

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2009

COMMISSION FILE NUMBER: 0-21419

NETFABRIC HOLDINGS, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

76-0307819
(I.R.S Employer Identification No.)

(Address of Principal Executive Offices)
299 Cherry Hill Road,
Parsippany, New Jersey 07054

(973)-537-0077
(Issuer's Telephone Number, Including Area Code)
(Former address, if changed since last report)

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) 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer

Accelerated filer

Non- accelerated filer

Small reporting company

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 2, 2010, 97,053,044 shares of common stock, \$.001 par value per share, of the issuer were outstanding.

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

NETFABRIC HOLDINGS, INC.

INDEX

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheet	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Interim Condensed Consolidated Financial Statements	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 4. Controls and Procedures	18
PART II. OTHER INFORMATION	18
Item 1. Legal Proceedings	18
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	18
Item 3. Defaults Upon Senior Securities	18
Item 4. Submission of Matters to a Vote of Security Holders	18
Item 5. Other Information	18
Item 6. Exhibits	19
Signatures	20

NETFABRIC HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	September 30, 2009	December 31, 2008
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 4,838	\$ 74
Trade accounts receivable, net	-	18,584
Other receivables	959,300	-
Current assets of discontinued operations	-	4,478,242
Total current assets	964,138	4,496,900
Property and equipment, net	-	17,346
Non current assets of discontinued operations	-	6,298,476
TOTAL ASSETS	\$ 964,138	\$ 10,812,722
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term borrowings	\$ -	\$ 950,000
Accounts payable and accrued liabilities	456,555	982,502
Accrued compensation	-	198,000
Current liabilities of discontinued operations	-	5,751,325
Convertible note, net of unamortized discount	-	1,443,144
Revolving note, net of unamortized discount	-	1,384,257
Total current liabilities	456,555	10,709,228
Total liabilities	456,555	10,709,228
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY :		
Common Stock, \$.001 par value, authorized shares 200,000,000, 97,053,044 shares issued and outstanding	97,053	97,053
Additional paid-in capital	38,243,128	38,110,162
Accumulated deficit	(37,832,598)	(38,103,721)
Total stockholders' equity	507,583	103,494
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 964,138	\$ 10,812,722

See accompanying notes to condensed consolidated interim financial statements.

NETFABRIC HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
REVENUE	\$ -	\$ -	\$ -	\$ -
OPERATING EXPENSES:				
Selling, general and administrative expenses (includes share based compensation of \$888, \$97,074, \$132,966 and \$201,222)	85,202	162,376	709,724	471,576
Depreciation and amortization	-	2,095	-	14,461
Total operating expenses	<u>85,202</u>	<u>164,471</u>	<u>709,724</u>	<u>486,037</u>
Loss from operations	(85,202)	(164,471)	(709,724)	(486,037)
OTHER INCOME / (EXPENSE):				
Amortization of debt discounts	-	(234,104)	(91,862)	(602,365)
Amortization of debt issuance costs	-	(118,000)	(47,630)	(371,373)
Other Income	160,000	-	160,000	-
Interest and bank charges	-	(48,739)	(36,270)	(221,936)
Total other income / (expense)	<u>160,000</u>	<u>(400,843)</u>	<u>(15,762)</u>	<u>(1,195,674)</u>
Income (loss) before provision for income taxes	74,798	(565,314)	(725,486)	(1,681,711)
Provision for income taxes	<u>120,000</u>	<u>-</u>	<u>120,000</u>	<u>-</u>
LOSS FROM CONTINUING OPERATIONS	(45,202)	(565,314)	(845,486)	(1,681,711)
DISCONTINUED OPERATIONS:				
Gain from disposal of discontinued operations	770,608	-	770,608	-
Income from discontinued operations	<u>165,977</u>	<u>327,875</u>	<u>346,001</u>	<u>1,039,345</u>
	936,585	327,875	1,116,609	1,039,345
NET INCOME (LOSS)	<u>\$ 891,383</u>	<u>\$ (237,439)</u>	<u>\$ 271,123</u>	<u>\$ (642,366)</u>
Net loss from continuing operations per common share, basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Net income from discontinued operations per common share, basic and diluted	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Net income (loss) per common share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding, basic and diluted	<u>97,053,044</u>	<u>97,053,044</u>	<u>97,053,044</u>	<u>96,764,723</u>

See accompanying notes to condensed consolidated interim financial statements.

