WARP TECHNOLOGY HOLDINGS INC
Form 10QSB
November 14, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

þ **Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Fiscal Quarter Ended September 30, 2005

or

¨ **Transition report under Section 13 or 15(d) of the Exchange Act**

Commission File No. 000-33197

WARP TECHNOLOGY HOLDINGS, INC.

(Name of Small Business Issuer in its Charter)

Nevada	**88-0467845**
State or other jurisdiction of incorporation or organization	**I.R.S. Employer Identification Number**

200 Railroad Avenue, 3rd Floor, Greenwich, CT 06830

(Address of principal executive office)

Issuer s telephone number: (203) 422-2950

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) been subject to such filing requirements for the past ninety (90) days. Yes þ No ¨

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: As of November 11, 2005, there were 3,539,730 shares of Common Stock, par value $.00001 per share, outstanding.

Transitional Small Business Disclosure Format (check one): Yes ¨ No þ

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

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PART I

FINANCIAL INFORMATION

Forward-Looking Information

Certain statements in this Form 10-QSB of WARP Technology Holdings, Inc. (the Company) may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include those relating to future opportunities, the outlook of customers, the reception of new products and technologies, and the success of new initiatives. In addition, such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results expressed or implied by such forward-looking statements. Such factors include: (i) demand for the Company s products; (ii) the actions of current and potential new competitors; (iii) changes in technology; (iv) the nature and amount of the Company s revenues and expenses; and (v) overall economic conditions and other risks detailed from time to time in the Company s periodic earnings releases and reports filed with the Securities and Exchange Commission (the SEC), as well as the risks and uncertainties discussed in the Company s Annual Report on Form 10-KSB filed with the Commission on September 28, 2005 (the Form 10-KSB).

ITEM 1. Financial Statements.

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WARP Technology Holdings, Inc.

Consolidated Balance Sheets

	September 30, 2005 (Unaudited)	June 30, 2005 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 751,033	$ 1,548,013
Accounts receivable, net of allowance for doubtful accounts of $21,866 and $30,845 respectively	2,129,875	2,024,699
Prepaid expenses and other current assets	443,217	409,496
Total current assets	3,324,125	3,982,208
Property and equipment, net	246,688	223,025
Deferred financing cost, net	1,325,110	476,876
Intangible assets, net of accumulated amortization of $1,242,496 and $756,064 respectively	16,462,587	15,678,736
Goodwill	7,601,420	7,055,264
Investment and other assets	1,086,360	884,379
Total assets	$ 30,046,290	$ 28,300,488
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 997,060	$ 872,433
Accrued expenses	3,579,633	3,752,731
Note payable to Bristol Technology, Inc	500,000	
Note payable	254,128	
Deferred revenue	4,098,187	3,392,896
Due to ISIS	1,293,701	1,293,534
Total current liabilities	10,722,709	9,311,594
Subordinated notes payable	1,083,336	2,317,710
Senior notes payable	8,467,035	6,446,750
Other long term liabilities	41,602	43,275
Total liabilities	20,314,682	18,119,329
Commitments and Contingencies		
Stockholders equity:		
Preferred stock (Canadian subsidiary)	2	2
Series C Preferred Stock: $.00001 par value; 16,000,000 shares authorized, 13,936,644 and 14,193,095 issued and outstanding (Liquidation value - $13,936,644 and $14,193,095) at September 30, 2005 and June 30, 2005, respectively	13,936,644	14,193,095
Shares of Common Stock to be issued for accrued dividends on Series C Preferred Stock	211,636	212,897
Shares of Common Stock to be issued for accrued interest on subordinated debt	42,500	
Common stock, $.00001 par value; 150,000,000 shares authorized, 3,514,730 and 3,110,800 shares issued and outstanding at September 30, 2005 and June 30, 2005, respectively	35	31
Additional paid-in capital	61,885,439	59,431,331

Deferred compensation	(870,562)	(970,711)
Accumulated other comprehensive loss	(62,664)	(105,262)
Accumulated deficit	(65,411,422)	(62,580,224)
Total stockholders equity	9,731,608	10,181,159
Total liabilities and stockholders equity	$ 30,046,290	$ 28,300,488

See accompanying notes to consolidated financial statements.

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WARP Technology Holdings, Inc.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,	
	2005	**2004**
Revenue		
Licenses	$ 1,314,569	$ 126,305
Services	1,893,760	31,576
Total revenue	3,208,329	157,881
Cost of revenue		
Cost of licenses	45,734	14,028
Cost of services	293,908	
Total cost of revenue	339,642	14,028
Gross Profit	2,868,687	143,853
Product development	956,557	77,066
Sales, marketing and business development	1,372,525	253,182
General and administrative (including non-cash compensation of $119,328 and $415,597, respectively)	1,802,358	967,364
Loss before interest	(1,262,753)	(1,153,759)
Interest (expense) income	(1,296,102)	695
Net loss before income taxes	$ (2,558,855)	$ (1,153,064)
Income taxes	(52,163)	
Net loss	$ (2,611,018)	$ (1,153,064)
Computation of loss applicable to common shareholders		
Net loss before beneficial conversion and preferred dividends	$ (2,611,018)	$ (1,153,064)
Beneficial conversion and preferred dividends	(220,179)	(2,338,408)
Loss attributable to common stockholders	$ (2,831,197)	$ (3,491,472)
Basic and diluted net loss per share attributable to common stockholders	$ (0.88)	$ (3.60)
Weighted-average number common shares basic and diluted	3,209,597	971,115

See accompanying notes to consolidated financial statements.

