ICEWEB INC
Form 10-Q
February 14, 2011

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, 2010

OR

¨ **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 incorporation or organization)	**(I.R.S. Employer Identification No.)**
22900 Shaw Road, Suite 111 Sterling, VA	**20166**
	(Zip Code)

(Address of principal executive offices)

(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 ¨

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 ¨ No ¨

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	¨	Accelerated filer	¨
Non-accelerated filer	¨ (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 ¨ No x

The number of shares of the registrant s Common Stock, $.001 par value, outstanding at February 15, 2010 was: 139,921,768.

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 , believe , contemplate , would , should , could , or may. With respect to any forward-looking statement that inclu statement of its 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 our 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, 2010

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ICEWEB, Inc.

Consolidated Balance Sheets

		December 31, 2010 (Unaudited)		September 30, 2010 (1)
CURRENT ASSETS:				
Cash	$	256,107	$	540,156
Accounts receivable, net of allowance of $409,000 and $309,000, respectively		1,424,917		1,529,852
Inventory		107,093		62,197
Other current assets		27,500		6,875
Prepaid expenses		46,591		31,230
		1,862,208		2,170,310
OTHER ASSETS:				
Property and equipment, net		328,748		418,873
Deposits		13,320		13,320
Marketable securities		51,840		524,800
Intangible assets, net of accumulated amortization of $729,270 and $668,498)		486,180		546,952
Total Assets	$	2,742,296	$	3,674,255
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities		$1,846,861		$1,711,619
Notes payable		1,726,993		1,649,140
Deferred revenue		43,271		59,582
Total Liabilities		3,617,125		3,420,341
STOCKHOLDERS' EQUITY (DEFICIT):				
Preferred stock ($.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; 138,841,375 shares issued and 138,678,875 shares outstanding and 134,443,725 and 134,281,225 issued and outstanding, respectively)		138,678		134,445
Additional paid in capital		29,956,633		29,360,833

Accumulated deficit		(30,878,606)		(29,622,792)
Accumulated other comprehensive income		3,840		476,800
Subscription receivable		(83,000)		(83,000)
Treasury stock, at cost, (162,500 shares)		(13,000)		(13,000)
Total stockholders' equity (deficit)		(874,829)		253,912
Total Liabilities and Stockholders Equity (Deficit)	$	2,742,296	$	3,674,255

See accompanying notes to unaudited consolidated financial statements

(1) Derived from audited financial statements

ICEWEB, Inc.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended December 31			
		2010		**2009**
Sales	$	677,853	$	600,817
Cost of sales		350,657		273,624
Gross profit		327,196		327,193
Operating expenses:				
Sales and marketing		455,022		312,857
Depreciation and amortization		166,617		167,474
Research and Development		206,126		79,565
General and administrative		657,366		1,093,970
Total operating expenses		1,485,131		1,653,866
Loss from operations		(1,157,935)		(1,326,673)
Other income (expenses):				
Interest expense		(97,880)		(132,961)
Total other income (expenses):		(97,880)		(132,961)
Net loss	$	(1,255,815)	$	(1,459,634)
Loss per common share, basic and diluted	$	(0.01)	$	(0.02)
Weighted average common shares outstanding basic and diluted		136,447,266		78,328,313

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended December 31, 2010		Three Months Ended December 31, 2009	
NET CASH USED IN OPERATING ACTIVITIES	$	(697,182)	$	(848,697)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment in marketable securities				(48,000)
Purchase of property and equipment		(15,720)		(35,090)
NET CASH USED IN INVESTING ACTIVITIES		(15,720)		(83,090)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from the sale of restricted common stock				190,000
Proceeds from notes payable		399,012		337,209
Proceeds from exercise of common stock options		351,000		650,000
Payments on notes payable		(321,159)		(304,617)
NET CASH PROVIDED BY FINANCING ACTIVITIES		428,853		872,592
NET DECREASE IN CASH		(284,049)		(59,195)
CASH - beginning of period		540,156		63,310
CASH - end of period	$	256,107	$	4,115
Supplemental disclosure of cash flow information:				
Cash paid for :				
Interest	$		$	126,571
Income taxes				

See accompanying notes to unaudited consolidated financial statements

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 1 - NATURE OF BUSINESS

IceWEB was originally founded to serve the commercial and federal markets with network security products and proprietary on-line software solutions. In 2008, IWEB narrowed its focus and expanded its capabilities by acquiring INLINE Corporation, a data storage company specializing in custom designed, short-production run storage solutions for the Geospatial Information Systems (GIS) market.

For fiscal year 2011, we have three key product offerings:

IceWEB 3000/5000 Unified Network Storage Solutions

Purpose Built Network/Data Appliances

Cloud Computing Products/Services

IceWEB 3000/5000 Unified Network Storage Solutions

IceWEB is a leading provider of high performance Unified Network Storage solutions. 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 and 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 offerings, called the IceWEB 3000 and IceWEB 5000 are deployed as storage operating system software on our network attached storage (NAS), and storage area network (SAN) hardware products. The IceWEB 3000/5000 Unified Network Storage environments 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 IceWEB 5000 s built-in data replication features
- Integrate with emerging server virtualization software (VMWare, Citrix Xen and Microsoft s Hyper V) to better manage those solutions

The IceWEB 3000/5000 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. Our users value the IceWEB 3000/5000s solution because it delivers three key benefits:

Performance which equals or exceeds all competitive products.

Management which requires less expertise and time from overburdened technical staffers

Cost our solutions typically can be deployed costing two to three times less than those of ours competitors, and are far more feature rich

The Competitive Landscape

Traditionally a company such as IceWEB would compete with other storage vendors of similar size, some of those competitors would be Compellent, Isilon, and LeftHand Networks. In actuality the company more often finds itself becoming an alternative in our customers eyes to purchasing additional equipment from large and expensive legacy storage providers such as EMC Corporation, IBM, Hewlett Packard, Network Appliance and Hitachi Data Systems. What IceWEB is finding is that with data growing at alarming rates within all organizations, budgetary and common sense decision making is creating a 2nd Tier storage marketplace where our IceWEB 5000 is perceived as very compelling. Customers are recoiling from the high costs and fork-lift upgrades often required by the larger Tier 1 storage providers that would be necessary to accommodate their rapid data growth. Therefore, rather than purchasing additional expensive solutions from their existing vendors they opt to deploy our product with its versatile and feature rich capabilities in an overflow or project by project type environment. Because IceWEB 5000 storage space can be purchased two to three times more cheaply than the legacy alternatives, these customers are actually able to purchase ahead of their perceived data growth rate.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

Purpose Built Network and Data Appliances

IceWEB has been building Purpose Built Network and Data Appliances for several years. Purpose Built Network & Data Appliances are devices which provide computer resources (processors & memory), data storage, and specific software for a specific application. The main appliance products that IceWEB has been building have been centered around a single large business partner. ESRI Corporation. IceWEB and ESRI have collaborated to create ultra-high performance IceWEB/ESRI GIS systems that allow customers to analyze data in ways never before possible. 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 from 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. The company is aggressively pursuing other Purpose Built Appliance opportunities and hopes that this strategy will begin to contribute significantly to our business ramping over the next six month. 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.

Cloud Computing Products & Services

Cloud Computing Services

In December 2005, IceWEB launched IceMAIL ™ a packaged software service that provides network hosted groupware, email, and 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 marketspace, 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.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

Sales and Marketing Plans

We intend to sell of all of our products via full channel-based model. In a Channel Based sales model, companies with products or services build partnerships with Systems Integrators, other manufacturers, vertical companies (such as ESRI and Spot Image), and distributors and leverage the sales resources of those groups to drive sales of products/services. The value of a Channel Based sales model is twofold. First it allows IceWEB to grow total sales volume significantly while keeping sales staff (and hence SG&A) low. Rather than building a significant worldwide sales force of our own, this model allows to build a small Channel Organization responsible for identification, training and support of partner organizations to ensure their success and productivity. The second value of the Channel Based model is that partners bring their own knowledge of key accounts and have relationships already in place this compresses the sales cycle, increases the close ratio on new business and funnels more sales into IceWEB products and services.