NETFABRIC HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
OPERATING ACTIVITIES		
Net income (loss)	\$ 271,123	\$ (642,366)
Income from discontinued operations	(1,116,609)	(1,039,345)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Share based compensation	132,966	201,222
Non-cash financing fees	-	40,000
Amortization of debt discounts	91,862	562,365
Amortization of debt issuance costs	47,630	371,373
Depreciation and amortization	-	14,461
Loss on disposal of property and equipment	17,346	5,287
Changes in operating assets and liabilities:		
Trade accounts receivable	18,584	4,596
Prepaid expenses and other current assets	(109,300)	27,121
Accounts payable and accrued liabilities	(525,947)	(154,833)
Accrued compensation	(198,000)	16,885
Net cash used by continuing operations	<u>(1,370,345)</u>	<u>(593,234)</u>
Net cash provided by discontinued operations	<u>292,002</u>	<u>952,735</u>
Net cash provided by (used in) operating activities	<u>(1,078,343)</u>	<u>359,501</u>
INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	-	5,981
Net cash provided by investing activities by continuing operations	<u>-</u>	<u>5,981</u>
Net cash used in discontinued operations	-	(11,504)
Net cash used in investing activities	<u>-</u>	<u>(5,523)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of Secured Convertible Promissory Note	5,000,000	-
Repayment of debentures	-	(100,000)
Short term borrowings	-	760,000
Repayment of short term borrowings	(950,000)	(880,000)
Repayment of convertible debenture	(1,500,000)	-
Proceeds from issuance (repayment) of revolving note, net	(1,419,263)	222,456
Debt issuance costs	(47,630)	(371,373)
Net cash (used in) provided by financing activities	<u>1,083,107</u>	<u>(368,917)</u>
Net increase (decrease) in cash	4,764	(14,939)
Cash at beginning of period	74	15,270
Cash at end of period	<u>\$ 4,838</u>	<u>\$ 331</u>
Supplemental cash flow information:		
Cash paid for interest		
Continuing operations	\$ 57,000	\$ 195,000
Discontinued operations	<u>\$ 13,000</u>	<u>\$ 48,000</u>

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. NATURE OF BUSINESS AND MANAGEMENT'S PLANS

NetFabric Holdings, Inc. ("Holdings" or the "Company") was incorporated under the laws of the State of Delaware on August 31, 1989. As of September 30, 2009, the Company has one wholly-owned subsidiary, NetFabric Corporation ("NetFabric") which is not active. At December 31, 2008, the Company had another active subsidiary UCA Services, Inc ("UCA"), which was sold in 2009.

On May 20, 2005 Holdings acquired UCA Services, Inc. UCA, a New Jersey company, is an information technology ("IT") services company that serves the information and communications needs of a wide range of Fortune 500 and small to mid-size business clients in the financial markets industry as well as the pharmaceutical, health care and hospitality sectors. UCA delivers a broad range of IT services in the practice areas of infrastructure builds and maintenance, managed services and professional services.

Effective August 24, 2009, pursuant to a Memorandum of Understanding, the Company sold UCA to Fortify Infrastructure Services, Inc. ("Fortify") for \$5,850,000 consisting of \$5,000,000 in cash, resulting from the cancellation of a \$5,000,000 note previously issued to Fortify by UCA on March 12, 2009, and a receivable of \$850,000, which was paid in May 2010, and is reflected as a receivable on the 2009 balance sheet. The Memorandum of Understanding referred to above was signed on April 27, 2010 and amended the terms of previous agreements dated March 12, 2009 and August 24, 2009 between UCA and Fortify.

The operations of UCA are reflected in the financial statements as discontinued operations. The 2008 financial statements have been retrospectively adjusted to reflect the operations of UCA as discontinued operations. Previously they were reflected in the 2008 financial statements as part of continuing operations (Note 4).

Management's plans

As discussed above, the Company sold UCA to Fortify for \$5,850,000. Out of proceeds from the transaction, the Company repaid all of its debt. After the sale, the Company does not have any operations. However, the Company will be debt free. The Company intends to explore strategic alternatives including merger with another entity. Currently, the Company does not have any agreement or understanding with any entity and there is no assurance that such a transaction will ever be consummated. The Company believes that it will be able to meet its cash requirements throughout fiscal 2010 and continue its business development efforts.

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), except for the condensed consolidated balance sheet as of December 31, 2008, which was derived from audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted pursuant to such rules and regulations. However the Company believes that the disclosures are adequate to make the information presented not misleading. The financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company's financial position and results of operations.

The operating results for the three and nine months ended September 30, 2009 and 2008 are not necessarily indicative of the results to be expected for any other interim period or any future year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's December 31, 2008 consolidated financial statements, including the notes thereto, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and revenues and expenses for the period then ended. Actual results may differ significantly from those estimates.

Fair Value of Financial Instruments

The carrying amounts reported in the condensed consolidated balance sheet for cash, accounts payable and accrued expenses, and short term borrowings approximate their fair market value based on the short-term maturity of these instruments.

Earnings (Loss) Per Share

The Company calculates earnings (loss) basic earnings (loss) per share by dividing the net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing the net income (loss) by the weighted average number of shares of common stock outstanding during the period plus the effects of any dilutive securities.

Diluted earnings (loss) per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. The Company's potentially dilutive securities include common shares which may be issued upon exercise of its stock options, exercise of warrants or conversion of convertible debt.

Diluted loss per share for the nine months ended September 30, 2009 and 2008 exclude potentially issuable common shares of approximately 7,856,867 and 12,408,856, respectively, primarily related to the Company's outstanding stock options, warrants and convertible debt, because the assumed issuance of such potential common shares is antidilutive.

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (the "Codification"). This standard replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The FASB ASC has become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Company's references to GAAP accounting standards but did not impact the Company's results of operations, financial position or liquidity.

In April 2009, the Company adopted a new accounting standard included in ASC 820, (formerly FSP 107-1 and Accounting Principles Board ("APB") 28-1, Interim Disclosures about Fair Value of Financial Instruments). The new standard requires disclosures of the fair value of financial instruments for interim reporting periods of publicly traded companies in addition to the annual disclosure required at year-end. The provisions of the new standard were effective for the interim periods ending after June 15, 2009. The Company's adoption of this new accounting standard did not have a material effect on the Company's consolidated financial statements.

In May 2009, the FASB issued new guidance for subsequent events. The new guidance, which is part of ASC 855, Subsequent Events (formerly SFAS No. 165, Subsequent Events) is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The new guidance is effective for fiscal years and interim periods ended after June 15, 2009 and will be applied prospectively. The Company's adoption of the new guidance did not have a material effect on the Company's consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 4. DISCONTINUED OPERATIONS

On March 12, 2009, the Company, along with its wholly owned subsidiary, UCA entered into a Convertible Note Purchase Agreement dated March 12, 2009 with Fortify Infrastructure Services, Inc. ("Fortify"). Pursuant to the Convertible Note Purchase Agreement, Fortify purchased a Secured Convertible Promissory Note (the "Note") from UCA in the principal amount of \$5 million with the Company being a guarantor for UCA's borrowings.

The Note had a six-month term, and with interest at 8% per annum, compounded annually. The Note was secured by (i) all of the assets of UCA and the Company and (ii) all of the equity securities of UCA then owned or thereafter acquired by the Company. At the exclusive option of Fortify, Fortify may convert the entire principal amount of and accrued and unpaid interest on the Note into shares of Series A Preferred Stock of UCA. The conversion price shall be at a price equal to the price per share reflecting a valuation of UCA equal to \$5 million, on an as-converted basis.

Fortify, UCA and the Company also entered into an Option and Purchase Agreement ("Option Agreement"). Pursuant to the Option Agreement, Fortify has an option to acquire all of the outstanding shares of common stock of UCA. Upon effectiveness of the Company's Definitive Schedule 14 C Information Statement to be filed with the Securities and Exchange Commission (the "SEC") in connection with certain actions taken by the written consent of holders of a majority of the Company's outstanding common stock approving the terms of the Option Agreement, Fortify will exercise the option. Upon exercise of the Option, the Company will be released from the guaranty obligations of the Note. Fortify will pay the Company \$500,000 ("Fixed Payment") one year from the date the option is exercised. In addition, Fortify will pay additional amounts to the Company (up to a maximum of \$500,000) and certain employees of UCA based on UCA's performance during the periods specified in the Option Agreement ("Performance Payment").

The holders of a majority of the Company's outstanding common stock had previously approved the terms of the Option Agreement by a written consent as detailed in the Company's Definitive Schedule 14 C Information Statement filed with SEC on July 9, 2009.

The Company used approximately \$3 million from the proceeds of the Note to repay all amounts owed to Laurus Master Fund. The balance of the proceeds was used for repayment of debt, other payables and for working capital purposes.

On August 24, 2009, the Company along with its wholly-owned subsidiary, UCA and Fortify entered into Amendment No. 1 (“Amendment”) to the Option and Purchase Agreement (“Option Agreement”) in connection with the closing of Fortify’s purchase of all of the outstanding capital stock of UCA upon exercise of its option granted under the Option Agreement. Pursuant to the Amendment, among other things, the Secured Convertible Promissory Note in the principal amount of \$5 million (including the related accrued interest) issued by UCA to Fortify was cancelled, releases of certain obligations of the parties were granted as specified in the Amendment, and the commencement date and measurement period for the earn-out and bonuses provided for in the Option Agreement were modified. Effective August 24, 2009, the Company transferred its ownership interest in UCA to Fortify.

On April 27, 2010, the Company entered into a Memorandum of Understanding (“MOU”) with Fortify and amended the Fixed Payment and Performance Payment previously agreed by them. Pursuant to Fortify agreeing to pay the amounts on accelerated basis unconditionally, the Company agreed to accept \$850,000 in aggregate as the full settlement of Fixed Payment and Performance payments. This amount was received by the Company in May 2010.

In accordance with FASB ASC 205-20-45-1 “Presentation of Financial Statements-Discontinued Operations-Other Presentation Matters” the Company has presented the results of UCA operations as discontinued operations in the accompanying consolidated balance sheets, statement of operations and statement of cash flows.

The following table presents information regarding the calculation of gain from the sale of UCA:

Sale price from cancellation of Secured Convertible Promissory by Fortify	\$ 5,000,000
Sale price from Fixed Payment and Variable Payment received by the Company in May 2010	850,000
Total Sale Price	<u>5,850,000</u>
UCA Assets	8,068,390
UCA Liabilities	<u>(2,988,998)</u>
Total basis	<u>5,079,392</u>
Gain on Sale	<u>\$ 770,608</u>

The carrying amounts of the major classes of assets and liabilities aggregated in discontinued operations in the consolidated balance sheet at December 31, 2008 were as follows:

	December 31, 2008
Cash	\$ 1,317,436
Trade Receivable, net	3,008,934
Prepaid expenses and other current assets	151,872
Current assets of discontinued operations	<u>\$ 4,478,242</u>
Property and equipment, net	\$ 114,991
Goodwill	5,704,000
Other intangibles, net	456,564
Other assets	22,921
Non current assets of discontinued operations	<u>\$ 6,298,476</u>
Accounts payable and accrued expenses	\$ 3,714,572
Accrued compensation	414,526
Deferred revenues and customer advances	1,622,227
Current liabilities of discontinued operations	<u>\$ 5,751,325</u>

Discontinued Operations	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Revenues	\$ 2,468,394	\$ 6,269,781
Direct employee compensation and consultant expenses	1,854,743	5,034,187
Selling, general and administrative expenses	519,295	833,183
Depreciation and amortization	38,976	69,611
Interest expenses (reversal)	(110,597)	4,925
Income from discontinued operations	<u>\$ 165,977</u>	<u>\$ 327,875</u>

Discontinued Operations	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues	\$ 11,482,220	\$ 17,614,414
Direct employee compensation and consultant expenses	8,709,186	13,906,578
Selling, general and administrative expenses	2,253,452	2,435,514
Depreciation and amortization	160,323	213,290
Interest expenses	13,258	19,687
Income from discontinued operations	<u>\$ 346,001</u>	<u>\$ 1,039,345</u>

The Company did not allocate interest on its borrowings to discontinued operations and the interest expenses of discontinued operations represent interest expenses incurred by UCA directly. UCA had accrued interest expense due on Fortify Note and Fortify waived payment of this interest. Accordingly, previously accrued interest was reversed during the three months ended September 30, 2009.