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WARP Technology Holdings, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004
Operating activities		
Net loss	$ (2,611,018)	$ (1,153,064)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	509,441	52,303
Stock-based compensation, consulting and other fees	119,328	415,597
Non-cash interest expense	1,119,398	
Changes in operating assets and liabilities net of effect of acquisition of business:		
Accounts receivable	207,574	90,420
Prepaid expenses and other assets	(37,900)	1,799
Accounts payable and accrued expenses	(61,121)	(50,930)
Deferred revenue	330,244	(124,581)
Deferred product cost		14,028
Net cash used in operating activities	(424,054)	(754,428)
Investing activities		
Acquisition deposits to Platinum Equity, LLC	(1,003,835)	
Kenosia acquisition net of cash acquired of $6,125	(464,049)	
Purchase of property and equipment	(42,011)	
Net cash used in investing activities	(1,509,895)	
Financing activities		
Repayment of Subordinated notes	(1,500,000)	
Repayment of Senior notes	(6,825,000)	
Proceeds from new Senior notes, net of issuance cost of $1,083,872	8,916,128	
Proceeds from Promissory Note	500,000	
Proceeds from issuance of preferred and common stock, net of issuance cost		700,000
Net cash provided by financing activities	1,091,128	700,000
Effect of exchange rate changes on cash	45,841	(25,186)
Net decrease in cash and cash equivalents	(796,980)	(79,614)
Cash and cash equivalents beginning of period	1,548,013	115,491
Cash and cash equivalents end of period	$ 751,033	$ 35,877
Supplemental disclosure of cash flow Information:		
Income tax paid	$ 31,616	$

Interest paid	$ 315,068	$

Supplemental schedule of non-cash investing and financing activities:

For the three months ended September 30, 2005, the Company recorded $211,636 in connection with Convertible Preferred dividends.

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

Purchase price:	
Cash	1,247,175
Transaction costs	24,750
Note payable	500,000
Total purchase price	1,771,925
Less Fair Value of:	
Assets acquired	1,611,793
Liability assumed	386,024
Goodwill	546,156

See accompanying notes to consolidated financial statements.

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Warp Technology Holdings, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization, Merger, Description of Business and Basis of Presentation

Warp Technology Holdings, Inc. (collectively with its subsidiaries, the Company), operating under the name Halo Technology Holdings, is a Nevada corporation with its principal executive office in Greenwich, Connecticut.

The Company is a holding company whose subsidiaries operate enterprise software and information technology businesses. In addition to holding its existing subsidiaries, the Company s strategy is to pursue acquisitions of businesses which either complement the Company s existing businesses or expand the segments in which the Company operates.

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

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

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

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

Warp Solutions, Inc. a wholly owned subsidiary of the Company, produces a series of application acceleration products that improve the speed and efficiency of transactions and information requests that are processed over the internet and intranet network systems. The subsidiary s suite of software products and technologies are designed to accelerate network applications, reduce network congestion, and reduce the cost of expensive server deployments for enterprises engaged in high volume network activities.

On July 6, 2005 the Company purchased Kenosia Corporation (Kenosia). Kenosia is a software company whose products include its DataAlchemy product line. DataAlchemy is a sales and marketing analytics platform that is utilized by global companies to drive retail sales and profits through timely and effective analysis of transactional data. Kenosia s installed customers span a wide range of industries, including consumer packaged goods, entertainment, pharmaceutical, automotive, spirits, wine and beer, brokers and retailers.

On October 26, 2005, the Company completed the acquisition of five software companies: Tesseract, DAVID Corporation, Process Software, ProfitKey International, and Foresight Software, Inc.

Tesseract, headquartered in San Francisco, is a total HR solutions provider offering an integrated Web-enabled HRMS suite. Tesseract s Web-based solution suite allows HR users, employees and external service providers to communicate securely and electronically in real time. The integrated nature of the system allows for easy access to data and a higher level of accuracy for internal reporting, assessment and external data interface. Tesseract s customer base includes corporations operating in a diverse range of industries, including financial services, transportation, utilities, insurance, manufacturing, petroleum, retail, and pharmaceuticals.

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

Process Software develops infrastructure software solutions for mission-critical environments, including industry-leading TCP/IP stacks, an Internet messaging product suite, and an anti-spam software subscription service to large enterprises worldwide. With a loyal customer base of over 5,000 organizations, including Global 2000 and Fortune 1000 companies,

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Process Software has earned a strong reputation for meeting the stringent reliability and performance requirements of enterprise networks.

ProfitKey International develops and markets integrated manufacturing software and information control systems for make-to-order and make-to-stock manufacturers. ProfitKey s offering includes a suite of e-business solutions that includes customer, supplier and sales portals. ProfitKey s highly integrated system emphasizes online scheduling, capacity management, and cost management.

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

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2006. For further information, refer to the financial statements and footnotes thereto included in the Company s Annual Report on Form 10-KSB for the year ended June 30, 2005.

Note 2. Summary of Significant Accounting Policies

Reclassification.

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

Loss Per Share

Basic and diluted net loss per share information for all periods is presented under the requirements of SFAS No. 128, Earnings Per Share. Basic loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average common shares outstanding during the period. Diluted loss per share is calculated by dividing net loss attributable to common stockholders by the weighted-average common shares outstanding. The dilutive effect of preferred stock, warrants and options convertible into an aggregate of approximately 40,822,622 and 1,913,270 (as adjusted for the November, 2004 one for 100 reverse stock split) of common shares as of September 30, 2005 and September 30, 2004, respectively, are not included as the inclusion of such would be anti-dilutive for all periods presented.

Stock-Based Compensation

The Company uses the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and have adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Accordingly, no compensation cost has been recognized for fixed stock option grants. Had compensation costs for the Company s stock option grants been determined based on the fair value at the grant dates for awards under these plans in accordance with SFAS No. 123, the Company s net loss and loss per share would have been increased to the pro forma amounts as follows: