENSES		
Selling, general and administrative expenses	319,764	372,928
Research and development	5,000	10,262
Stock option expense	2,896	2,974
Depreciation and amortization	7,182	16,513
	-----	-----
TOTAL OPERATING EXPENSES	334,842	402,677
	-----	-----
INCOME FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	129,149	175,323
	-----	-----
OTHER INCOME/(EXPENSE)		
Interest Income	7,226	6,603
Other Income	5,287	9,150
Interest Expense	(1,901)	(8,725)
	-----	-----
TOTAL OTHER INCOME/(EXPENSE)	10,612	7,028
	-----	-----
INCOME FROM OPERATIONS BEFORE PROVISION FOR TAXES	139,761	182,351
PROVISION FOR INCOME (TAXES)/BENEFIT		
Income (taxes)/benefit	(55,762)	(140,271)
	-----	-----
NET INCOME	\$ 83,999	\$ 42,080
	=====	=====

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BASIC EARNINGS PER SHARE	\$	0.00	\$	0.00
	=====		=====	
DILUTED EARNINGS PER SHARE	\$	0.00	\$	0.00
	=====		=====	
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC		340,579,815		340,579,815
		=====		=====
DILUTED		340,579,815		340,579,815
		=====		=====

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

-4-

WARP 9, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Shares	Common Stock	Ad P C
	-----	-----	-----
Balance, June 30, 2009	340,579,815	\$ 340,579	\$ 6
Stock compensation expense (unaudited)	-	-	
Net income for the six months ended December 31, 2009 (unaudited)	-	-	
	-----	-----	-----
Balance, December 31, 2009 (unaudited)	340,579,815	\$ 340,579	\$ 6
	=====	=====	=====

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

-5-

WARP 9, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31, 2009	December 31, 2008
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 98,046	\$ 51,910
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	14,363	33,026
Bad debt expense	(79,217)	(38,563)
Cost of stock compensation recognized	5,438	5,924
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Accounts receivable	175,708	(91,853)
Prepaid and other assets	3,678	5,075
Deferred tax asset	66,721	178,808
Deposits	993	-
Increase (Decrease) in:		
Accounts payable and credit cards payable	(58,281)	(51,516)
Accrued expenses	(2,601)	55,809
Deferred Income	-	(35,333)
Corporate income tax payable	-	6,050
Other liabilities	(9,045)	(14,453)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	215,803	104,884
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(13,118)	(6,286)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(13,118)	(6,286)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on notes payable	-	(50,481)

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Payments on notes payable, other	(16,367)	(20,054)
Payments on capitalized leases	(5,345)	(15,279)
Proceeds from line of credit	-	535
Proceeds from issuance of common stock, net of cost	-	(300)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(21,712)	(85,579)
	-----	-----
NET INCREASE IN CASH	180,973	13,019
CASH, BEGINNING OF PERIOD	849,508	680,649
	-----	-----
CASH, END OF PERIOD	\$ 1,030,481	\$ 693,668
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 4,116	\$ 13,910
	=====	=====
Taxes paid	\$ -	\$ 1,600
	=====	=====

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

-6-

WARP 9, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
DECEMBER 31, 2009

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10K for the year ended June 30, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Warp 9, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

STOCK-BASED COMPENSATION

The Company addressed the accounting for share-based payment transactions

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in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The transactions are accounted for using a fair-value-based method and recognized as expenses in our statement of income. There was no material impact on the Company's financial statement of operations.

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the consolidated statement of operations during the six months ended December 31, 2009, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of December 31, 2009 based on the grant date fair value estimated. Stock-based compensation expense recognized in the statement of income for the six months ended December 31, 2009 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation expense recognized in the consolidated statements of operations during the six months ended December 31, 2009 and 2008 are \$5,438 and \$5,924 respectively.

3. CAPITAL STOCK

At December 31, 2009 and 2008, the Company's authorized stock consists of 495,000,000 shares of common stock, par value \$0.001 per share. The Company is also authorized to issue 5,000,000 shares of preferred stock with a par value of \$0.001. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares.

