ICEWEB INC
Form 10-Q
February 16, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 2009

OR

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

For the transition period from ______ to ______

Commission file number: 0-27865

ICEWEB, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	13-2640971
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)

22900 Shaw Road, Suite 111

Sterling, VA	**20166**
(Address of principal executive offices)	(Zip Code)

(571) 287-2380

(Issuer s telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 **x** No **o**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes **o** No **o**

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	**o**	Accelerated filer	**o**
Non-accelerated filer	**o** (Do not check if a smaller reporting company)	Smaller reporting company	**x**

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

The number of shares of the registrant s Common Stock, $.001 par value, outstanding at February 15, 2010 was: 85,469,617.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate , estimate , expect , project , intend , plan , believe , contemplate , would , should , could , or may. With respect to any forward-looking statement that includes a stat underlying assumptions or bases, we believe such assumptions or bases to be reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, we express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished. All subsequent written and oral forward-looking statements attributable to us, or anyone acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

OTHER PERTINENT INFORMATION

When used in this quarterly report, the terms IceWEB , the Company , we , our , and us refers to IceWEB, Inc., a Delaware corporation, and ou subsidiaries. The information which appears on our web site at www.iceweb.com is not part of this quarterly report.

ICEWEB, INC. AND SUBSIDIARIES

FORM 10-Q

QUARTERLY PERIOD ENDED December 31, 2009

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ICEWEB, Inc.

Consolidated Balance Sheets

(Unaudited)

CURRENT ASSETS:	**December 31, 2009**	**September 30, 2009 (1)**
Cash	$ 4,115	$ 63,310
Accounts receivable, net of allowance for doubtful accounts of $9,000	582,308	424,919
Inventory, net	209,369	151,361
Other current assets	29,500	6,390
Prepaid expenses	42,178	25,180
	867,470	671,160
OTHER ASSETS:		
Property and equipment, net of accumulated depreciation of $1,868,432 at December 31, 2009 and $1,761,730 at September 30, 2009	680,550	752,162
Deposits	13,320	13,320
Investment in marketable securities available for sale	1,920,000	
Intangible assets, net of accumulated amortization of $486,180 at December 31, 2009 and $425,408 at September 30, 2009	729,270	790,042
Total Assets	$ 4,210,610	$ 2,226,684
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,903,007	$ 1,971,376
Notes payable	1,847,219	1,847,755
Deferred revenue	10,000	10,261
	3,760,226	3,829,392
Long-Term Liabilities		
Notes Payable	967,884	934,756
Total Liabilities	4,728,110	4,764,148
Stockholders Deficit		
Preferred stock ($.001 par value; 10,000,000 shares authorized) Series B convertible preferred stock ($.001 par value; 626,667 shares issued and outstanding)	626	626
Common stock ($.001 par value; 1,000,000,000 shares authorized; 83,469,617 shares issued and 83,307,117 shares outstanding at December 31, 2009 and 68,469,617 shares issued and 68,307,117 outstanding at September 30, 2008)	83,471	68,471
Additional paid in capital	21,740,595	20,064,998
Accumulated deficit	(24,118,192)	(22,658,559)
Accumulated other comprehensive income	1,872,000	
Subscription receivable	(83,000)	
Treasury stock, at cost, (162,500 shares)	(13,000)	(13,000)
Total stockholders deficit	(517,500)	(2,537,464)
Total Liabilities and stockholders deficit	$ 4,210,610	$ 2,226,684

(1) Derived from audited financial statements

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended December 31	
	2009	**2008**
Sales	$ 600,817	$ 1,740,588
Cost of sales	273,624	1,267,675
Gross profit	327,193	472,913
Operating expenses:		
Marketing and selling	16,455	11,244
Depreciation and amortization	167,474	176,248
Research and development	79,565	81,665
General and administrative (1)	1,390,372	667,059
Total Operating Expenses	1,653,866	936,216
Loss From Operations	(1,326,673)	(463,303)
Other income (expenses):		
Interest income		483
Interest expense	(132,961)	(196,214)
Total other income (expenses):	(132,961)	(195,731)
Net income (loss)	$ (1,459,634)	$ (659,034)
Net income per share:		
Loss per common share basic and diluted	$ (0.02)	$ (0.02)
Shares used in per share calculation:		
Basic and diluted	78,328,313	28,855,635
(1) Includes stock-based compensation as follows:		
General and administrative	$ 767,598	$ 292,488

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended December 31, 2009		Three Months Ended December 31, 2008	
NET CASH USED IN OPERATING ACTIVITIES	$	(848,697)	$	(842,930)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment in marketable securities		(48,000)		
Purchase of property and equipment		(35,090)		(15,119)
NET CASH USED IN INVESTING ACTIVITIES		(83,090)		(15,119)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of equipment financing				(26,586)
Proceeds from the sale of restricted common stock		190,000		
Proceeds from notes payable		337,209		1,972,131
Proceeds from exercise of common stock options		650,000		600
Payments on notes payable		(304,617)		(1,089,378)
NET CASH PROVIDED BY FINANCING ACTIVITIES		872,592		856,767
NET DECREASE IN CASH		(59,195)		(1,282)
CASH - beginning of period		63,310		4,780
CASH - end of period	$	4,115	$	3,498
Supplemental disclosure of cash flow information:				
Cash paid for :				
Interest	$	126,571	$	148,647
Income taxes				

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statement of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended December 31, 2009	**2008**
Net loss	$(1,459,634)	$(659,034)
Unrealized gain on marketable securities	1,872,000	
Comprehensive income (loss)	$412,366	$(659,034)

See accompanying notes to unaudited consolidated financial statements

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 1 - NATURE OF BUSINESS

Headquartered just outside of Washington, D.C., we manufacture and market purpose built appliances, network and cloud attached storage solutions and deliver on-line cloud computing application services. Our customer base includes U.S. government agencies, enterprise companies, and small to medium sized businesses (SMB). We have three key product offerings:

Iplicity Unified Network Storage Solutions
Purpose Built Network/Data Appliances
Cloud Computing Products/Services

The Company s storage solutions are designed to

Iplicity Unified Network Storage Solutions

IceWEB is a provider of high performance Unified Network Storage solutions. We believe that our product offerings have broad appeal in the enterprise and federal marketplaces, and are used as core building blocks (enabling technologies) of business critical storage infrastructure for a diverse group of data intensive key vertical market segments such as geospatial information systems, entertainment, security and defense, higher education, Internet Service Providers, Managed Service Providers, Oil and Gas, and Health Care. Our innovative storage systems deliver levels of performance, scalability, versatility and simplicity that exceed existing network storage alternatives. Our Unified Network Storage offering, called **Iplicity** is deployed as storage operating system software on our network attached storage (NAS), and storage area network (SAN) hardware products. This Iplicity Unified Network Storage environment empowers companies to quickly and easily deploy large complex data storage infrastructure environments, reduce administrative costs for managing their storage by making complex technical tasks far more simple to accomplish, reduce hardware and capital expenditure costs by more effectively using the storage within the system and repurposing older legacy hardware, protect their business critical data by leveraging Iplicity s built-in data replication features, and integrate with emerging server virtualization software (VMWare, Citrix Xen and Microsoft s Hyper V) to better manage those solutions.

Iplicity replaces complex and performance-limited products with high performance, scalable and easy to use systems capable of handling the most data intensive applications and environments.

Purpose Built Network and Data Appliances

IceWEB has been building Purpose Built Network and Data Appliances for several years. Purpose Built Network and Data Appliances are devices which provide computing resources (processors and memory), data storage, and specific software for a specific application. The primary appliance products that IceWEB has built have historically been centered on a single large business partner, ESRI Corporation. IceWEB and ESRI have collaborated to create ultra-high performance IceWEB/ESRI GIS systems that allow customers access massive amounts of data with unprecedented speed ESRI Corporation takes full responsibility for marketing to their customers and business partners, via their worldwide sales and consultancy organization.

IceWEB, in an effort to capitalize on what has been a successful model built within the Geographical Information System space, with ESRI has expanded our marketing of our appliance design, manufacturing and support capabilities to additional prospective partners. In October 2009 IceWEB, Spot Image (a large satellite GIS data provider based in France), and Google Corporation agreed that IceWEB would build an appliance to deliver GIS imagery from Spot Image satellite data, powered by Google Earth Enterprise. This Google Earth Engine appliance will be marketed worldwide through existing Spot Image and Google business partners. IceWEB has also recently introduced a Cloud Storage Appliance, a device which allows organizations and/or service providers to rapidly and easily deploy cloud based storage services to their constituents and customers. We are aggressively pursuing other Purpose Built Appliance opportunities and hope that this strategy will begin to contribute significantly to our business ramping over the next six months. Our goal is that the Appliance business segment be grown to contribute approximately 35% of overall business revenue by the end of Fiscal Year 2010. We expect to achieve this through our ongoing sales, marketing and research and development efforts, funded by operations.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 1 - NATURE OF BUSINESS (continued)

Cloud Computing Products and Services

Cloud Computing Services

In December 2005, IceWEB launched IceMAIL ™ a packaged software service that provides network hosted groupware, email, calendaring and collaboration functionality. Customers are typically organizations wishing to use Microsoft Exchange and Outlook without having to procure, maintain and manage their own equipment and software. Online services were subsequently expanded to include IcePORTAL ™ which provides customers with a complete Intranet portal and IceSECURE ™ a hosted email encryption service. Originally such hosted services were referred to with the acronym SaaS , which stands for Software-as-a-Service. Such services, hosted across the internet are today commonly referred to as Cloud Computing. The benefits of cloud computing are many. First, adoption of an application, infrastructure, or storage environment which is available on-demand, with no capital expenditures for the user company represents an attractive proposition from the financial perspective. Secondly, such models greatly reduce the need for highly paid internal technical staff, freeing critical resources to work on more core business related functions. Thirdly, the application software, hardware, and infrastructure needs of organizations are constantly growing and evolving Cloud Computing allows ad-hoc allocation of resources, cost free software upgrades, and freedom from hardware/infrastructure obsolescence.

Cloud Storage Appliances (CSA)

Knowing full well there will be many early entrants into the much hyped Cloud Computing market space, IceWEB has focused our engineering and research and development efforts on crafting our products to perform as scalable building blocks for those companies or service providers wishing to rapidly deploy high performance infrastructure to enable delivery of Cloud based services. In September 2009 IceWEB introduced a line of devices called Cloud Storage Appliances (CSA). A cloud storage appliance is a purpose built storage device configured for either branch office or central site deployment which allows the housing and delivery of customer data across not only their internal networking infrastructure, but also to make that data available to employees or business partners securely via the internet (often called the cloud). The CSA line has been built to address concerns within the enterprise marketplace which revolve around hesitation to entrust corporate data to third party providers such as Amazon S3, Mozy, Nirvanix, and others, and to address additional concerns about data access latency and performance. Companies, by implementing our CSA devices, can gain all of the benefits of cloud computing, while mitigating vendor lock-in issues, reducing the potential for security breaches, and maintaining high performance data transfer by back-hauling the data (and replicating it) from remote branch offices across existing wide area network links to the corporate IT infrastructure. An additional obvious benefit derived from the deployment of private or hybrid storage clouds on the CSA products is that companies do not have to pay per-megabyte or per-gigabyte transfer and storage fees to third party service companies.

Sale of IceWEB Virginia, Inc. (doing business as IceWeb Solutions Group)

As described elsewhere herein, in March 2009 we sold our interest in IceWEB Virginia, Inc. (dba IceWEB Solutions Group) subsidiary to an unrelated third party in exchange for the assumption of approximately $3.2 million in liabilities and 1,000,000 shares of our common stock valued at $80,000. IceWEB Virginia, Inc. was a provider of computer network security products and services such as access control, wide area network optimization, content filtering, email security, intrusion detection, to the Federal, State, and Local government entities. This subsidiary accounted for 43% and 91% of our revenues for fiscal years 2009 and 2008, respectively. We sold this business in order for us to be able to focus on our high margin storage business.

Research and development

Research and development expenses consist primarily of personnel-related expenses, costs of prototype equipment, costs of using contractors, allocated facility and IT overhead expenses and depreciation of equipment used in research and development activities. We expense research and development costs as incurred. We intend to continue to invest significantly in our research and development efforts, which we believe are essential to maintaining our competitive position. As a result, we expect research and development expenses to increase in absolute dollars, although we expect these expenses to decrease as a percentage of revenue.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 1 - NATURE OF BUSINESS (continued)

Intellectual Property

Success in our technological markets depends, in part, upon our ability to obtain and maintain proprietary protection for its products, technology and know-how. This must be accomplished without infringing the proprietary rights of others and while simultaneously preventing others from infringing upon our proprietary rights.

IceWEB seeks to protect its proprietary positions by, among other methods, filing patent applications. Patent efforts are focused in the United States and, when justified by cost and strategic importance, we plan to file related foreign patent applications in jurisdictions such as the European Union and Japan. The company has retained an Intellectual Property Law firm and is in the process of preparing filings for two or more provisional patents (Cloud Storage Appliance and WISCSI technologies respectively).

Pending patent applications relate to the rapid ingestion of massive amounts of video and other data and other network storage concepts. It is unknown if any of the patent applications will issue as patents. The patent applications may be opposed, contested, circumvented, designed around by a third-party, or found to be invalid or unenforceable.

Copy right law, trademarks and trade secret agreements are also used to protect and maintain proprietary positions. Our proprietary information is protected by internal and external controls, including contractual agreements with employees, end-users and channel partners. There is no assurance that these parties will abide by the terms of their agreements.

Trademarks are used on some of the IceWEB products and these distinctive marks may be an important factor in marketing the products. Inline® and Inline logo trademarks have been registered in the United States.

Online Services. In December 2005, IceWEB launched IceMAIL ™ a packaged software service that provides network hosted groupware, email, calendaring and collaboration functionality. Customers are organizations wishing to use Microsoft Exchange and Outlook without having to procure, maintain and manage their own equipment and software. Online services were subsequently expanded to include IcePORTAL ™ which provides customers with a complete Intranet portal and IceSECURE ™ a hosted email encryption service. These products continue to provide predictable monthly revenues for the Company; however the Company has no plans to make new investments in this business in 2009.

Purchase of Interest in VOIS Inc.

As also described later in this section, in November 2009 we purchased for $48,000 an approximately 16% interest in VOIS Inc. (OTCBB: VOIS), a development stage company that operates a social commerce website where people can find and do business with buyers and sellers of on-demand work or manufacturing around the world. We acquired a strategic interest in VOIS to enter the Cloud Computing marketplace and deploy our storage products in conjunction with VOIS   product offerings. In exchange for this strategic interest, VOIS received access to distribute IceMAIL, IcePORTAL, and IceSECURE to their existing and prospective new user base, and IceWEB   s cloud storage network.

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP   ) and with the instructions to Securities and Exchange Commission (SEC   ) Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all the information and footnote disclosures required by GAAP for complete financial statements. For further information, these financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company   s Annual Report on Form 10-K (File No. 000-27865) for the year ended September 30, 2009 (Form 10-K   ).

The unaudited consolidated financial statements contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to state fairly the Company   s consolidated financial position at December 31, 2009, and the consolidated results of its operations for the three months ended December 31, 2009 and 2008, and the consolidated cash flows for the three months ended December 31, 2009 and 2008. The results of operations for the three months ended December 31, 2009 are not necessarily indicative of the results to be expected for the full year.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated balance sheet at September 30, 2009 has been derived from the audited consolidated financial statements at that date but does not include all footnote disclosures required by GAAP.

The Company s significant accounting policies are disclosed in the Company s Form 10-K.

The Company has evaluated subsequent events through February 16, 2010, the date the Company filed its Quarterly Report on Form 10-Q for the quarter ended December 31, 2009.