NOTE 5. DEBT FINANCINGS

During the nine months ended September 30, 2009, the Company repaid all of the borrowings that were outstanding at December 31, 2008. The Company paid financing costs of \$47,630 to third parties and lenders with respect to short term borrowing during the nine months ended September 30, 2009 and this amount was amortized over the term of the borrowings. During the nine months ended September 30, 2009, \$47,630 was charged to operations as amortization of debt issuance costs.

Debt Financings consist of the following as of December 31, 2008:

	2008		
	Principal	Unamortized debt discount	Net
Laurus Revolving Note Due in March 2009	\$ 1,419,263	\$ (35,006)	\$ 1,384,257
Laurus Convertible Note Due in February 2009	1,500,000	(56,856)	1,443,144
Short term borrowings	950,000	-	950,000
	<u>\$ 3,869,263</u>	<u>\$ (91,862)</u>	<u>\$ 3,777,401</u>

NOTE 6. STOCKHOLDERS' EQUITY

Warrants

Outstanding warrant securities consist of the following at September 30, 2009

		Exercise Price	Expiration
Laurus Warrants	554,282	\$ 0.001	None
2006 Private Placement	550,000	\$ 0.01	April to November 2009
2007 Short Term Financing	890,000	\$ 0.01	April to November 2010
Others	312,500	\$ 0.82	June 2011
	<u>2,306,782</u>		

NOTE 7. STOCK-BASED COMPENSATION

Share-based compensation expense recognized for the three months ended September 30, 2009 and 2008 was \$888 and \$97,074, respectively. For the nine months ended September 30, 2009 and 2008, share-based compensation expense was \$132,966 and \$201,222, respectively. Share-based compensation expense recognized in the Company's condensed consolidated statements of operations includes compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of ASC Topic 718: Compensation-Stock Compensation.

NOTE 8. OTHER INCOME

During the three and nine months ended September 30, 2009, the Company entered into legal settlements with certain vendors applicable to old accounts payable, and evaluated estimates of certain accruals, made in prior years. Based on the settlements and evaluation, the Company wrote off approximately \$160,000 of old accounts payable and accruals, which was recorded as other income.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes and the other financial information appearing elsewhere in this report and reports included herein by reference. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements.

CORPORATE HISTORY

We were formerly known as Houston Operating Company and were incorporated in Delaware on August 31, 1989. On December 9, 2004, we entered into an Acquisition Agreement with all of the stockholders of NetFabric Corp., a Delaware corporation. NetFabric Corp. was incorporated in Delaware on December 17, 2002 and began operations in July 2003. At the closing, which occurred simultaneously with the execution of the Acquisition Agreement, we acquired all of the issued and outstanding capital stock of NetFabric Corp. from the stockholders in exchange for an aggregate of 32,137,032 newly-issued shares of our common stock. The acquisition was accounted for as a reverse merger whereby NetFabric Corp. was treated as the acquirer. On April 19, 2005, our name was changed from Houston Operating Company to NetFabric Holdings, Inc. and our stock symbol was changed from "HOOC" to "NFBH."

Prior to acquiring NetFabric Corp., Houston Operating Company did not have any operations, and we were a shell company whose primary business objective was to merge and become public. NetFabric Corp. was a provider of hardware and services to small to mid-sized businesses ("SMBs") that utilized the Internet for telephone communications or Voice over Internet Protocol ("VoIP"). It developed and marketed appliances or Customer Premises Equipment ("CPE") that simplified the integration of standard telephone systems with an IP infrastructure. In addition, NetFabric Corp resold transport services of a third party VoIP transport provider.