We have recently signed partnership agreements with Utilipath LLC, Spot Image, and others and are already realizing the value of these relationships as they translate into hard sales.

Manufacturing

Manufacturing is conducted at our headquarters in Sterling, VA. Utilizing chassis from premium manufacturers such as AIC Corporation, Xyratex and others, all systems are built, burned, and tested at this facility by our in-house engineering and production staff.

Competition

The market for IceWEB storage is highly competitive and likely to become even more competitive in the future. Established companies have historically dominated the storage market, including EMC, Network Appliance, Dell, Hewlett-Packard, Sun Microsystems, Hitachi Data Systems and IBM.

In addition there is additional competition from smaller companies such as Compellent Technologies and LeftHand Networks. In the future, new competitors will emerge as well as increased competition, both domestically and internationally, from other established storage companies. The principal competitive market factors are:

Industry credibility.
Product scalability, performance and reliability
Ease of installation and management;
Software functionality;
Total cost of ownership;
Customer support
Market presence

IceWEB competes effectively across all of these factors. In particular, our product architecture provides significant competitive advantages in terms of performance, scalability, ease of management and low total cost of ownership . OEM partners provide us with a significant number of reference account s which address credibility and helps marketing to new customers.

Many of the competitors have longer operating histories, better name recognition, larger customer bases and significantly greater financial, technical, sales and marketing resources than we have. Competitors may also be able to devote greater resources to the development, promotion, sale and support of their products. Competitors may also have more extensive customer bases and broader customer relationships than us including relationships with potential IceWEB customers.

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 own proprietary rights.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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 file related foreign patent applications in jurisdictions such as the European Union and Japan. As of September 30, 2008, we applied for three provisional U.S. patents.

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.

Many of the competitors have longer operating histories, better name recognition, larger customer bases and significantly greater financial, technical, sales and marketing resources than we have. Competitors may also be able to devote greater resources to the development, promotion, sale and support of their products. Competitors may also have more extensive customer bases and broader customer relationships than us, including relationships with potential IWEB customers.

Our History

We were originally formed under the laws of the State of Delaware in February 1969. For many years, we were a wholesaler of custom one, two, three and four-color processed commercial printing, as well as disposable and durable office equipment including stock paper, fax paper, fax and copy machines, computers, file cabinets and safes. We conducted our business throughout the United States of America and Puerto Rico from our headquarters in New York.

In March 1999, we changed the focus of our business and closed a transaction by which we acquired 100% of the outstanding capital stock of North Orlando Sports Promotions, Inc., a privately held Florida corporation. From 1999 until July 2001, we operated a variety of Internet-related services; however, we were unable to generate positive cash flow from these Internet-related businesses.

In May 2001, we executed an Agreement and Plan of Reorganization and Stock Purchase Agreement with Disease S.I., Inc. Under the terms of the agreement, we acquired 100% of the issued and outstanding stock of Disease S.I., Inc. in exchange for 750,000 shares of our common stock. The transaction was accounted for as a reverse acquisition under the purchase method for business combinations. Accordingly, the combination of the two companies was recorded as a recapitalization of Disease S.I., Inc., pursuant to which Disease S.I., Inc. was treated as the continuing entity. Disease S.I., Inc. was a developmental stage biopharmaceutical clinical diagnostics company planning to employ a broad array of technologies to detect, identify and quantify substances in blood or other bodily fluids and tissues. It intended to derive revenues from patent sub-licensing fees, royalties from pharmaceutical sales, appropriate milestone payments and research and development contracts.