Fiscal Year

The fiscal year ends on September 30. References to fiscal 2010, for example, refer to the fiscal year ending September 30, 2010.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standard Codification (ASC) No. 105, *Generally Accepted Accounting Principles* (ASC 105 or FASB Codification), previously referred to as Statement of Financial Accounting Standard (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No 162* (SFAS 168). The effective date for use of the FASB Codification is for interim and annual periods ending after September 15, 2009. Companies should account for the adoption of the guidance on a prospective basis. Effective July 1, 2009, the Company adopted the FASB Codification and its adoption did not have a material impact on its consolidated financial statements. The Company has appropriately updated its disclosures with the appropriate FASB Codification references during the three months ended December 31, 2009. As such, all the notes to the consolidated financial statements below as well as the critical accounting policies in the Management s Discussion and Analysis section have been updated with the appropriate FASB Codification references.

In October 2009, the FASB issued Accounting Standard Update (ASU) No. 2009-13 on Topic 605, *Revenue Recognition Multiple Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). The objective of ASU 2009-13 is to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Vendors often provide multiple products or services to their customers. Those deliverables often are provided at different points in time or over different time periods. ASU 2009-13 provides amendments to the criteria in Subtopic 605-25, *Multiple-Element Arrangements* (Subtopic 605-25) for separating consideration in multiple-deliverable arrangements. The amendments in ASU 2009-13 establish a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor specific objective evidence nor third-party evidence is available. The amendments in ASU 2009-13 also will replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. Early adoption is permitted and can be applied prospectively or retrospectively. The Company is currently evaluating the impact, if any, ASU 2009-13 will have on its consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-14 on Topic 985, *Software Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-14). The objective of ASU 2009-14 is to address the accounting for revenue arrangements that contain tangible products and software. Currently, products that contain software that is more than incidental to the product as a whole are within the scope of the software revenue guidance in Subtopic 985-605, *Software Revenue Recognition* (Subtopic 985-605). Subtopic 985-605 requires a vendor to use a vendor-specific objective evidence of selling price to separate deliverables in a multiple-element arrangement. A vendor must sell or intend to sell a particular element separately to assert vendor-specific objective evidence for that element. If a vendor does not have vendor-specific objective evidence for the undelivered elements in an arrangement, the revenue associated with both the delivered and undelivered elements is combined

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

into one unit of accounting. Any revenue attributable to the delivered products is then deferred and recognized at a later date, which in many cases is as the undelivered elements are delivered by the vendor. The amendments in ASU 2009-14 will change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product s essential functionality are no longer within the scope of the software revenue guidance in Subtopic 985-605. In addition, the amendments in ASU 2009-14 require that hardware components of the tangible product containing software components always be excluded from the software revenue guidance. ASU 2009-14 is effective for fiscal years beginning on or after June 15, 2010. Early adoption is permitted and can be applied prospectively or retrospectively. The Company is currently evaluating the impact, if any, of ASU 2009-14 will have on its consolidated financial statements.

In May 2009, the FASB issued ASC No. 855, *Subsequent Events* (ASC 855), previously referred to as SFAS No. 165, *Subsequent Events*. ASC 855 establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are available to be issued. More specifically, ASC 855 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 in the financial statements, identifies 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 should be made about events or transactions that occur after the balance sheet date. The adoption of ASC 855 did not have a material impact on our consolidated financial statements.

In April 2009, FASB issued ASC No. 820-10-35, *Fair Value Measurements and Disclosures Subsequent Measurement (ASC 820-10-35*), which discusses the provisions related to the determination of fair value when the volume and level of activity for the asset or liability have significantly decreased, which was previously discussed in FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. ASC 820-10-35 states that a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity is an indication that transactions or quoted prices may not be determinative of fair value because there may be increased instances of transactions that are not orderly in such market conditions. Accordingly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value. The Company adopted ASC 820-10-35 effective April 1, 2009. The adoption of ASC 820-10-35 did not have a material impact on the Company s consolidated results of operations and financial condition.

In April 2009, the FASB issued ASC No. 825-10 *Financial Instruments* (ASC 825-10) previously known as FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. ASC 825-10 requires disclosures about the fair value of the Company s financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the balance sheets, in interim reporting periods as well as in annual reporting periods. In addition, ASC 825-10 requires disclosures of the methods and significant assumptions used to estimate the fair value of those financial instruments. ASC 825-10 is effective for interim and annual periods ending after June 15, 2009. The Company adopted ASC 825-10 effective April 1, 2009 and the adoption did not have a material impact on its consolidated results of operations and financial condition.

In April 2009, the FASB issued ASC 320-10-65, *Transition Related to Recognition and Presentation of Other-Than-Temporary Impairments* (ASC 320-10-65), previously referred to as FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. ASC 320-10-65 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. ASC 320-10-65 does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The Company adopted ASC 320-10-65 effective April 1, 2009. The adoption of ASC 320-10-65 did not have a material impact on the Company s consolidated results of operations and financial condition.

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to fiscal 2010 amounts.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going Concern

The Company s auditors stated in their report on the consolidated financial statements of the Company for the years ended September 30, 2009 and 2008 that the Company is dependent on outside financing and has had losses since inception that raise doubt about its ability to continue as a going concern. For the three months ended December 31, 2009, the Company had a net loss of $1,459,634 which included noncash expenses of $941,462. Cash used in operations totaled $848,697. The consolidated financial statements do not include any adjustments related to the recovery and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Management has established plans intended to increase the sales of the Company s products and services. Management intends to seek new capital from new equity securities offerings to provide funds needed to increase liquidity, fund growth, and implement its business plan. However, no assurances can be given that the Company will be able to raise any additional funds.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in 2010 and 2009 include the allowance for doubtful accounts, the valuation of stock-based compensation, the useful life of intangible assets and property and equipment, and the valuation of goodwill.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists of normal trade receivables. The Company recorded a bad debt allowance of $9,000 as of December 31, 2009. Management performs ongoing evaluations of its accounts receivable. Management believes that all remaining receivables are fully collectable.

Bad debt expense amounted to $0 and $0 for the three months ended December 31, 2009 and 2008, respectively.

Intangible Assets

Intangible assets, net consists of the cost of acquired customer relationships. We capitalize and amortize the cost of acquired intangible assets over their estimated useful lives on a straight-line basis. The estimated useful life of our acquired customer relationships is five years.

We have adopted ASC 350 for the assessment of impairment of goodwill and indefinite life intangibles on an annual basis. The potential impairment of finite life intangibles is assessed whenever events or a change in circumstances indicate the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to historical or expected projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period of time; and
- our market capitalization relative to net book value.

When we determine that the carrying value of goodwill and indefinite life intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any potential impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is provided by using the straight-line method over the estimated useful lives of the related assets.

Long-lived Assets

In accordance with ASC Topic 360, Property, Plant, and Equipment (formerly SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets), we review the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value.

Revenue Recognition

We follow the guidance of Accounting Standards Codification (ASC) Topic 605, Revenue Recognition (formerly Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition) for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for our various revenues streams:

Revenues from sales of products are generally recognized when products are shipped unless we has obligations remaining under sales or licensing agreements, in which case revenue is either deferred until all obligations are satisfied or recognized ratably over the term of the contract.

Revenue from services is recorded as it is earned. Commissions earned on third party sales are recorded in the month in which contracts are awarded. Customers are generally billed every two weeks based on the units of production for the project. Each project has an estimated total which is based on the estimated units of production and agreed upon billing rates. Amounts billed in advance of services being provided are recorded as deferred revenues and recognized in the consolidated statement of operations as services are provided.

Earnings per Share

We compute earnings per share in accordance with ASC Topic 260, Earnings Per Share (formerly SFAS No. 128, Earnings per Share) Under the provisions of ASC Topic 260, basic earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and upon the conversion of convertible preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive. At September 30, 2009, there were options and warrants to purchase 11,169,483 shares of common stock, 626,667 shares issuable upon conversion of Series B preferred stock, and no shares of Series C preferred stock outstanding which could potentially dilute future earnings per share.

Stock-Based Compensation

Prior to October 1, 2005, we accounted for stock options issued under the Plan under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* , and related interpretations, as permitted by ASC Topic 718, Compensation Stock Compensation (Formerly SFAS No. 123 (R), Share-Based Payments. No stock-based compensation cost related to employee stock options was recognized in the Consolidated Statement of Operations for the year ended September 30, 2005 as all options granted under the Plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effective October 1, 2005, we adopted the fair value recognition provisions of ASC Topic 718, Compensation Stock Compensation (Formerly SFAS No. 123 (R), Share-Based Payments using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the year ended September 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of September 30, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to October 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Financial results for the year ended September 30, 2005 have not been restated.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

	Estimated Life	December 31, 2009	September 30, 2009
Office equipment	5 years	$648,748	$637,920
Computer software	3 years	612,379	607,278
Furniture and fixtures	5 years	261,385	261,385
Leasehold improvements	2 - 5 years	1,026,470	1,007,250
		2,548,982	2,513,833
Less: accumulated depreciation		(1,868,432)	(1,761,671)
		$680,550	$752,162

Depreciation expense for the three months ended December 31, 2009 and 2008 was $106,701 and $92,519 respectively.

NOTE 4 - INVENTORY

Inventory consisted of the following:

	December 31, 2009	September 30, 2009
Raw materials	$ 127,407	$ 78,966
Work in progress	31,852	14,862
Finished goods	50,110	57,533
	209,369	151,361
Less: reserve for obsolescence		
	$ 209,369	$ 151,361

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 5 - ACQUISITION AND DISPOSITIONS

On December 22, 2007, we acquired 100% of the outstanding stock of Inline for $2,412,731 in cash, plus 503,356 shares of IceWEB common stock valued at $276,846, the fair market value on the date of acquisition. The acquisition was accounted for using the purchase method of accounting. The results of operations are included in the financial statements of operations from the date of acquisition. Inline is a leading provider of intelligent enterprise data storage solutions and services for the geospatial intelligence marketplace. Inline s proprietary products include reliable, high performance Storage Area Network Solutions, Network Attached Storage, and Direct Attached Storage and the rapidly expanding OEM Storage Centric Appliances. Today, Inline has developed its fifth generation of advanced data storage solutions, marketed under the brands *TruEnterprise* and *FileStorm* . All Inline systems function in a heterogeneous operating system environment, including Windows, UNIX and Linux. The purchase of Inline Corporation included the acquisition of assets of $3,904,245, and liabilities of $614,668. The aggregate purchase price consisted of the following:

Cash payment to seller	$	2,412,731
Fair value of common stock issued to seller		276,846
Estimated direct transaction fees and expenses		600,000
	$	3,289,577

The following table summarizes the estimated fair values of Inline s assets acquired and liabilities assumed at the date of the acquisition:

Cash	$	487,603
Accounts Receivable		866,455
Lease Deposits		20,500
Inventory, net		394,863
Property and equipment, net		919,374
Intangible assets		1,215,450
Accounts payable and accrued expenses		(614,668)
	$	3,289,577

Intangible assets acquired from Inline were assigned the following values: value of manufacturing GSA schedule with an assigned valued of $750,000 amortized straight line over five years; value of customer relationships with an assigned value of $465,450 amortized straight line over five years. Intangible assets acquired from Inline had the following unamortized values at December 31, 2009: value of manufacturing GSA schedule of $450,000; value of customer relationships of $279,270.

On March 30, 2009, we completed the sale of IceWEB Virginia, Inc., a wholly owned subsidiary, to ABC Networks, Inc., a privately held U.S. company. Pursuant to the terms of the transaction, ABC Networks, Inc. acquired 100% of the outstanding common stock of IceWEB, Virginia, Inc.

The aggregate sales price consisted of the following:

Common stock issued to purchaser	$ 80,000
Net book value of disposed subsidiary	(2,746,236)
	$ (2,666,236)

The following table summarizes the estimated fair values of IceWeb Virginia s assets and liabilities disposed of at the date of the sale:

Intangible assets, net	$ (53,565)
IceWEB, Inc. common stock	(80,000)
Accounts payable and accrued liabilities	2,799,801
Estimated gain on the sale	$ 2,666,236

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 6 - NOTES PAYABLE

Sand Hill Finance, LLC

On December 19, 2005, the Company entered into a Financing Agreement with Sand Hill Finance, LLC pursuant to which, together with related amendments, the Company may borrow up to 80% on the Company s accounts receivable balances up to a maximum of $1,800,000. In conjunction with the acquisition of Inline Corporation in December, 2008, the lending limit on the credit facility was increased to $2,750,000. In addition, the Company and Sand Hill Finance, LLC entered into a 36 month term note agreement in the amount of $1,000,000. Amounts borrowed under the Financing Agreement are secured by a first security interest in substantially all of the Company s assets. At December 31, 2009, the principal amount due under the Financing Agreement amounted to $1,847,219.

In November, 2008, in connection with the term note the Company executed a convertible debenture agreement with Sand Hill Finance, LLC in the amount of $1,170,767. The debenture bears interest at 18% and will allow Sand Hill Finance, LLC to convert the outstanding obligation into shares of IceWEB common stock at a fixed floor conversion price of $0.30 per share. The principal amount due under the convertible debenture amounted to $967,884 at December 31, 2009.

Interest on the accounts receivable-based borrowings is payable at a rate of 1.75% per month on the average loan balance outstanding during the year, equal to an annual interest of approximately 21% per year. The Company also agreed to pay an upfront commitment fee of 1% of the credit line upon signing the Financing Agreement, half of which was due and paid upon signing (amounting to $9,000) and half of which is due on the first anniversary of the Financing Agreement. In addition, the Company is obligated to pay a commitment fee of 1% of the credit limit annually, such amounts are payable on the anniversary of the agreement.

In connection with the Financing Agreement, the Company issued Sand Hill Finance, LLC, a seven-year common stock purchase warrant to purchase 25,000 shares of our common stock at an exercise price of $1.00 per share. The exercise price was subsequently reduced to $0.50 per share pursuant to Warrant Amendment Agreement which was executed in conjunction with the convertible debenture. The warrant contains a cashless exercise provision which means that at the option of the holder, the warrant is convertible into a number of shares of our common stock as determined by dividing the aggregate fair market value of the Company s common stock minus the aggregate exercise price of the warrant by the fair market value of one share of common stock. The number of shares issuable upon the exercise of the warrant and the exercise price are subject to adjustment in the event of stock dividends, stock splits and reclassifications. The fair value of the warrant of $16,250 has been recorded as an addition to paid-in capital and interest expense during the year ended September 30, 2008.

In connection with the term note, the Company issued Sand Hill Finance, LLC a seven-year common stock purchase warrant to purchase 120,000 shares of our common stock at an exercise prices $1.00 per share. The exercise price was subsequently reduced to $0.50 per share pursuant to Warrant Amendment Agreement which was executed in conjunction with the convertible debenture. The warrant contains a cashless exercise provision which means that at the option of the holder, the warrant is convertible into a number of shares of our common stock as determined by dividing the aggregate fair market value of the Company s common stock minus the aggregate exercise price of the warrant by the fair market value of one share of common stock. The number of shares issuable upon the exercise of the warrant and the exercise price are subject to adjustment in the event of stock dividends, stock splits and reclassifications. The fair value of the warrant of $13,589 has been recorded as an addition to paid-in capital and deferred finance costs during the year ended September 30, 2009.

The Financing Agreement has a term of one year, subject to mutual extension by both parties. As a result, the balance due to Sand Hill Finance, LLC is classified as a current liability on the accompanying consolidated balance sheet.