4. STOCK OPTIONS AND WARRANTS

On July 10, 2003, the Company adopted the Warp 9, Inc. Stock Option Plan for Directors, Executive Officers, and Employees of and Key Consultants to the Company. This Plan, may issue 25,000,000 shares of common stock. Options granted under the Plan could be either Incentive Options or Nonqualified Options, and are administered by the Company's Board of Directors. Each option may be exercisable in full or in installment and at such time as designated by the Board. Notwithstanding any other provision of the Plan or of any Option agreement, each option are to expire on the date specified in the Option agreement, which date are to be no later than the tenth anniversary of the date on which the Option was granted (fifth anniversary in the case of an Incentive Option granted to a greater-than-10% stockholder). The purchase price per share of the Common Stock under each

-7-

WARP 9, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
DECEMBER 31, 2009

4. STOCK OPTIONS AND WARRANTS (Continued)

Incentive Option is to be no less than the Fair Market Value of the Common Stock on the date the option was granted (110% of the Fair Market Value in the case of a greater-than-10% stockholder). The purchase price per share of the Common Stock under each Nonqualified Option were to be specified by

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the Board at the time the Option was granted, and could be less than, equal to or greater than the Fair Market Value of the shares of Common Stock on the date such Nonqualified Option was granted, but were to be no less than the par value of shares of Common Stock. The plan provided specific language as to the termination of options granted hereunder.

The Company used the historical industry index to calculate volatility, since the Company's stock history did not represent the expected future volatility of the Company's common stock. The fair value of options granted was determined using the Black Scholes method with the following assumptions:

	Period Ended 12/31/2009
Risk free interest rate	3.01% - 5.07%
Stock volatility factor	0.31 - 186.29
Weighted average expected option life	4 years
Expected dividend yield	none

A summary of the Company's stock option activity and related information follows:

	Period ended 12/31/2009	Weighted average exercise price
	Options	
Outstanding -beginning of year	12,400,000	\$ 0.02
Granted	340,000	0.01
Exercised	-	-
Forfeited	(800,000)	0.01
Outstanding - end of year	11,940,000	\$ 0.01
Exercisable at the end of year	9,791,551	\$ 0.01
Weighted average fair value of options granted during the year		\$ -

The Black Scholes option valuation model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

WARP 9, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
 DECEMBER 31, 2009

4. STOCK OPTIONS AND WARRANTS (Continued)

The weighted average remaining contractual life of options outstanding issued under the plan as of December 31, 2009 was as follows:

Exercise prices	Number of options outstanding	Weighted Average remaining contractual life (years)
-----	-----	-----
\$ 0.070	100,000	4.00
\$ 0.080	50,000	2.00
\$ 0.010	10,090,000	4.17
\$ 0.020	500,000	5.47
\$ 0.008	100,000	8.33
\$ 0.014	100,000	8.51

	11,940,000	
	=====	

5. INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006.

The Company accounts for uncertainty in tax positions by recognition in the financial statements.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

6. SUBSEQUENT EVENT

The following are items management has evaluated as subsequent events as of February 18, 2010 the date the financial statements were issued.

During February 2010, the Company received a demand for payment in the amount of \$104,455.52 for utilities from Ericsson, Inc. under the assertion that the Company is in default of the sublease. Ericsson, Inc. notified Warp 9 that they intend to attempt to draw on the standby letter of credit of \$93,000 (restricted cash). Though the Company is disputing both the claim of default and the actual utilities amounts, there can be no assurance it will be successful.

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OF OPERATIONS

CAUTIONARY STATEMENTS

This Form 10-Q may contain "forward-looking statements," as that term is used in federal securities laws, about Warp 9, Inc.'s financial condition, results of operations and business. These statements include, among others:

- o statements concerning the potential benefits that Warp 9, Inc. ("W9" or the "Company") may experience from its business activities and certain transactions it contemplates or has completed; and
- o statements of W9's expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts. These statements may be made expressly in this Form 10-Q. You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," "opines," or similar expressions used in this Form 10-Q. These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause W9's actual results to be materially different from any future results expressed or implied by W9 in those statements. The most important facts that could prevent W9 from achieving its stated goals include, but are not limited to, the following:
 - (a) volatility or decline of the Company's stock price;
 - (b) potential fluctuation in quarterly results;
 - (c) failure of the Company to earn revenues or profits;
 - (d) inadequate capital to continue or expand its business, and inability to raise additional capital or financing to implement its business plans;
 - (e) failure to further commercialize its technology or to make sales;
 - (f) reduction in demand for the Company's products and services;
 - (g) rapid and significant changes in markets;
 - (h) litigation with or legal claims and allegations by outside parties, reducing revenue and increasing costs;
 - (i) insufficient revenues to cover operating costs;
 - (j) failure of the re-licensing or other commercialization of the Roaming Messenger technology to produce revenues or profits;
 - (k) aspects of the Company's business are not proprietary and in general the Company is subject to inherent competition;
 - (l) further dilution of existing shareholders ownership in Company; and
 - (m) uncollectible accounts and the need to incur expenses to collect amounts owed to the Company.

There is no assurance that the Company will be profitable, the Company may not be able to successfully develop, manage or market its products and services, the Company may not be able to attract or retain qualified executives and technology personnel, the Company may not be able to obtain customers for its products or services, the Company's products and services may become obsolete, government regulation may hinder the Company's business, additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, the exercise of outstanding warrants and stock options, or other risks inherent in the Company's businesses.

Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. W9 cautions you not to place undue reliance on the statements, which speak only as of the date of this Form 10-Q. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that W9 or persons acting on its behalf may issue. The Company does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Form 10-Q, or to reflect the occurrence of unanticipated events.

CURRENT OVERVIEW

Warp 9 is a provider of e-commerce software platforms and services for the catalog and retail industry. Our suite of software platforms are designed to help multi-channel retailers maximize the Internet channel by applying our technologies for online catalogs, e-mail marketing campaigns, and interactive visual merchandising. Offered as an outsourced and fully managed Software-as-a-Service ("SaaS") model, our products allow customers to focus on their core business, rather than technical implementations and software and hardware architecture, design, and maintenance. We also offer professional services to our clients which include online catalog design, merchandizing and optimization, order management, e-mail marketing campaign development, integration to third party payment processing and fulfillment systems, analytics, custom reporting and strategic consultation.

Our products and services allow our clients to lower costs and focus on promoting and marketing their brand, product line and website while leveraging the investments we have made in technology and infrastructure to operate a dynamic online Internet presence.

We charge our customers a monthly fee for using our e-commerce software based on a Software-as-a-Service model. These fees include fixed monthly charges, and variable fees based on the sales volume of our clients' e-commerce websites. Unlike traditional software companies that sell software on a perpetual license where quarterly and annual revenues are quite difficult to predict, our SaaS model spreads the collection of contract revenue over several quarters or years and makes our revenues more predictable for a longer period of time.

While the Warp 9 Internet Commerce System ("ICS") is our flagship and highest revenue product, we have been developing and deploying new products based on a proprietary virtual publishing technology that we have developed. These new products have allowed for the creation of interactive web versions of paper catalogs ("VCS") and magazines ("VMS") where users can flip through pages with a mouse and click on products or advertisements. These magazines or catalogs have built-in integration for e-commerce transactions through our ICS product and other transaction based activities. Clients utilizing this

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technology have discovered when exposing consumers to virtual catalogs, a higher average order size and significant increase in rate of conversion result. We have been selling this solution on a limited basis as a professional service while we refine the product and technology. We believe there are many markets for our virtual catalog and magazine technology and we intend to test market these new products with greater distribution in the near future.

-11-

Research and development ("R&D") efforts have been focused both on these new products and on updating our current products with new features. In the planning phase of these new features, we look to direct client feedback and feature requests; we study the e-commerce landscape to determine features that will provide our clients with a competitive advantage in producing greater and more effective selling; and we also examine features that will create a competitive advantage during our sales process to clients. Emerging and declining trends also play a role in how clients perceive what features should be provided by which vendors. We are sometimes able to capitalize on these opportunities by bundling features for greater value and/or increased fees and revenue.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations, including the discussion on liquidity and capital resources, are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management re-evaluates its estimates and judgments, particularly those related to the determination of the estimated recoverable amounts of trade accounts receivable, impairment of long-lived assets, revenue recognition and deferred tax assets. We believe the following critical accounting policies require more significant judgment and estimates used in the preparation of the financial statements.

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the uncollectability of our trade accounts receivable balances. If we determine that the financial conditions of any of our customers deteriorated, whether due to customer specific or general economic issues, increases in the allowance may be made. Accounts receivable are written off when all collection attempts have failed.

We follow the provisions of Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements" for revenue recognition and SAB 104. Under Staff Accounting Bulletin 101, four conditions must be met before revenue can be recognized: (i) there is persuasive evidence that an arrangement exists, (ii) delivery has occurred or service has been rendered, (iii) the price is fixed or determinable and (iv) collection is reasonably assured.

Income taxes are accounted for under the asset and liability method. Under this method, to the extent that we believe that the deferred tax asset is not likely to be recovered, a valuation allowance is provided. In making this determination, we consider estimated future taxable income and taxable timing differences expected in the future. Actual results may differ from those estimates.

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-12-

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2009
COMPARED TO THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2008

REVENUE

Total revenue for the three months ended December 31, 2009 decreased by (\$117,689) to \$502,470 compared to \$620,159 for the same prior period. For the six months ended December 31, 2009, total revenue decreased by (\$199,483) to \$888,541 compared to \$1,088,024 in the same prior period. The overall decrease in revenue was the result of reduced online marketing services for our clients due primarily to budget cut-backs by our clients, and a decrease in recurring monthly fees due also to the slowing economic environment. This decrease was partially off-set by an increase in ICS Site Development fees for new clients.

COST OF REVENUE

The cost of revenue for the three months ended December 31, 2009 decreased by (\$3,680) to \$38,479 compared to \$42,159 for the same prior period. For the six months ended December 31, 2009 the cost of revenue decreased (\$4,390) to \$75,505 compared to \$79,895 for the same prior period. The overall decrease was primarily due to the decrease in costs incurred for vendor services.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses for the three months ended December 31, 2009 decreased (\$53,164) to \$319,764 compared to \$372,928 for the same prior period. For the six months ended December 31, 2009, SG&A expenses decreased by (\$71,480) to \$648,180 compared to \$719,660 for the same prior period. The overall decrease in SG&A expenses was primarily due to decreased employee expenses caused by reduced executive bonus compensation combined with an increased recognition of certain bad debt allowance due to accounts receivable more than 90 days over due.

RESEARCH AND DEVELOPMENT

Research and development expenses for the three months ended December 31, 2009 decreased by (\$5,262) to \$5,000 as compared to \$10,262 for the same prior period. For the six months ended December 31, 2009, the research and development expenses decreased (\$16,877) to \$10,000 compared to \$26,877 for the same prior period. The overall decrease was due to the decrease in employee expenses caused by staff reductions allocated for product development and improvement.

NET INCOME

The consolidated net income for the three months ended December 31, 2009 was \$83,999 compared to \$42,080 for the same prior period. For the six months ended December 31, 2009, the consolidated net income was \$98,046 compared to \$51,910 for the same prior period. The consolidated net income for the three and six months ended December 31, 2009 includes a non-cash depreciation expense of (\$9,331) and (\$18,663) respectively combined with an increase to the tax provision of \$84,509 and \$119,737 respectively.

-13-

LIQUIDITY AND CAPITAL RESOURCES

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The Company had net working capital (i.e. the difference between current assets and current liabilities) of \$1,319,651 at December 31, 2009 as compared to a net working capital of \$1,195,641 at June 30, 2009.

Cash flow provided by operating activities was \$215,803 for the six months ended December 31, 2009 as compared to \$104,884 for the same prior period. The increase in cash flow of \$110,919 provided by operating activities was primarily due to an increase in collection of accounts receivable.