With minimal revenues from VoIP operations, we concluded that we could not implement our original business plan for VoIP operations within our resources or with the additional capital we could raise in the near term. On May 5, 2006, our Board of Directors decided that the Company should exit the hardware-based VoIP communications product line (including resale of transport services) that is targeted to SMBs.

UCA SERVICES, INC. ACQUISITION

On May 20, 2005, we entered into and closed on a share exchange agreement, whereby we purchased all of the issued and outstanding shares of UCA Services, Inc., a New Jersey company ("UCA") from its shareholders in exchange for the issuance of 24,096,154 shares of our common stock. UCA is an IT services and solutions company that serves the information needs of a wide range of Fortune 500 clients in the financial markets industry and the pharmaceutical, health care and hospitality sectors. UCA delivers a broad range of IT services in managed services, professional services, infrastructure building and maintenance, application development and maintenance areas. The acquisition was accounted for using the purchase method of accounting with UCA's results of operations included in our consolidated financial statements from the date of acquisition.

DISCONTINUED OPERATIONS

On August 24, 2009, the Company along with its wholly-owned subsidiary, UCA and Fortify entered into Amendment No. 1 (“Amendment”) to the Option and Purchase Agreement (“Option Agreement”) in connection with the closing of Fortify’s purchase of all of the outstanding capital stock of UCA upon exercise of its option granted under the Option Agreement. Pursuant to the Amendment, among other things, the Secured Convertible Promissory Note in the principal amount of \$5 million (including the related accrued interest) issued by UCA to Fortify was cancelled, releases of certain obligations of the parties were granted as specified in the Amendment, and the commencement date and measurement period for the earn-out and bonuses provided for in the Option Agreement were modified. Effective August 24, 2009, the Company transferred its ownership interest in UCA to Fortify.

In accordance with FASB ASC 205-20-45-1 “Presentation of Financial Statements-Discontinued Operations-Other Presentation Matters” the Company has presented the results of UCA operations as discontinued operations in the accompanying consolidated balance sheets, statement of operations and statement of cash flows.

UCA derived revenues primarily from managed IT services, professional services, application development services and business process management services. Service arrangements with customers were generally on a time and material basis or fixed-price, fixed-timeframe revenue basis. UCA’s principal operating expenses were direct employee costs, consultant expenses and selling, general and administrative expenses. The principal components of selling, general and administrative expenses were salaries of sales and support personnel, and office rent. Direct employee costs and consultant expenses were comprised primarily of the costs of consultant labor, including employees, subcontractors and independent contractors, and related employee benefits. Approximately 50% of our consultants were employees and the remainder are subcontractors and independent contractors.

We compensated most of our consultants only for the hours that we bill to our clients for projects undertaken, which allowed us to better match our labor costs with our revenue generation. With respect to our consultant employees, we were responsible for employment-related taxes, medical and health care costs and workers’ compensation. Labor costs were sensitive to shifts in the supply and demand of IT professionals, as well as increases in the costs of benefits and taxes.

After the divestiture of UCA, the Company does not have any operations. In the past, our operations was that of a holding company that housed the finance and administrative functions and was responsible for financing transactions and regulatory compliance activities.

Comparison of Three Months and Nine Months Ended September 30, 2009 and 2008:

Selling, general and administrative expenses

Our selling, general and administrative expenses decreased for the three months ended September 30, 2009 by \$77,174, or 47.5%, to \$85,202. The decrease was due to reduced corporate activities in 2009 subsequent to the divestiture of UCA. For the nine months ended September 30, 2009, our selling, general and administrative expenses increased by \$238,148 or 50.5% to \$709,724. The increase was due to bonus/ one-time payment, severance to officers and additional professions fees incurred in connection with UCA transaction.

Amortization of debt discount

During the three months ended September 30, 2009 amortization of debt discount was nil compared to \$234,104 in 2008. Amortization of debt discount for the nine months ended September 30, 2009 decreased by \$510,503 or 84.7%, from \$602,365 to \$91,862. The reductions were due to the maturity of Laurus debt and by the maturity all discount was amortized. The debt was repaid at the maturity in March 2009 from the Fortify transaction, and there were no additional borrowings incurred after the repayment.

Debt issuance costs

We paid approximately \$0 and \$48,000 fees in connection with our short term borrowing during the three and nine months ended September 30, 2009, respectively, which was charged to operation. In 2008, we incurred approximately \$118,000 and \$371,000 in fees during the three and nine months ended September 30, 2008, respectively. The decreases were due to the repayment of short term borrowings from the Fortify transaction.

Interest expense

For the three months ended September 30, 2009, interest expense decreased by \$48,739, to \$0 from \$48,739. For the nine months ended September 30, 2009, interest expense decreased by \$185,666, or 83.7% to \$36,270 from \$221,936. The decreases were due to the repayment of Laurus and other debt from the proceeds of the Fortify transaction in March 2009.

Discontinued Operations

On August 24, 2009, we transferred our ownership interest in UCA to Fortify. In accordance with FASB ASC 205-20-45-1 "Presentation of Financial Statements-Discontinued Operations-Other Presentation Matters" we have presented the results of UCA operations as discontinued operations in the accompanying consolidated balance sheets, statement of operations and statement of cash flows.

We recorded a gain of \$770,608 from the disposal of UCA during the three and nine months ended September 30, 2009. This was based on the sale price of UCA and net assets of UCA transferred as more fully detailed in Note 5 to Condensed Consolidated Financial Statements.

During the three months ended September 30, 2009, our discontinued operations resulted in an income of \$165,977 compared to an income of \$327,875 in the comparable period of 2008. For the nine months ended September 30, 2009, our discontinued operations had income of \$346,001 compared to income of \$1,039,345 in the comparable period in 2008. Our discontinued operations in 2009 were until August 24, 2009, date on which ownership in UCA was transferred to Fortify, compared to a full three and months of operations in 2008. In addition, decreased revenues in UCA due to non- renewal or termination of certain projects undertaken in 2008 resulted in decreased profits in 2009 compared to 2008.

Net loss

As a result of the foregoing, for the three months ended September 30, 2009, net loss decreased by \$1,128,822, or 475.4 5%, to net income of \$891,383, compared to a net loss of \$237,439 during the three months ended September 30, 2008. For the nine months ended September 30, 2009, net loss decreased by \$913,489 or 142.4% , to net income of \$271,123, compared to a net loss of \$642,366 during the nine months ended September 30, 2008.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2009, our working capital was \$507,583, compared to a working capital deficiency of \$6,212,328 on December 31, 2008. The increase in working capital was due to the proceeds received from the sale of UCA. During the nine months ended September 30, 2009, our operating activities from continuing operations used approximately \$1,370,000 of cash, compared to approximately \$593,000 used during the nine months ended September 30, 2008.

During the nine months ended September 30, 2009, our continuing operating losses, after adjusting for non-cash items, used approximately \$556,000 of cash, and working capital items used approximately \$814,000 of cash. The principal component of these working capital changes was a decrease in our accounts payable and accrued compensation. During the nine months ended September 30, 2008, our continuing operating losses, after adjusting for non-cash items, utilized approximately \$487,000 of cash, and working capital items used approximately \$106,000 of cash.

On March 12, 2009, we, along with our wholly owned subsidiary, UCA entered into a Convertible Note Purchase Agreement dated March 12, 2009 with Fortify Infrastructure Services, Inc. ("Fortify). Pursuant to the Convertible Note Purchase Agreement, Fortify purchased a Secured Convertible Promissory Note (the "Note") from UCA in the principal amount of \$5 million with us Company being a guarantor for UCA's borrowings.

The Note had a six-month term, and with interest at 8% per annum, compounded annually. The Note was secured by (i) all of the assets of UCA and our Company and (ii) all of the equity securities of UCA then owned or thereafter acquired by us. At the exclusive option of Fortify, Fortify may convert the entire principal amount of and accrued and unpaid interest on the Note into shares of Series A Preferred Stock of UCA. The conversion price shall be at a price equal to the price per share reflecting a valuation of UCA equal to \$5 million, on an as-converted basis.