The terms of the Financing Agreement also restrict the Company from undertaking certain transactions without the written consent of the creditor including (i) permit or suffer a change in control involving 20% of its securities, (ii) acquire assets, except in the ordinary course of business, involving payment of $100,000 or more, (iii) sell, lease, or transfer any of its property except for sales of inventory and equipment in the ordinary course of business, (iv) transfer, sell or license any intellectual property, (v) declare or pay a dividend on stock, except payable in the form of stock dividends (vi) incur any indebtedness other than trade credit in the ordinary course of business and (vii) permit any lien or security interest to attach to any collateral.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 6 - NOTES PAYABLE (continued)

Third party guarantee - In November 2006, the Company sold its interest in one of its subsidiaries (Integrated Power Solutions, Inc. or IPS) to a shareholder of the Company and related party. IPS is a party to the Financing Agreement and can borrow against receivables transferred to Sand Hill Finance, LLC under the terms of the Financing Agreement. The Company remains liable for any such amounts borrowed under the Financing Agreement by IPS which is no longer under the Company s control. To date, IPS has not borrowed any funds under the Financing Agreement.

In August, 2008, the Company borrowed $187,500 from an accredited investor. The note bears interest at 16% and had a term of four months, and can be repaid in either cash or IceWEB common stock. As of December 31, 2008 the Company had repaid the full amount of the note through the sale of 2,226,101 shares of Iceweb common stock.

NOTE 7 - EQUIPMENT FINANCING PAYABLE

On July 6, 2006, we entered into a sale and leaseback agreement with respect to certain computer and office equipment. We received gross proceeds of $300,000 from the sale of the equipment to a third party. As part of the same transaction, we entered into an agreement to lease the equipment back from the third party for 36 monthly rent payments of $10,398 until August 2009. We are accounting for this equipment financing arrangement as a capital lease. In connection with the agreement, we made an initial security deposit of $30,000. The equipment had a net book value of $37,846 on the date of the transaction. In connection with the financing, we did not record any gain or loss. Imputed interest on this financing is 20% per annum. This agreement terminated in August, 2009. We are in default under this agreement, and the remaining estimated amount owed under this agreement is included in accounts payable and accrued liabilities on the accompanying balance sheet.

NOTE 8 - CONCENTRATION OF CREDIT RISK

Bank Balances

The Company maintains its cash bank deposits at various financial institutions which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2009, the Company had no balances in excess of FDIC insured limits. The Company has not experienced any losses in such accounts.

NOTE 9 - INVESTMENTS

(a) Summary of Investments

The following tables summarize the Company s investments at December 31, 2009:

December 31, 2009	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Publicly traded equity securities	$ 48,000	$ 1,872,000	$	$ 1,920,000
Total	$ 48,000	$ 1,872,000	$	$ 1,920,000

(b) Gains and Losses on Investments

The following table summarizes the realized net gains (losses) associated with the Company s investments:

	Three Months Ended December 31, 2009	**December 31, 2008**
Net gains on investments in publicly traded equity securities	$	$
Net gains (losses) on investments	$	$

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 9 - INVESTMENTS (continued)

We categorize the securities as investments in marketable securities available for sale. These securities are quoted either on an exchange or inter-dealer quotation (pink sheet) system. The securities are restricted and cannot be readily resold by us absent a registration of those securities under the Securities Act of 1933 (the Securities Act) or the availabilities of an exemption from the registration requirements under the Securities Act. Our policy is to liquidate the securities on a regular basis. As these securities are often restricted, we are unable to liquidate them until the restriction is removed. Unrealized gains or losses on marketable securities available for sale a are recognized on a quarterly basis as an element of comprehensive income based on changes in the fair value of the security. Once liquidated, realized gains or losses on the sale of marketable securities available for sale are reflected in our net income for the period in which the security was liquidated.

Under the guidance of ASC 320, Investments , we periodically evaluate other-than-temporary impairment (OTTI) of securities to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term other-than-temporary is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized. In the assessment of OTTI for various securities at September 30, 2009 the guidance in ASC 320, the Investment-Debt and Equity Securities, is carefully followed.

There were no impairment charges on investments in publicly traded equity securities for the three months ended December 31, 2009 or for the three months ended December 31, 2008.

The Company has evaluated its publicly traded equity securities as of December 31, 2009, and has determined that there were no unrealized losses that indicate an other-than-temporary impairment. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis and the financial condition and near-term prospects of the issuer, and the Company s intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

NOTE 10 - COMPREHENSIVE INCOME (LOSS)

Comprehensive income is comprised of net income and other comprehensive income or loss. Other comprehensive income or loss refers to revenue, expenses, gains and losses that under accounting principles generally accepted in the United States are included in comprehensive income but excluded from net income as these amounts are recorded directly as an adjustment to stockholders equity.

Our other comprehensive income consists of unrealized gains on marketable securities available for sale of $1,872,000.

NOTE 11 - COMMITMENTS

We lease office space in Sterling, Virginia under a two-year operating lease that expires on March 31, 2011. The office lease agreement has certain escalation clauses and renewal options. Additionally, we have lease agreements for computer equipment and an office copier/fax machine. Future minimum rental payments required under these operating leases are as follows:

Years ending September 30:	
2010 (remaining nine months)	$ 56,416
2011	37,611
2012	
2013	
2014 and thereafter	
	$ 94,027

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 12 - STOCKHOLDERS DEFICIT

During the three months ended December 31, 2009, in connection with the exercise of 10,500,000 stock options, the Company issued 10,500,000 shares of common stock for cash proceeds of $650,000.

During the three months ended December 31, 2009, we sold 1,000,000 shares of common stock, valued at $100,000 to a Director for $40,000, and recognized stock based compensation expense of $60,000. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the three months ended December 31, 2009, we sold 1,500,000 shares of common stock at a per share price of $0.10, valued at $150,000 to an accredited investor, and the issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the three months ended December 31, 2009, we issued 2,000,000 shares of common stock at a per share price of $0.042, valued at $83,000 to an accredited investor. As of December 31, 2009 the Company had not yet received the proceeds from the investor and as a result the Company recorded the subscription receivable as a contra equity account on its balance sheet. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

Common Stock Warrants

A summary of the status of the Company s outstanding common stock warrants as of December 31, 2009 and changes during the period ending on that date is as follows:

	Number of Warrants		**Weighted Average Exercise Price**
Common Stock Warrants			
Balance at beginning of year	225,000	$	1.78
Granted			
Exercised			
Forfeited	75,000		6.00
Balance at end of period	150,000	$	0.55
Warrants exercisable at end of period	150,000	$	0.55

Weighted average fair value of warrants granted or re-priced during the period	$

The following table summarizes information about common stock warrants outstanding at December 31, 2009:

	Warrants Outstanding			Warrants Exercisable	
		Weighted			
	Number	Average	Weighted	Number	Weighted
Range of	Outstanding at	Remaining	Average	Exercisable at	Average
Exercise	September 30,	Contractual	Exercise	September 30,	Exercise
Price	2009	Life	Price	2009	Price
0.50	145,000	4.79 Years	0.50	145,000	0.50
2.00	5,000	1.55 Years	2.00	5,000	2.00
	150,000		$0.55	150,000	$0.55

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 13 - STOCK OPTION PLAN

In August 2000, the Board of Directors adopted the 2000 Management and Director Equity Incentive and Compensation Plan (the Plan) for directors, officers and employees that provides for non-qualified and incentive stock options to be issued enabling holders thereof to purchase common shares of the Company at exercise prices determined by the Company s Board of Directors. The Plan was approved by the Company s stockholders in August 2001.

The purpose of the Plan is to advance the Company s interests and those of its stockholders by providing a means of attracting and retaining key employees, directors and consultants. In order to serve this purpose, the Company believes the Plan encourages and enables key employees, directors and consultants to participate in its future prosperity and growth by providing them with incentives and compensation based on its performance, development and financial success. Participants in the Plan may include the Company s officers, directors, other key employees and consultants who have responsibilities affecting our management, development or financial success.