Cash flow used in investing activities was (\$13,118) for the six months ended December 31, 2009 as compared to (\$6,286) for the same prior period. The increase in cash flow of \$6,832 used in investing activities was due to the purchase of computer equipment and software.

Cash flow used by financing activities was (\$21,712) for the six months ended December 31, 2009 as compared to (\$85,579) for the same prior period. The decrease of (\$63,867) in cash flow used by financing activities was due to the retirement of notes payable and capital leases.

While we expect that our capital needs in the foreseeable future will be met by cash-on-hand and positive cash-flow, there is no assurance that the Company will have sufficient capital to finance its growth and business operations, or that such capital will be available on terms that are favorable to the Company or at all. In the current financial environment, it has been difficult for the Company to obtain equipment leases and other business financing. There is no assurance that we would be able to obtain additional working capital through the private placement of common stock or from any other source.

OFF-BALANCE SHEET ARRANGEMENTS

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

-14-

ITEM 4T. CONTROLS AND PROCEDURES.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by Warp 9 in the reports that it files under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer that it files under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officers, or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure. The Company's Chairman, Chief Executive Officer, and Acting Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2009 (under the supervision and with the participation of the Company's Chairman, Chief Executive Officer, and Acting

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Chief Financial Officer) pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. As part of such evaluation, management considered the matters discussed below relating to internal control over financial reporting. Based on this evaluation, the Company's Chairman, Chief Executive Officer, and Acting Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of December 31, 2009.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to change in conditions, or the degree of compliance with the policies or procedures may deteriorate. After evaluating the Company's internal controls over financial reporting, the Company's Chairman, Chief Executive Officer, and Acting Chief Financial Officer have concluded that the internal controls over financial reporting are effective as of December 31, 2009.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

-15-

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no current legal proceedings as of this time.

The Company may file additional collection actions and be involved in other litigation in the future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

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None.

-16-

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
3.1	Articles of Incorporation (1)
3.2	Bylaws (1)
4.1	Specimen Certificate for Common Stock (1)
4.2	Non-Qualified Employee Stock Option Plan (2)
10.1	First Agreement and Plan of Reorganization between Latinocare Management Corporation, and Warp 9, Inc., a Delaware corporation (3)
10.2	Second Agreement and Plan of Reorganization between Latinocare Management Corporation, and Warp 9, Inc., a Delaware corporation (4)
10.3	Exchange Agreement and Representations for Shareholders of Warp 9, Inc. (3)
10.4	Termination and Assignment (5)
31.1	Section 302 Certification
32.1	Section 906 Certification

- (1) Incorporated by reference from the exhibits included with the Company's prior Report on Form 10-KSB filed with the Securities and Exchange Commission, dated March 31, 2002.
- (2) Incorporated by reference from the exhibits included in the Company's Information Statement filed with the Securities and Exchange Commission, dated August 1, 2003.
- (3) Incorporated by reference from the exhibits included with the Company's prior Report on Form SC 14F-1 filed with the Securities and Exchange Commission, dated April 8, 2003.
- (4) Incorporated by reference from the exhibits included with the Company's prior Report on Form 8-K filed with the Securities and Exchange Commission, dated May 30, 2003.
- (5) Incorporated by reference from the exhibits included with the Company's prior Report on Form 8-K filed with the Securities and Exchange Commission, dated May 7, 2007.

(b) The following is a list of Current Reports on Form 8-K filed by the Company during and subsequent to the quarter for which this report is filed.

- (1) None

-17-

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

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Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 18, 2010

WARP 9, INC.

(Registrant)

By: \s\Harinder Dhillon

Harinder Dhillon, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: \s\Louie Ucciferri

Dated: February 18, 2010

Louie Ucciferri, Corporate Secretary,
Acting Chief Financial Officer
(Principal Financial / Accounting Officer)

By: \s\Harinder Dhillon

Dated: February 18, 2010

Harinder Dhillon, Chief Executive Officer and
President (Principal Executive Officer)