Fortify, UCA and we also entered into an Option and Purchase Agreement ("Option Agreement"). Pursuant to the Option Agreement, Fortify has an option to acquire all of the outstanding shares of common stock of UCA. Upon effectiveness of the our Definitive Schedule 14 C Information Statement to be filed with the Securities and Exchange Commission (the "SEC") in connection with certain actions taken by the written consent of holders of a majority of our outstanding common stock approving the terms of the Option Agreement, Fortify will exercise the option. Upon exercise of the Option, will be released from the guaranty obligations of the Note. Fortify will pay us \$500,000 ("Fixed Payment") one year from the date the option is exercised. In addition, Fortify will pay additional amounts to us (up to a maximum of \$500,000) and certain employees of UCA based on UCA's performance during the periods specified in the Option Agreement ("Performance Payment").

The holders of a majority of our outstanding common stock had previously approved the terms of the Option Agreement by a written consent as detailed in our Definitive Schedule 14 C Information Statement filed with the SEC on July 9, 2009.

We used approximately \$3 million from the proceeds of the Note to repay all amounts owed to Laurus Master Fund. The balance of the proceeds was to be used for repayment of debt, other payables and for working capital purposes.

On August 24, 2009, we along with its wholly-owned subsidiary, UCA and Fortify entered into Amendment No. 1 ("Amendment") to the Option and Purchase Agreement ("Option Agreement") in connection with the closing of Fortify's purchase of all of the outstanding capital stock of UCA upon exercise of its option granted under the Option Agreement. Pursuant to the Amendment, among other things, the Secured Convertible Promissory Note in the principal amount of \$5 million (including the related accrued interest) issued by UCA to Fortify was cancelled, releases of certain obligations of the parties were granted as specified in the Amendment, and the commencement date and measurement period for the earn-out and bonuses provided for in the Option Agreement were modified. Effective August 24, 2009, we transferred our ownership interest in UCA to Fortify.

On April 27, 2010, we entered into a Memorandum of Understanding ("MOU") with Fortify and amended the Fixed Payment and Performance Payment previously agreed by them. Pursuant to Fortify agreeing to pay the amounts on accelerated basis unconditionally, we agreed to accept \$850,000 in aggregate as the full settlement of Fixed Payment and Performance payments. This amount was received us in May 2010.

After the divestiture of UCA, we do not have any operations. However, we are debt free. We will explore strategic alternatives including merger with another entity. Currently, we do not have any agreement or understanding with any entity and there is no assurance that such a transaction will ever be consummated.

ITEM 4. CONTROLS AND PROCEDURES

A. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES:

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act are accumulated and communicated to management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon and as of the date of that evaluation, the CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act are recorded, processed, summarized and reported as and when required.

B. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

There were no changes in our internal controls over financial reporting during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company from time to time is involved in routine legal matters incidental to business. In the opinion of management, the ultimate resolution of such matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

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

None

ITEM 6. EXHIBITS

(a) Exhibits:

31.1 Rule 13a-14(a)/15d-14(a) Certification (CEO)

31.2 Rule 13a-14(a)/15d-14(a) Certification (CFO)

32.1 Section 1350 Certification (CEO)

32.2 Section 1350 Certification (CFO)

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act , the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 13, 2010

By: /s/ Fahad Syed

Name: Fahad Syed

Title: Chairman and Chief Executive Officer

By: /s/ Vasan Thatham

Name: Vasan Thatham

Title: Principal Financial Officer and Vice President

EXHIBIT 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Fahad Syed certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NetFabric Holdings, Inc. (the “ Company”).
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

August 13 , 2010

By: /s/ Fahad Syed
Name: Fahad Syed
Title: Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Vasan Thatham certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NetFabric Holdings, Inc. (the “ Company”).

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

August 13, 2010

By: /s/ Vasan Thatham

Name: Vasan Thatham

Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NetFabric Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Fahad Syed certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

August 13, 2010

By: /s/ Fahad Syed

Name: Fahad Syed

Title: Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to NetFabric Holdings, Inc. and will be retained by NetFabric Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NetFabric Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vasan Thatham, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

August 13 , 2010

By: /s/ Vasan Thatham

Name: Vasan Thatham

Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to NetFabric Holdings, Inc. and will be retained by NetFabric Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