Awards may be made under the Plan in the form of Plan options, shares of the Company s common stock subject to a vesting schedule based upon certain performance objectives (Performance Shares) and shares subject to a vesting schedule based on the recipient s continued employment (restricted shares). Plan options may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended or options that do not so qualify. Any incentive stock option granted under the Plan must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our common stock must be at least 110% of such fair market value as determined on the date of the grant. Only persons who are officers or other key employees are eligible to receive incentive stock options and performance share grants. Any non-qualified stock option granted under the Plan must provide for an exercise price of not less than 50% of the fair market value of the underlying shares on the date of such grant.

As amended in April, 2008, the Plan permits the grant of options and shares for up to 10,000,000 shares of the Company s common stock. The Plan terminates 10 years from the date of the Plan s adoption by the Company s stockholders.

The term of each Plan option and the manner in which it may be exercised is determined by the Board of Directors, provided that no Plan option may be exercisable more than three years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of the Company s common stock, no more than five years after the date of the grant. The exercise price of the stock options may be paid in either cash, or delivery of unrestricted shares of common stock having a fair market value on the date of delivery equal to the exercise price, or surrender of shares of common stock subject to the stock option which has a fair market value equal to the total exercise price at the time of exercise, or a combination of the foregoing methods.

The fair value of stock options granted was estimated at the date of grant using the Black-Scholes options pricing model. The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option pricing model:

	December 31,	
	2009	**2008**
Expected volatility	323% - 325%	87% - 198%
Expected term	1 - 5 Years	1 - 5 Years
Risk-free interest rate	0.03%	2.34% - 2.45%
Forfeiture Rate	0% - 45%	0% - 45%
Expected dividend yield	0%	0%

The expected volatility was determined with reference to the historical volatility of the Company s stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate in effect at the time of grant.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 13 - STOCK OPTION PLAN (continued)

For the three months ended December 31, 2009, total stock-based compensation charged to operations for option-based arrangements amounted to $707,598. At December 31, 2009, there was approximately $400,521 of total unrecognized compensation expense related to non-vested option-based compensation arrangements under the Plan.

A summary of the status of the Company s outstanding stock options as of December 31, 2009 and changes during the period ending on that date is as follows:

	Number of Options	Weighted Average Exercise Price
Stock options		
Balance at beginning of year	10,944,483	$ 0.27
Granted	13,500,000	0.07
Exercised	(10,500,000)	0.07
Forfeited	(375)	3.80
Balance at end of period	13,944,108	$ 0.23
Options exercisable at end of period	12,815,775	$ 0.18
Weighted average fair value of options granted during the year		$ 0.03

The following table summarizes information about employee stock options outstanding at December 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2009	Weighted Average Exercise Price
$0.001-0.25	9,990,000	2.75 Years	$0.09	8,863,500	$0.08
0.30-0.48	535,000	2.30 Years	0.45	697,500	0.45
0.54-0.60	2,501,608	2.63 Years	0.58	2,384,908	0.58
0.61-0.80	917,500	1.66 Years	0.72	905,867	0.72

13,944,108	$0.23	12,815,775	$0.18

NOTE 14 - SEGMENT REPORTING

Although the Company has a number of operating divisions, separate segment data has not been presented as they meet the criteria for aggregation as permitted by ASC Topic 280, Segment Reporting (formerly Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information).

Our chief operating decision-maker is considered to be our Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The financial information reviewed by the CEO is identical to the information presented in the accompanying consolidated statements of operations. Therefore, the Company has determined that it operates in a single operating segment, specifically, web communications services. For the periods ended December 31, 2009 and 2008 all material assets and revenues of the Company were in the United States.

Item 2. Management s Discussion and Analysis or Plan of Operation

The following analysis of our consolidated financial condition and results of operations for the three months ended December 31, 2009 and 2008 should be read in conjunction with the consolidated financial statements, including footnotes, appearing elsewhere in this quarterly report.

OVERVIEW

Since 2005, the Company has been focused on serving the commercial and federal markets with network security products and proprietary on-line software solutions. In fiscal 2008, the Company acquired INLINE Corporation (now known as IceWEB Storage Corporation), a data storage manufacturing company.

In March, 2009, the Company sold its wholly owned subsidiary, IceWEB Virginia, Inc. to an unrelated 3 rd party, and in the process exited its low-margin IT re-seller business products business to further focus on the higher margin data storage manufacturing business.

At the close of fiscal year 2009, the Company has three key product offerings:

plicity Unified Network Storage Solutions
urpose Built Network/Data Appliances
Cloud Computing Products/Services

In addition, we offer small and medium sized businesses (SMBs) hosted access to enterprise-class applications delivered via the Internet for a reasonable monthly fee. These rapidly growing Cloud Computing offerings include such hosted applications as Microsoft Exchange Server, Sharepoint, BlackBerry Enterprise Server, Good Messaging Server, SPAM and Virus protection, and advanced Email Encryption services. Our current customer base consists of nearly 900 organizations worldwide in both the public and private sectors.

On November 15, 2006, the Company acquired the assets of True North Federal Solutions Group for $350,000 of which $250,000 was paid in cash and $100,000 due upon future terms of the agreement. Under the terms of the agreement, IceWEB acquired the customer database, forecast, contract renewals, and GSA schedule of True North Federal. The revenue generated to IceWEB from this division since the acquisition, exceeded the revenue from the discontinued PatriotNet and IPS operations.

On December 22, 2007, we acquired 100% of the outstanding stock of Inline Corporation for $2,412,731 in cash, plus 503,356 shares of IceWEB common stock valued at $276,846, the fair market value on the date of acquisition. The acquisition was accounted for using the purchase method of accounting. The results of operations are included in the financial statements from the date of acquisition. Inline is a leading provider of intelligent enterprise data storage solutions and services for the geospatial intelligence marketplace. Inline s proprietary products include reliable, high performance Storage Area Network Solutions, Network Attached Storage, and Direct Attached Storage and the rapidly expanding OEM Storage Centric Appliances. Today, Inline has developed its fifth generation of advanced data storage solutions, marketed under the brands *TruEnterprise* and *FileStorm* . All Inline systems function in a heterogeneous operating system environment, including Windows, UNIX and Linux. The purchase of Inline Corporation included the acquisition of assets of $2,688,795, and liabilities of $614,668.

On March 31, 2009, we sold our interest in IceWEB Virginia, Inc. (dba IceWEB Solutions Group, which included the assets acquired from True North Federal Solutions Group) subsidiary to an unrelated third party in exchange for the assumption of approximately $3.2 million in liabilities and 1,000,000 shares of our common stock valued at $80,000. IceWEB Virginia, Inc. was a provider of computer network security products and services such as access control, wide area network optimization, content filtering, email security, intrusion detection, to the Federal, State, and Local government entities. This subsidiary accounted for 43% and 91% of our revenues for fiscal years 2009 and 2008, respectively. We sold this business in order for us to be able to focus on our high margin storage business.

We generate revenues from the manufacture and sale of data storage appliances and servers, the sale of software services, application development, network integrated technology, and third party hardware sales. We believe that the key factors to our continued growth and profitability include the following:

- Continued focus on the GIS market and expanding our channels of distribution with OEM partners
- Continued investment in product development and research efforts
- Raising approximately $3 million of additional working capital to expand our marketing, research and development, and restructure our debt.
- Hiring additional qualified, technical employees, and
- Improving our internal financial reporting systems and processes.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated 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 on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of significant accounting policies is included in Note 1 to the audited consolidated financial statements included for the year ended September 30, 2009 and notes thereto contained on Form 10-K of the Company as filed with the Securities and Exchange Commission. Management believes that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about the company s operating results and financial condition.

Financial Reporting Release No. 60, which was released by the U.S. Securities and Exchange Commission, encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our consolidated financial statements include a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the financial statements.

Use of Estimates - Management s Discussion and Analysis or Plan of Operations is based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management 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 evaluates these estimates, including those related to allowances for doubtful accounts receivable, the carrying value of property and equipment and long-lived assets, and the value of stock-option based compensation. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Accounting for Stock Based Compensation - Effective October 1, 2005, we adopted the fair value recognition provisions of ASC Topic 718, Compensation Stock Compensation (Formerly SFAS No. 123 (R), Share-Based Payments using the modified-prospective-transition method.

