

Edgar Filing: WARP 9, INC. - Form 10-Q

WARP 9, INC.
Form 10-Q
May 13, 2014

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 March 31, 2014

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)

NEVADA

30-0050402

(State or other jurisdiction
of incorporation or organization)

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

1933 CLIFF DRIVE, SUITE 11, SANTA BARBARA, CA 93109

(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

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 (ss.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

Edgar Filing: WARP 9, INC. - Form 10-Q

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).

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 May 12, 2014, the number of shares outstanding of the registrant's class of common stock was 96,135,126.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION	PAGE

Item 1. Consolidated Financial Statements	3
Consolidated Balance Sheets as of March 31, 2014 (unaudited) and June 30, 2013	3
Consolidated Statements of Operations for the Three and Nine Months ended March 31, 2014 and March 31, 2013 (unaudited)	4
Consolidated Statement of Shareholders' Equity/(Deficit) for the Nine Months ended March 31, 2014 (unaudited)	5
Consolidated Statements of Cash Flows for the Nine Months ended March 31, 2014 and March 31, 2013 (unaudited)	6
Notes to Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosures About Market Risk	14
Item 4. Controls and Procedures	15
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	16
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	16
Item 3. Defaults Upon Senior Securities	16

Edgar Filing: WARP 9, INC. - Form 10-Q

Item 4. Mine Safety Disclosures	16
Item 5. Other Information	16
Item 6. Exhibits	16
Signatures	17

-2-

PART I. - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

WARP 9, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

March 31, 2014

(unaudited)

ASSETS		
CURRENT ASSETS		
Cash		\$ 22,044
Accounts Receivable, net		66,150
Prepaid and Other Current Assets		11,365

TOTAL CURRENT ASSETS		99,559

PROPERTY & EQUIPMENT, at cost		
Furniture, Fixtures & Equipment		10,533
Computer Equipment		22,741
Computer Software		1,904
Leasehold Improvements		-

		35,178
Less accumulated depreciation		(22,960)

NET PROPERTY AND EQUIPMENT		12,218

OTHER ASSETS		
Lease Deposit		14,199
Licensing fees		-

TOTAL OTHER ASSETS		14,199

TOTAL ASSETS		\$ 125,976
		=====

LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)

CURRENT LIABILITIES		
Accounts Payable		\$ 236,767
Accrued Expenses		120,340

Edgar Filing: WARP 9, INC. - Form 10-Q

Deferred Income	6,350
Accrued Interest	10,936
Deferred Operating Lease Liability	4,420
Notes Payable, Wings Fund, net	205,734
Note Payable, Other	37,867
Customer Deposit	6,846

TOTAL CURRENT LIABILITIES	629,260

LONG-TERM LIABILITIES	
Notes Payable, net	31,840

TOTAL LONG-TERM LIABILITIES	31,840

TOTAL LIABILITIES	661,100

SHAREHOLDERS' EQUITY/(DEFICIT)	
Preferred Stock, \$0.001 Par Value; 5,000,000 Authorized Shares; no shares issued and outstanding	-
Common Stock, \$0.001 Par Value; 495,000,000 Authorized Shares; 96,135,126 and 96,135,126 Shares Issued and Outstanding , respectively	96,135
Additional Paid In Capital	7,419,229
Accumulated Deficit	(8,050,488)

TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)	(535,124)

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)	\$ 125,976
	=====

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

-3-

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

	Three Months Ended	
	March 31, 2014	March 31, 2013
	-----	-----
REVENUE	\$ 182,039	\$ 223,740
COST OF SERVICES	28,876	45,135
	-----	-----
GROSS PROFIT	153,163	178,605
	-----	-----
OPERATING EXPENSES		
Selling, general and administrative expenses	285,497	268,897
Research and development	-	-
Stock option expense	5,692	5,713
Depreciation and amortization	1,250	5,703
	-----	-----

Edgar Filing: WARP 9, INC. - Form 10-Q

TOTAL OPERATING EXPENSES	292,439	280,313
INCOME/(LOSS) FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES)	(139,276)	(101,707)
OTHER INCOME/(EXPENSES)		
Other income	347	7,500
Gain on disposal of fixed assets	-	-
Gain on extinguishment of debt	1,877	-
Interest expense	(10,964)	(1,945)
TOTAL OTHER INCOME/(EXPENSES)	(8,740)	5,555
INCOME/(LOSS) FROM OPERATIONS BEFORE PROVISION FOR TAXES	(148,016)	(96,152)
PROVISION FOR INCOME (TAXES)/BENEFIT		
Income taxes paid	(1,050)	-
Income tax (provision)/benefit	-	-
PROVISION FOR INCOME (TAXES)/BENEFIT	(1,050)	-
NET INCOME/(LOSS)	\$ (149,066)	\$ (96,152)
EARNINGS PER SHARE		
BASIC AND DILUTED	\$ (0.00)	\$ (0.00)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING		
BASIC AND DILUTED	96,135,126	96,135,126