Following completion of the acquisition of Disease S.I., Inc., it became apparent to us that it would be in our best long-term interest that the Internet operations be conducted apart from the biopharmaceutical clinical diagnostics operations. On July 24, 2001, we sold a former officer and director 100% of our subsidiary North Orlando Sports Promotions, Inc., in exchange for the assumption of all liabilities related to North Orlando Sports Promotions, Inc. and its operations estimated at approximately $112,000, and which included the forgiveness of $91,500 in accrued compensation. Included in the sale along with the capital stock of North Orlando Sports Promotions, Inc. were fixed assets, rights to several domain names and various contractual rights and obligations.

On November 27, 2001, we acquired 9,050,833 shares of the common stock of Healthspan Sciences, Inc., a privately held California corporation in exchange for 5,000 shares of our common stock in a private transaction exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) of that act. This agreement was rescinded on March 21, 2002. Pursuant to the rescission, Healthspan Sciences, Inc. returned all 5,000 shares of our common stock issued in the exchange and we returned all 9,050,833 shares of Healthspan Sciences, Inc. which we had received.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

On March 21, 2002, we executed an Agreement and Plan of Merger with IceWEB Communications, Inc., a Delaware corporation and its stockholders. Founded in 2000, IceWEB Communications, Inc. enabled interactive communications and education on the web. In June 2001, it had acquired the assets in bankruptcy of Learning Stream, Inc., a provider of streaming services. Pursuant to the agreement, each of the 22,720,500 shares of common stock of IceWEB Communications, Inc. issued and outstanding immediately prior to the merger were converted into the right to receive 0.13375 shares of our common stock, for an aggregate of 303,888 shares of common stock. Each of the warrants to purchase an aggregate of 680,125 shares of IceWEB Communications, Inc. common stock issued and outstanding immediately prior to the merger were converted into the right to receive one warrant to purchase 0.13375 shares of our common stock upon exercise of said warrant.

In June 2003, we acquired 100% of the capital stock of Interlan Communications, Inc., a privately held corporation, in exchange for 25,000 shares of our common stock. In June 2003, we also acquired 100% of the capital stock of Seven Corporation in exchange for 37,500 shares of our common stock and cash consideration of $123,000. As described later in this section, we sold Seven Corporation in February 2007.

In October 2003, we acquired 19% of the capital stock of IceWEB 5000, Inc. of Virginia, together with substantially all of its assets including software licenses, source code, potential patents and trademarks for a combined stock and cash value of approximately $632,000 which included the issuance of 191,381 shares of our common stock and cash consideration of $65,500.

In May 2004, we acquired substantially all of the assets of DevElements, Inc. of Virginia, including software licenses, source code, potential patents and trademarks, cash, hardware, and equipment. As consideration for the purchase of the assets, we paid DevElements $100,000 and agreed to the assumption of liabilities up to an aggregate of $150,000. In exchange for the 19% interest in DevElements, we issued to the stockholders of DevElements 187,500 shares of our common stock and options to purchase 187,500 shares of common stock exercisable at a price of $27.20 per share and expiring May 13, 2009. We issued to the stockholders options to purchase 6,250 shares, which were contingently exercisable upon the satisfaction of certain performance criteria. The performance criteria, which required contracts, task orders and other work assignments involving billing of at least $840,000 during the six-month period ending November 13, 2004, was not met and the options were cancelled.

On October 18, 2004, we entered into a non-binding letter of intent to acquire 100% of the issued and outstanding stock of Plan Graphics, Inc. The transaction was subject to approval by the Plan Graphics, Inc. stockholders, and certain terms and conditions, including terms and conditions which are customary to this type of transaction. On April

29, 2005 the letter of intent expired without a definitive agreement having been executed or all conditions precedent to the closing having been completed.

In March 2006 we acquired PatriotNet, Inc., an Internet service provider, for total consideration of $290,000 of which $190,000 was paid in cash and $100,000 was paid through the issuance of 100,000 shares of our common stock. We granted Patriot Computer Group, Inc., the seller in the transaction, certain piggyback registration rights for the 100,000 shares of our common stock issued as partial consideration in the transaction. At the time of the acquisition, the purchase price exceeded the fair value of the assets acquired by $390,600 which we treated as goodwill for accounting purposes. From the date of acquisition through September 30, 2007 revenues from PatriotNet were approximately $316,000 and represented approximately 6% of our consolidated revenues. On December 1, 2006 we sold PatriotNet to Leros Online, Inc., a third party, for $150,000 in cash and the assumption of $60,000 in liabilities. At September 30, 2007 we recorded goodwill impairment of $180,000 related to this transaction.

On December 1, 2006 we sold 100% of the capital stock of our wholly-owned subsidiary, Integrated Power Solutions, Inc. to Mr. John Younts, our Vice President of Integrated Power Solutions and a key employee, for the assumption of approximately $180,000 in liabilities and the payment of $12,000 we owed him. For the fiscal year ended September 30, 2006, revenues for Integrated Power Solutions were approximately $457,000, or approximately, 9.5%, of our total sales.

On November 15, 2006, we acquired certain of the assets of True North Solutions related to its governmental customer business for $350,000 of which $250,000 was paid in cash and the balance was paid through the delivery of a $100,000 principal amount promissory note secured by collateral pledge of the assets, payable immediately upon accomplishment of the novation of the GSA Schedule. Under the terms of the agreement, we acquired the customers, forecast, contract renewals, and GSA schedule of True North Solutions. We permitted True North Solutions to use the purchased assets until December 31, 2006 pursuant to which we acted as the seller s subcontractor until the novation of the GSA Schedule was complete. The novation of the GSA schedule was completed in March, 2008.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

On February 16, 2007 we sold 100% of the outstanding stock of our subsidiary, The Seven Corporation of Virginia, Inc., to PC NET in exchange for the waiver of approximately $11,000 we owed PC NET. Under the terms of the agreement we may not engage in any staffing services businesses as The Seven Corporation had conducted for a period of at least two years. For the fiscal year ended September 30, 2006 revenues from The Seven Corporation were $360,000 or approximately 7.5%, of our total sales.

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

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

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

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, 2010 (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, 2010, and the consolidated results of its operations for the three months ended December 31, 2010 and 2009, and the consolidated cash flows for the three months ended December 31, 2010 and 2009. The results of operations for the three months ended December 31, 2010 are not necessarily indicative of the results to be expected for the full year.

The consolidated balance sheet at September 30, 2010 has been derived from the audited consolidated financial statements at that date but does not include all footnote disclosures required by GAAP.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

The Company s significant accounting policies are disclosed in the Company s Form 10-K. The Company has evaluated subsequent events through February 15, 2011, the date the Company filed its Quarterly Report on Form 10-Q for the quarter ended December 31, 2010.

Fiscal Year

The fiscal year ends on September 30. References to fiscal 2011, for example, refer to the fiscal year ending September 30, 2011.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to 2011 amounts. The reclassifications had no impact on previously reported results of operations or shareholders deficit.

Going Concern

Our auditors stated in their report on the consolidated financial statements of the Company for the Years ended September 30, 2010 and 2009 that we have had losses since inception that raise doubt about our ability to continue as a going concern. In addition and as discussed further in Note 6, we are not in compliance with debt covenants under our Financing Agreements with Sand Hill Finance LLC. For the year ended September 30, 2010 we incurred a net loss of $6,964,233. 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 we cannot continue in existence.

Management has established plans intended to increase the sales of our 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 we will be able to raise any additional funds.

Fair value of financial instruments

The carrying amounts of financial instruments, including cash, accounts receivable, prepaid expenses, and other current assets, accounts payable and accrued liabilities, and deposits approximated fair value as of September 30, 2010 and 2009, because of the relatively short-term maturity of these instruments and their market interest rates.

Marketable Securities

IceWEB accounts for the purchase of marketable equity securities in accordance with ASC 320, Investment Debt and Equity Securities with any unrealized gains and losses included as a net amount as a separate component of stockholders equity. However, those securities may not have the trading volume to support the stock price if the Company were to sell all their shares in the open market at once, so the Company may have a loss on the sale of marketable securities even though they record marketable equity securities at the current market value. Due to the illiquid nature of the marketable securities that IceWEB owns we applied a discount factor of 20% to the fair value of the marketable security.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 balance sheets and the reported amounts of sales and expenses during the reporting periods. 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 allowance for inventory obsolescence and the useful life of property and equipment and intangible assets, and litigation reserves.

13

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

Cash and Cash Equivalents

We consider 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. We recorded a bad debt allowance of $409,000 as of December 31, 2010. Management performs ongoing evaluations of its accounts receivable. Management believes that all remaining receivables are fully collectable. Bad debt expense amounted to $100,691 and $0 for the three months ended December 31, 2010 and 2009, respectively.

Inventory

Inventory is valued at the lower of cost or market, on an average cost basis.

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.

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.

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.

Advertising

Advertising costs are expensed as incurred and amounted to $60,806 and $16,456 for the three months ended December 31, 2010 and 2009, respectively.

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.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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, 2010, there were options and warrants to purchase 19,891,504 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

As more fully described in Note 12, we have a stock option plan that provides for non-qualified and incentive stock options to be issued to directors, officers, employees and consultants (the 2000 Management and Director Equity Incentive and Compensation Plan (the Plan).

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.

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.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06). This update requires additional disclosure within the roll forward of activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances and settlements of assets and liabilities within Level 3 of the fair value hierarchy. In addition, the update requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Levels 2 and 3. The new disclosure requirements were effective for interim and annual periods beginning after December 15, 2009 (the adoption of which did not have an impact on the Company s financial statements), except for the disclosure of purchases, sales, issuances and settlements of Level 3 measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 (September 1, 2011 for the Company). As ASU 2010-06 only requires enhanced disclosures, the Company does not expect that the adoption of this update will have a material effect on its financial statements.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

	Estimated Life	December 31, 2010		September 30, 2010	
Office equipment	5 years	$	715,002	$	699,282
Computer software	3 years		612,379		612,379
Furniture and fixtures	5 years		261,385		261,385
Leasehold improvements	2 - 5 years		1,026,470		1,026,470
			2,615,236		2,599,516
Less: accumulated depreciation			(2,286,488)		(2,180,643)
		$	328,748	$	418,873

Depreciation expense for the three months ended December 31, 2010 and 2009 was $105,845 and $106,701 respectively.

NOTE 4 - INVENTORY

Inventory consisted of the following:

	December 31, 2010		September, 30, 2010	
Raw materials	$	85,674	$	49,757
Work in progress		16,064		9,330
Finished goods		5,355		3,110
	$	107,093	$	62,197

NOTE 5 - 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 $1,726,993.

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.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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.

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 6 - 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, 2010, the Company had no balances in excess of FDIC insured limits. The Company has not experienced any losses in such accounts.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 7 - INVESTMENTS

(a) Summary of Investments

Marketable Equity Securities:

As of December 31, 2010, the Company s investments in marketable equity securities are based on the December 31, 2010 stock price as reflected on the OTCBB stock exchange , reduced by a discount factor if those shares have selling restrictions. These marketable equity securities are summarized as follows:

DECEMBER 31, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Publicly traded equity securities	$ 48,000	$ 3,840	$	$ 51,840
Total	$ 48,000	$ 3,840	$	$ 51,840

The unrealized gains are presented in comprehensive income in the consolidated statement of operations and comprehensive income.