ASC Topic 718 establishes the financial accounting and reporting standards for stock-based compensation plans. As required by ASC Topic 718, we recognize the cost resulting from all stock-based payment transactions including shares issued under our stock option plans in the financial statements. The adoption of ASC Topic 718 will have a negative impact on our future results of operations.

Revenue Recognition - We follow the guidance of Accounting Standards Codification (ASC) Topic 605, Revenue Recognition (formerly Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition) for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for our various revenues streams:

Revenues from sales of products are generally recognized when products are shipped unless the Company has obligations remaining under sales or licensing agreements, in which case revenue is either deferred until all obligations are satisfied or recognized ratably over the term of the contract.

Revenue from services is recorded as it is earned. Commissions earned on third party sales are recorded in the month in which contracts are awarded. Customers are generally billed every two weeks based on the units of production for the project. Each project has an estimated total which is based on the estimated units of production and agreed upon billing rates.

Amounts billed in advance of services being provided are recorded as deferred revenues and recognized in the consolidated statement of operations as services are provided.

THREE MONTHS ENDED DECEMBER 31, 2009 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2008

The following table provides an overview of certain key factors of our results of operations for the three months ended December 31, 2009 as compared to the three months ended December 31, 2008:

	Three months ended December 31,		$ of	%
	2009	2008	Change	Change
Net Revenues	$ 600,817	$ 1,740,588	(1,139,771)	(65.5%)
Cost of sales	273,624	1,267,675	(994,051)	(78.4%)
Operating Expenses:				
Marketing and selling	16,455	11,244	5,211	46.3%
Depreciation and amortization	167,474	176,248	(8,774)	(5.0%)
Research and development	79,565	81,665	(2,100)	(2.6%)
General and administrative	1,390,372	667,059	723,313	108.4%
Total operating expenses	1,653,866	936,216	717,650	76.7%
Loss from operation	(1,326,673)	(463,303)	(863,370)	186.4%
Total other income (expense)	(132,961)	(195,731)	62,770	(32.1%)
Net income (loss)	$ (1,459,634)	$ (659,034)	(800,600)	121.5%

Other Key Indicators:

	Three months ended December 31,		%
	2009	2008	Change
Cost of sales as a percentage of revenues	45.5%	72.8%	(27.3%)
Gross profit margin	54.5%	27.2%	27.3%
General and administrative expenses as a percentage of revenues	231.4%	38.3%	193.1%
Total operating expenses as a percentage of revenues	275.3%	53.8%	221.5%

Revenues

For the three months ended December 31, 2009, we reported revenues of $600,817 as compared to revenues of $1,740,588 for the three months ended December 31, 2008, a decrease of $1,139,771 or approximately 65.5%. The decrease is primarily due to the Company s focus on our high margin data storage business unit and the related decrease in our third party product sales through our former subsidiary IceWEB Virginia, Inc. (dba Iceweb Solutions Group). Storage revenue accounted for approximately 91% of our revenue. Revenues from our IceWEB Online subsidiary accounted for 9% of our revenue during the three months ended December 31, 2009.

Cost of Sales

Our cost of sales consists primarily of products purchased and component parts for the manufacture of our storage products. For the three months ended December 31, 2009, cost of sales was $273,624, or approximately 45.5% of revenues, compared to $1,267,675, or approximately 72.8% of revenues, for the three months ended December 31, 2008. The decrease in costs of sales as a percentage of revenue and the corresponding increase in our gross profit margin for the three months ended December 31, 2009 as compared to the three months ended December 31, 2008 was the result of improved mix of higher margin storage products during the three months ended December 31, 2009 as a percentage of total revenue. We anticipate that our gross profit margins will continue to improve through the balance of fiscal 2010, as IceWEB storage product revenue will make up a larger percentage of total revenue.

Total Operating Expenses

Our total operating expenses increased approximately 76.7% to $1,653,866 for the three months ended December 31, 2009 as compared to $936,216 for the three months ended December 31, 2008. These changes include:

Marketing and Selling. For the three months ended December 31, 2009, marketing and selling costs were $16,455 as compared to $11,244 for the three months ended December 31, 2008, an increase of $5,211 or approximately 46%. The increase was due to an increase in trade show expense and IceWEB Online web marketing, advertising and print advertising during the three months ended December 31, 2009.

Depreciation and amortization expense. For the three months ended December 31, 2009, depreciation and amortization expense amounted to $167,474 as compared to $176,248 for the three months ended December 31, 2008, a decrease of $8,774 or 5.0%.

Research and Development. For the three months ended December 31, 2009, research and development costs were $79,565 as compared to $81,665 for the three months ended December 31, 2008, a decrease of $2,100 or approximately 2.6%.

General and administrative expense. For the three months ended December 31, 2009, general and administrative expenses were $1,390,372 as compared to $667,059 for the three months ended December 31, 2008, an increase of $723,313 or approximately 108.4%. For the three months ended December 31, 2009 and 2008 general and administrative expenses consisted of the following:

	Fiscal Q1 2010	**Fiscal Q1 2009**
Occupancy	$20,348	$5,770
Consulting	29,773	18,483
Employee compensation	1,233,030	554,625
Professional fees	32,050	11,448
Internet/Phone	6,896	23,970
Travel/Entertainment	4,117	5,071
Investor Relations	12,094	3,158
Licenses		465

Insurance	13,216	14,489
Other	38,848	29,580
	$1,390,372	$667,059

For the three months ended December 31, 2009, Occupancy expense increased to $20,348 as compared to $5,770. Occupancy expense is higher due to the Company s relocation to its manufacturing facility in Sterling, Virginia.
For the three months ended December 31, 2009, Consulting expense increased to $29,773 as compared to $18,483. Consulting expense increased as a result of support costs to upgrade and increase the capacity of our ERP software systems.

For the three months ended December 31, 2009, salaries and related expenses increased to $1,233,030 as compared to $554,625. Employee compensation is higher due to higher headcount and the resulting increase in salaries paid, along with higher expense related to stock based compensation of $60,000 and the increase in the amortization of deferred compensation related to employee stock options of $475,111.

For the three months ended December 31, 2009, Professional fee expense increased to $32,050 as compared to $11,448. Professional fee expense increased primarily due to increased legal fees as compared to the prior year.

For the three months ended December 31, 2009, travel and entertainment expense decreased to $4,117 as compared to $5,071. Travel and entertainment expense decreased as a result of limited travel by sales and marketing and general cost-cutting measures put in place by the Company.

For the three months ended December 31, 2009, Other expense amounted to $38,848 as compared to $29,580 for the three months ended December 31, 2008, an increase of $9,268, or 31.3%.

For the three months ended December 31, 2009 Investor relations expense increased to $12,094 as compared to $3,158 for the three months ended December 31, 2008. The increase is due to an increase in general investor relations activity.

We anticipate that general and administrative expenses will continue to remain flat during the balance of fiscal 2009, with the exception of share-based payments that the Company may incur from time to time.

LOSS FROM OPERATIONS

We reported a loss from operations of $1,326,673 for the three months ended December 31, 2009 as compared to a loss from operations of $463,303 for the three months ended December 31, 2008, an increase of $863,370 or approximately 186.4%.

OTHER INCOME (EXPENSES)

Interest Income. Interest income for the three months ended December 31, 2009 amounted to $0. This compares to $483 in interest income in the comparable period in fiscal 2008.

Interest Expense. For the three months ended December 31, 2009, interest expense amounted to $132,961 as compared to $196,214 for the three months ended December 31, 2008, a decrease of $63,253 or 32%. The decrease in interest expense is primarily attributable to the decrease in borrowings and certain interest bearing liabilities related to the acquisition of Inline Corporation. Also, during the three months ended December 31, 2009, we amortized deferred financing costs of $6,390, as compared to $32,264 during the three months ended December 31, 2008.