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

-4-

WARP 9, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY/(DEFICIT)
(Unaudited)

Preferred Stock		Common Stock		Additional Paid-in Capital
Shares	Value	Shares	Value	

Edgar Filing: WARP 9, INC. - Form 10-Q

Balance, June 30, 2013	-	\$	-	96,135,126	\$	96,135	\$	7,373,623
Stock compensation expense	-		-	-		-		17,356
Net loss	-		-	-		-		-
Discount on Note	-		-	-		-		28,250
Balance, March 31, 2014	-	\$	-	96,135,126	\$	96,135	\$	7,419,229

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

-5-

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

		Nine M March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$	(266,6
Adjustment to reconcile net loss to net cash (used) by operating activities		
Depreciation and amortization		41,6
Bad debt expense		

Edgar Filing: WARP 9, INC. - Form 10-Q

Cost of stock compensation recognized	17,3
Amortization of Debt Discount	10,9
(Gain)/Loss on sale of fixed assets	(9,7
Contributed services	
Change in assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable	(3,2
Prepaid and other assets	(15,9
Other assets	5,0
Increase (Decrease) in:	
Accounts payable	59,8
Accrued expenses	44,2
Deferred income	6,3
Other liabilities	(1,6

NET CASH (USED) IN OPERATING ACTIVITIES	(111,8

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(3,4
Sale of property and equipment	9,7

NET CASH PROVIDED/(USED) IN INVESTING ACTIVITIES	6,2

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of note	115,0

NET CASH PROVIDED IN FINANCING ACTIVITIES	115,0

NET INCREASE/(DECREASE) IN CASH	9,4

CASH, BEGINNING OF YEAR	12,6

CASH, END OF PERIOD	\$ 22,0
	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Interest paid	\$
	=====
Taxes paid	\$
	=====

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

-6-

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

Edgar Filing: WARP 9, INC. - Form 10-Q

MARCH 31, 2014

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 nine months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending June 30, 2014. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10K for the year ended June 30, 2013.

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.

ACCOUNTS RECEIVABLE

The Company extends credit to its customers, who are located throughout the United States of America. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Management reviews accounts receivable on a regular basis, based on contracted terms and how recently payments have been received to determine if any such amounts will potentially be uncollected. The Company includes any balances that are determined to be uncollectible in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off. The balance of the allowance account at March 31, 2014 and June 30, 2013 are \$24,907 and \$24,907, respectively.

REVENUE RECOGNITION

The Company recognizes income when the service is provided or when product is delivered. We present revenue, net of customer incentives. Income is primarily generated from: 1) Recurring monthly fees from clients who subscribe to the Company's hosting and support services on terms averaging twelve months, 2) Recurring and non-recurring fees to build or provide maintenance for clients' websites ("Professional Services"), or 3) Fees from the sale of third party marketing services. Unless terminated accordingly with prior written notice, the term agreements automatically renew for another term.

We provide online marketing services that we purchase from third parties. The gross revenue presented in our statement of operations is in accordance with ASC 605-45.

We also offer professional services such as development services. The fees for development services with multiple deliverables constitute a separate unit of accounting in accordance with ASC 605-25, which are recognized as the work is performed.

Upfront fees for development services or other customer services are deferred until certain implementation or contractual milestones have been

Edgar Filing: WARP 9, INC. - Form 10-Q

achieved. The deferred revenue as of March 31, 2014 and June 30, 2013 was \$6,350 and \$0, respectively.

For the quarter ended, March 31, 2014, monthly recurring fees for the Company's hosting and support services account for 34% of the Company's total revenues, professional services account for 64% and the remaining 2% of total revenues are from resale of third party products and services.

For the quarter ended, March 31, 2013, monthly recurring fees for hosting and support services account for 11% of the Company's total revenues, professional services account for 86% and the remaining 3% of total revenues are from resale of third party products and services.

STOCK-BASED COMPENSATION

The Company addressed the accounting for share-based payment transactions 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.

-7-

WARP 9, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED MARCH 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 three months ended March 31, 2014, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of March 31, 2014 based on the grant date fair value estimated. Stock-based compensation expense recognized in the statement of income for the nine months ended March 31, 2014 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The stock-based compensation expense recognized in the consolidated statements of operations during the nine months ended March 31, 2014 and 2013 are \$17,356 and \$15,234, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Management reviewed accounting pronouncements issued during the nine months ended March 31, 2014, and no pronouncements were adopted during the period.