NET LOSS

Our net loss was $1,459,634 for the three months ended December 31, 2009 compared to a loss of $659,034 for the three months ended December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. The following table provides an overview of certain selected balance sheet comparisons between December 31, 2009 and September 30, 2009:

	December 31, 2009	September 30, 2009	$ Change	% Change
Working Capital	(2,892,756)	(3,158,232)	265,476	(8.4%)
Cash	4,115	63,310	(59,195)	(93.5%)
Accounts receivable, net	582,308	424,919	157,389	37.0%
Inventory	209,369	151,361	58,008	38.3%
Total current assets	867,470	671,160	196,310	29.2%
Property and equipment, net	680,550	752,162	(71,612)	(9.5%)
Marketable securities held for sale	1,920,000	-	1,920,000	100.0%
Intangibles, net	729,270	790,042	(60,772)	(7.7%)
Total assets	4,210,610	2,226,684	1,983,926	89.0%
Accounts payable and accrued liabilities	1,903,007	1,971,376	(68,369)	(3.4%)
Notes payable-current	1,847,219	1,847,755	(536)	0.0%
Deferred revenue	10,000	10,261	(261)	(2.5%)
Total current liabilities	3,760,226	3,829,392	(69,166)	(1.8%)
Notes payable-long term	967,884	934,756	33,128	3.5%
Total liabilities	4,728,110	4,764,148	(36,038)	(0.8%)
Accumulated deficit	(24,118,192)	(22,658,559)	(1,459,634)	6.4%
Accumulated other comprehensive income	1,872,000	-	1,872,000	100.0%
Stockholders deficit	(517,500)	(2,537,464)	2,019,964	79.6%

Net cash used in operating activities was $848,697 for the three months ended December 31, 2009 as compared to net cash used in operating activities of $842,930 for the three months ended December 31, 2008, an increase of $5,767. For the three months ended December 31, 2009, we had a net loss of $1,459,634, along with non-cash items such as depreciation and amortization expense of $167,474, share-based compensation expense of $767,598, offset by changes in assets and liabilities of $330,526. During the three months ended December 31, 2009 we experienced an increase in accounts receivable of $157,389, and a decrease in accounts payable and accrued liabilities during the period of $68,369. For the three months ended December 31, 2008, we used cash to fund our net loss of $659,034 offset by non-cash items such as depreciation and amortization expense of $176,248, share-based compensation expense of $292,488, and offset by changes in assets and liabilities of $684,897. Also during the three months ended December 31, 2008 we experienced an increase in accounts receivable of $700,052, which was offset by an increase in accounts payable during the period of $102,338.

Net cash used in investing activities for the three months ended December 31, 2009 was $83,090 as compared to net cash used in investing activities of $15,119 for the three months ended December 31, 2008. During the three months ended December 31, 2009, we used cash of $35,090 for property and equipment purchases, and $48,000 to acquire 160,000,000 shares of VOIS Inc. common stock. During the three months ended December 31, 2008, we used net cash of $15,119 for property and equipment purchases.

Net cash provided by financing activities for the three months ended December 31, 2009 was $872,592 as compared to net cash provided of $856,767 for the three months ended December 31, 2008. For the three months ended December 31, 2009, net cash provided by financing activities related to proceeds received from notes payable of $337,209 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of $650,000, and proceeds from the sale of restricted stock of $190,000, offset by repayments on notes payable of $304,617 which were to pay down the balance on the Sand Hill Finance LLC factoring line. For the three months ended December 31, 2008, net cash provided by financing activities related to proceeds received from notes payable of $1,972,131 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of $600, and the payment of notes payable with common stock of $197,275, offset by repayments on notes payable of $1,286,653 which were to pay down the balance on the Sand Hill Finance LLC factoring line, and repayments of equipment financing of $26,586.

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At December 31, 2009 we had a working capital deficit of $2,892,756 and an accumulated deficit of $24,118,192. The report from our independent registered public accounting firm on our audited financial statements for the fiscal year ended September 30, 2009 contained an explanatory paragraph regarding doubt as to our ability to continue as a going concern as a result of our net losses in operations. While our sales decreased significantly during the three months ended December 31, 2009, our gross profit margin was approximately 54.5% and our sales were not sufficient to pay our operating expenses. We reported a net loss of $1,459,634 for the three months ended December 31, 2009. There are no assurances that we will report income from operations in any future periods.

Historically, our revenues have not been sufficient to fund our operations and we have relied on capital provided through the sale of equity securities, and various financing arrangements and loans from related parties. At December 31, 2009 we had cash on hand of $4,115. In fiscal 2006, we entered into a receivable factoring agreement with Sand Hill Finance, LLC under which we can sell certain accounts receivable to the lender on a full recourse basis at 80% of the face amount of the receivable up to an aggregate of $3.0 million. At December 31, 2009 we owed Sand Hill Finance, LLC $1,847,219 under this accounts receivable line.

We do not have any commitments for capital expenditures. In connection with our annual report for our fiscal year ending September 30, 2009 our management will be required to provide an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not internal control over financial reporting is effective. In order to comply with this requirement we will need to engage a consulting firm to undertake an analysis of our internal controls. We have yet to engage such a consulting firm and are unable at this time to predict the costs associated with our compliance with Section 404 of Sarbanes-Oxley Act of 2002. We do not presently have any external sources of working capital other than what may be available under the factoring agreement with Sand Hill Finance and loans from related parties. Our working capital needs in future periods are dependent primarily on the rate at which we can increase our revenues while controlling our expenses and decreasing the use of cash to fund operations. Additional capital may be needed to fund acquisitions of additional companies or assets, although we are not a party to any pending agreements at this time and, accordingly, cannot estimate the amount of capital which may be necessary, if any, for acquisitions.

As long as our cash flow from operations remains insufficient to completely fund operations, we will continue depleting our financial resources and seeking additional capital through equity and/or debt financing. Also, under the terms of the financing agreement with Sand Hill Finance, LLC we agreed not to incur any additional indebtedness other than trade credit in the ordinary course of business. This covenant may limit our ability to raise capital in future periods.

There can be no assurance that acceptable financing can be obtained on suitable terms, if at all. Our ability to continue our existing operations and to continue growth strategy could suffer if we are unable to raise the additional funds on acceptable terms which will have the effect of adversely affecting our ongoing operations and limiting our ability to increase our revenues and maintain profitable operations in the future. If we are unable to secure the necessary additional working capital as needed, we may be forced to curtail some or all of our operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

None

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by the Quarterly Report (the evaluation date). They have concluded that, as of the evaluation date, these disclosure controls and procedures were effective to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis.

Changes in internal control over financial reporting. There were no changes to internal controls over financial reporting that occurred during the three months ended December 31, 2009, that have materially affected, or are reasonably likely to materially impact, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under the heading Risk Factors in our Annual Report on Form 10-K/A filed on January 9, 2009, which could materially affect our business operations, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business operations and/or financial condition. There have been no material changes to our risk factors since the filing of our Form 10-K/A.

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

During the three months ended December 31, 2009, we issued 2,000,000 shares of common stock at a per share price of $0.042, valued at $83,000 to an accredited investor. As of December 31, 2009 the Company had not yet received the proceeds from the investor and as a result the Company recorded the subscription receivable as a contra equity account on its balance sheet. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the three months ended December 31, 2009, we sold 1,000,000 shares of common stock, valued at $100,000 to a Director for $40,000, and recognized stock based compensation expense of $60,000. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the three months ended December 31, 2009, we sold 1,500,000 shares of common stock at a per share price of $0.10, valued at $150,000 to an accredited investor, and the issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

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

Exhibit Number	**Description**
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

* Filed herein

SIGNATURES

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

	ICEWEB, INC.
February 16, 2010	By: /s/ John R. Signorello John R. Signorello, Chief Executive Officer, principal executive officer
February 16, 2010	By: /s/ Mark B. Lucky Mark B. Lucky Chief Financial Officer, principal financial and accounting officer