RECLASSIFICATION

Certain statement of operations amounts for the nine months ended March 31, 2013 were reclassified to conform to the presentation of the period ended March 31, 2014.

3. LIQUIDITY AND OPERATIONS

The Company had net losses of \$266,639 and \$173,184 for the nine months periods ended March 31, 2014 and 2013, respectively, and net cash used in operating activities of \$111,876 and \$104,475 for the same periods, respectively.

While we expect that our capital needs in the foreseeable future will be met by cash-on-hand and existing cash flow, there is no assurance that the

Edgar Filing: WARP 9, INC. - Form 10-Q

Company will generate any or sufficient positive cash flows, or 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. The Company has recently been incurring operating losses and experiencing negative cash flow. In the current financial environment, it could become difficult for the Company to obtain business leases and other equipment 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.

GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, an additional cash infusion. Management believes the existing shareholders and potential prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its core of business.

4. CONVERTIBLE NOTE PAYABLE

On March 25, 2013, the Company signed a convertible promissory note ("the March 2013 Note") in the amount of \$100,000, at which time an initial advance of \$50,000 was received to cover operational expenses. The lender advanced an additional \$20,000 on April 16, 2013, an additional \$15,000 on May 1, 2013 and an additional \$15,000 on May 16, 2013, for a total draw of \$100,000. The terms of the March 2013 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. The March 2013 Note bears interest at a rate of 10% per year and originally carried a maturity date twelve (12) months from the effective date or each advance. The terms of the agreement were amended to change the maturity date to eighteen months.

On May 16, 2013, the Company signed a convertible promissory note ("the May 2013 Note") in the amount of \$100,000, at which time an initial advance of \$10,000 was received to cover operational expenses. The lender advanced an additional \$20,000 on June 3, 2013, an additional \$25,000 on July 2, 2013 and an additional \$10,000 on September 30, 2013, for a total

-8-

WARP 9, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
MARCH 31, 2014

4. CONVERTIBLE NOTE PAYABLE (continued)

draw of \$65,000. The terms of the May 2013 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. At the time of

Edgar Filing: WARP 9, INC. - Form 10-Q

issuance, the Company recognized a discount on the May 2013 Note in the amount of \$6,000 and an additional \$7,000 during the quarter ended September 30, 2013, due to the beneficial conversion feature. This discount will be recognized over twelve months, beginning on May 16, 2013. The May 2013 Note bears interest at a rate of 10% per year and matures one year from the effective date of each advance.

On March 4, 2014, the Company signed a convertible promissory note ("the March 2014 Note") in the amount of \$250,000, at which time an initial advance of \$25,000 was received to cover operational expenses. The lender advanced an additional \$20,000 on March 17, 2014, an additional \$30,000 on April 2, 2014, for a total draw of \$75,000. The terms of the March 2014 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.012 per share, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. The March 2014 Note bears interest at a rate of 10% per year and matures eighteen months (18) from the effective date of each advance. During the quarter ended March 31, 2014, the Company recognized a discount on the March 2014 Note in the amount of \$14,250, due to the beneficial conversion feature. This discount will be recognized over twelve months, beginning on March 4, 2014.

On April 16, 2014, the Company signed a convertible promissory note ("the April 2014 Note") in the amount of \$300,000, at which time an initial advance of \$40,000 was received to cover operational expenses. The terms of the April 2014 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.012 per share, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. The April 2014 Note bears interest at a rate of 10% per year and matures eighteen months (18) from the effective date of each advance.

5. RELATED PARTIES

During the fiscal year ended June 30, 2012, the Company signed a licensing agreement with PageTransformer, to obtain expertise in the area of mobile app and mobile web development. This licensing agreement expires in the year ended June 30, 2014 and will not be renewed. The two founders of PageTransformer, Andrew VanNoy and Zachary Bartlett, are our current Chief Executive Officer and our current Vice President of Operations, respectively. Other than the original licensing fee paid to PageTransformer, the Company has not made any subsequent payments to PageTransformer under the licensing agreement.

6. CAPITAL STOCK

At March 31, 2014 and 2013, 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. No transactions affecting capital stock were noted during the quarter ended March 31, 2014, or the fiscal year ended June 30, 2013.

7. 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 authorized the grant of stock options to purchase up

Edgar Filing: WARP 9, INC. - Form 10-Q

to 25,000,000 shares of common stock until July 10, 2013. Accordingly no new options may be granted under the Plan, but the terms and conditions of the Plan still govern all outstanding options under the Plan. Options granted under the Plan may 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 expires on the date specified in the Option Agreement, which date may 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 Incentive

-9-

WARP 9, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
MARCH 31, 2014

7. STOCK OPTIONS AND WARRANTS (continued)

Option is to be no less than the Fair Market Value of the Common Stock on the date the option is 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 is to be specified by the Board at the time the Option is granted, and may be less than, equal to, or greater than the Fair Market Value of the shares of Common Stock on the date such Nonqualified Option is granted, but may be no less than 85% of the Fair Market Value of the Common Stock on the date of grant. The Plan provides specific language as to the termination of options granted.

The weighted average remaining contractual life of options outstanding issued under the plan as of March 31, 2014 was as follows:

Exercise prices	Number of options outstanding	Weighted Average remaining contractual life (years)
\$ 0.050	8,000	4.33
\$ 0.004	500,000	7.54
	508,000	

On October 12, 2011, the Company granted 3,000,000 employee qualified (incentive) stock options, and 500,000 non-qualified stock options at an exercise price of \$0.004 per share. The options vest 1/48th monthly and expire on October 12, 2021. As of March 31, 2014, 2,500,000 of these options have been forfeited due to terminations.

On August 13, 2012, the Company granted 12,500,000 non-qualified stock options at an exercise price of \$0.0053 per share. The options vest 1/36th monthly and expire on August 13, 2019.

A summary of the Company's stock option activity for the three months ending March 31, 2014, and related information follows:

Edgar Filing: WARP 9, INC. - Form 10-Q

March 31, 2014

	Options	Weighted average exercise price
Outstanding - beginning of period	13,508,000	\$ 0.005
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding - end of period	13,508,000	\$ 0.005
Exercisable at the end of period	7,417,361	\$ 0.005
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.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events according to the requirements of ASC TOPIC 855, and has reported the following events:

-10-

WARP 9, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
MARCH 31, 2014

8. SUBSEQUENT EVENTS (continued)

On April 16, 2014, the Company signed a convertible promissory note ("the April 2014 Note") in the amount of \$300,000, at which time an initial advance of \$40,000 was received to cover operational expenses. The lender advanced an additional \$55,000 on April 30, 2014, for a total draw of \$95,000. The terms of the April 2014 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.012 per share, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. The April 2014 Note bears interest at a rate of 10% per year and matures eighteen months (18) from the effective date of each advance.

On April 2, 2014, the Company received an advance in the amount of \$30,000 on the March 2014 Note.

-11-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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. ("Warp 9," "we," "us," "our," or the "Company") may experience from its business activities and certain transactions it contemplates or has completed; and
- o Statements of Warp 9'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 Warp 9's actual results to be materially different from any future results expressed or implied by Warp 9 in those statements. The most important facts that could prevent Warp 9 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

Edgar Filing: WARP 9, INC. - Form 10-Q

inability to raise additional capital or financing to implement its business plans;

- (e) failure to further commercialize its technology or to make sales;
- (f) loss of customers and 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 the Company;
- (m) uncollectible accounts and the need to incur expenses to collect amounts owed to the Company; and
- (n) the Company does not have an Audit Committee nor sufficient independent directors.

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.

Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. The Company 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 the Company 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.

-12-

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes to those statements. In addition to historical information, the following discussion and other parts of this quarterly report contain forward-looking information that involves risks and uncertainties.

Edgar Filing: WARP 9, INC. - Form 10-Q

CURRENT OVERVIEW

Warp 9 is a provider of e-commerce solutions for midsize online sellers. 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. Our e-commerce solutions are primarily offered utilizing the Magento platform for websites accessed through a desktop interface and the Moovweb Responsive Delivery platform for websites accessed through a mobile interface. 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.

We charge our customers fixed monthly management fees based on a SaaS model. 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. We also charge non-recurring fees to initially develop websites for our customers.

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 has 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 ASC 605-10-25, that 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.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED MARCH 31, 2014, COMPARED TO THE NINE MONTHS ENDED MARCH 31, 2013.

Edgar Filing: WARP 9, INC. - Form 10-Q

REVENUE

Total revenue for the nine months ended March 31, 2014 decreased by \$41,643 to \$793,534 compared to \$835,177 for the nine months ended March 31, 2013. The decrease was primarily due to a decline in the launch of mobile website during the current period.

COST OF REVENUE

The cost of revenue for the nine months ended March 31, 2014 increased by \$52,372 to \$199,836 compared to \$147,464 for the nine months ended March 31, 2013. The overall increase was primarily due to costs incurred to produce e-commerce websites.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative ("SG&A") expenses for nine months ended March 31, 2014 decreased \$53,817 to \$787,530 compared to \$841,347 for the

-13-

nine months ended March 31, 2013. The overall decrease in SG&A expenses was primarily due to a decrease in salary and rent expenses.

RESEARCH AND DEVELOPMENT

Research and development expenses for the nine months ended March 31, 2014 decreased \$13,307 to \$0 compared to \$13,307 for the nine months ended March 31, 2013. The decrease was due to a reduction in time devoted to the Warp 9 Total Commerce Platform ("TCP") and instead devoting those resources to operations and current project production.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the nine months ended March 31, 2014 increased \$24,909 to \$41,674, compared to \$16,765 for the nine months ended March 31, 2013. The increase was due to the Company decommissioning its data center and disposing of the data center equipment, some of which had not been fully depreciated.

OTHER INCOME AND EXPENSE

Total other income (expense) for the nine months ended March 31, 2014 decreased \$37,320 to net other expense of \$9,949, compared to net other income of \$27,371 for the nine months ended March 31, 2013. The decrease was primarily due to an increase in Notes Payable which has contributed to a higher interest expense in the current period when compared to the prior period.

NET INCOME/(LOSS)

The consolidated net loss for the nine months ended March 31, 2014 was (\$266,639) compared to the consolidated net loss of (\$173,184) for the nine months ended March 31, 2013. The increase in net loss for the period was primarily due to lower revenue and higher cost of revenue.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a net working capital deficit (i.e. the difference between current assets and current liabilities) of (\$529,701) at March 31, 2014 compared to a net working capital deficit of (\$377,733) at June 30, 2013. The decrease in net working capital at March 31, 2014 was caused by an increase in accounts

Edgar Filing: WARP 9, INC. - Form 10-Q

payable and notes payable over the past year.

Cash flow used in operating activities was (\$111,876) for the nine months ended March 31, 2014 compared to cash flow used in operating activities of (\$104,475) for the nine months ended March 31, 2013. The increase in cash flow used in operating activities of \$7,401 was primarily due to increases in net loss, and accounts receivable, partially offset by increases in depreciation expense, accrued expenses and deferred income.

Cash flow provided in investing activities was \$6,284 for the nine months ended March 31, 2014 as compared to cash flow used in investment activities of (\$7,705) for the nine months ended March 31, 2013. The increase in cash flow provided in investing activities of \$13,989, during the current period, was primarily due to the sale of certain fixed assets which were no longer needed.

Cash flow provided in financing activities was \$115,000 for the nine months ended March 31, 2014 as compared to \$50,000 for the nine months ended March 31, 2013. The increase in cash flow provided in financing activities of \$65,000 was due to proceeds received by the Company from a convertible promissory note.

While we expect that our capital needs in the foreseeable future will be met by cash-on-hand and existing cash flow, there is no assurance that we will generate any or sufficient positive cash flows, or have sufficient capital, to finance our growth and business operations, or that such capital will be available on terms that are favorable to us or at all. The Company has recently been incurring operating losses and experiencing negative cash flow. In the current financial environment, it could become difficult for the Company to obtain business leases and other equipment 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 4. 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 Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company.

Edgar Filing: WARP 9, INC. - Form 10-Q

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2014 (under the supervision and with the participation of the Company's Chairman, Chief Executive Officer, and 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 Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of March 31, 2014.

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 Chief Financial Officer have concluded that the internal controls over financial reporting are effective as of March 31, 2014.

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 nine month period ended March 31, 2014 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.

Edgar Filing: WARP 9, INC. - Form 10-Q

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
31.1	Section 302 Certification
31.2	Section 302 Certification
32.1	Section 906 Certification
32.2	Section 906 Certification
EX-101.INS	XBRL INSTANCE DOCUMENT*
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT*
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE*
EX-101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE*
EX-101.LAB	XBRL TAXONOMY EXTENSION LABELS LINKBASE*
EX-101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE*

* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and otherwise are not subject to liability under those sections.

-16-

SIGNATURES

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

WARP 9, INC.

(Registrant)

Dated: May 13, 2014

By: /s/ Andrew Van Noy

Andrew Van Noy,
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/ Andrew Van Noy

Dated: May 13, 2014

Andrew Van Noy, Chief Executive Officer and President

Edgar Filing: WARP 9, INC. - Form 10-Q

(Principal Executive Officer)

By: /s/ Gregory Boden

Dated: May 13, 2014

Gregory Boden, Chief Financial Officer
(Principal Financial/Accounting Officer)