(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,			
		2010		2009
Net losses on investments in publicly traded equity securities	$	(472,960)	$	
Net losses on investments	$	(472,960)	$	

On January 1, 2008, the Company adopted ASC 820, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. The Company did not adopt the ASC 820 fair value framework for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements at least annually. ASC 820 clarifies that fair value is an exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

Investment Measured at Fair Value on a Recurring Basis:

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable Equity Securities, net of discount for effect of restriction	$	$	$ 51,840

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. 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 are recognized 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, 2010 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, 2010 or 2009.

The Company has evaluated its publicly traded equity securities as of September 30, 2010, 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 8 - 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 $3,840.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 9 - STOCKHOLDERS DEFICIT

Common Stock Warrants

A summary of the status of the Company s outstanding common stock warrants as of December 31, 2010 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	8,287,100	$	0.40
Granted			
Exercised			
Forfeited			
Balance at end of period	8,287,100	$	0.40
Warrants exercisable at end of period	8,287,100	$	0.40
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, 2010:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Price	Number Outstanding at December 31,	Weighted Average Remaining Contractual	Weighted Average Exercise Price	Number Exercisable at December 31, 2010	Weighted Average Exercise Price

		2010	Life				
$	0.20	200,000	0.32 Years	$	0.20	200,000	0.20
$	0.40	7,792,100	0.40 Years	$	0.40	7,792,100	0.40
$	0.50	290,000	2.77 Years	$	0.50	290,000	0.50
$	2.00	5,000	0.55 Years	$	2.00	5,000	2.00
		8,287,100		$	0.40	8,287,100	$0.40

NOTE 10 - 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.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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,	
	2010	**2009**
Expected volatility	129% - 325%	323% - 325%
Expected term	1 - 5 Years	1 - 5 Years
Risk-free interest rate	0.03% - 0.48%	0.03%

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.

For the three months ended December 31, 2010, total stock-based compensation charged to operations for option-based arrangements amounted to $48,339. At December 31, 2010, there was approximately $126,997 of total unrecognized compensation expense related to non-vested option-based compensation arrangements under the Plan.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

A summary of the status of the Company s outstanding stock options as of December 31, 2010 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	11,604,404	$	0.27
Granted			
Exercised	(3,166,667)		0.11
Forfeited	(185,000)		0.23
Balance at end of period	8,252,737	$	0.336
Options exercisable at end of period	6,796,670	$	0.38
Weighted average fair value of options granted during the year		$	

The following table summarizes information about employee stock options outstanding at December 31, 2010:

	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	4,307,733	2.87 Years	$0.11	2,972,516	$0.11
0.30-0.48	695,000	1.63 Years	0.43	574,150	0.45
0.54-0.60	2,475,004	1.62 Years	0.58	2,475,004	0.58
0.61-0.80	775,000	0.89 Years	0.70	775,000	0.70
	8,252,737		$0.336	6,796,670	$0.38

NOTE 11 - 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, 2010 and 2009 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, 2010 and 2009 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 2010, the Company has three key product offerings:

Iplicity Unified Network Storage Solutions

Purpose 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, 2010 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2009

The following table provides an overview of certain key factors of our results of operations for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009:

	Three months ended December 31, 2010	Three months ended December 31, 2009	$ of Change
Net Revenues	$ 677,853	$ 600,817	$ 77,036
Cost of sales	350,657	273,624	77,033
Operating Expenses:			
Marketing and selling	455,022	312,857	142,165
Depreciation and amortization	166,617	167,474	(857)
Research and development	206,126	79,565	126,561
General and administrative	657,366	1,093,970	(436,604)
Total operating expenses	1,485,131	1,653,866	(168,735)
Loss from operation	(1,157,935)	(1,326,673)	168,738
Total other income (expense)	(97,880)	(132,961)	35,081
Net loss	$ (1,255,815)	$ (1,459,634)	$ 203,819

Other Key Indicators:

	Three months ended December 31, 2010	Three months ended December 31, 2009	% Change
Cost of sales as a percentage of revenues	51.7%	45.5%	6.2%
Gross profit margin	48.3%	54.5%	(6.2%)
General and administrative expenses as a percentage of revenues	97.0%	182.1%	(85.1%)

Total operating expenses as a percentage of revenues	219.1%	275.3%	(56.2%)

Revenues

For the three months ended December 31, 2010, we reported revenues of $677,853 as compared to revenues of $600,817 for the three months ended December 31, 2009, an increase of $77,036 or approximately 12.8%.

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, 2010, cost of sales was $350,657, or approximately 51.7% of revenues, compared to $$273,624, or approximately 45.5% of revenues, for the three months ended December 31, 2009. The increase in costs of sales as a percentage of revenue and the corresponding decrease in our gross profit margin for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009 was the result of higher costs for certain components of cost of goods. We anticipate that our gross profit margins will continue to be in the 48% to 50% range through the balance of fiscal 2011.

Total Operating Expenses

Our total operating expenses decreased approximately 10.2% to $1,485,131 for the three months ended December 31, 2010 as compared to $1,653,866 for the three months ended December 31, 2009. These changes include:

Marketing and Selling. For the three months ended December 31, 2010, marketing and selling costs were $455,022 as compared to $312,857 for the three months ended December 31, 2009, an increase of $142,165 or approximately 45.4%. The increase was due to an increase in sales and marketing related headcount during the three months ended December 31, 2010 versus the prior year.

Depreciation and amortization expense. For the three months ended December 31, 2010, depreciation and amortization expense amounted to $166,617 as compared to $167,474 for the three months ended December 31, 2009, virtually unchanged from prior year.

Research and Development. For the three months ended December 31, 2010, research and development costs were $206,126 as compared to $79,565 for the three months ended December 31, 2009, an increase of $126,561 or approximately 159.1%. The increase is due to higher Research and development headcount dedicated to our storage products.

General and administrative expense. For the three months ended December 31, 2010, general and administrative expenses were $657,366 as compared to $1,093,970 for the three months ended December 31, 2009, a decrease of $436,604 or approximately 39.9%. For the three months ended December 31, 2010 and 2009 general and administrative expenses consisted of the following:

	Fiscal Q1 2011	**Fiscal Q1 2010**
Occupancy	$ 7,960	$ 6,775
Consulting	55,236	29,773
Employee compensation	336,861	966,620
Professional fees	18,722	32,050
Internet/Phone	4,582	3,217
Travel/Entertainment	7,993	3,154
Investor Relations	63,193	12,094
Licenses	639	
Insurance	11,023	13,216
Other	151,157	27,071
	$ 657,366	$ 1,093,970

For the three months ended December 31, 2010, Occupancy expense increased to $7,960 as compared to $6,775. Occupancy expense is higher due to rent escalations.

For the three months ended December 31, 2010, Consulting expense increased to $55,236 as compared to $29,773.

For the three months ended December 31, 2010, salaries and related expenses decreased to $336,861 as compared to $966,620. Employee compensation is lower due to lower expense related to stock based compensation of $59,000 and the decrease in the amortization of deferred compensation related to employee stock options of $639,935, offset by an increase in salaries of $66,176.

For the three months ended December 31, 2010, Professional fee expense decreased to $18,722 as compared to $32,050. Professional fee expense increased primarily due to legal fees incurred in the normal course of business.

For the three months ended December 31, 2010, travel and entertainment expense increased to $7,993 as compared to $3,154. Travel and entertainment expense increased as a result of increased travel for investor relations and general corporate purposes.

For the three months ended December 31, 2010, Other expense amounted to $151,157 as compared to $27,071 for the three months ended December 31, 2009, an increase of $19,126, or 70.7%. The increase is primarily due to the increase in bad debt expense due to the increase in the allowance for doubtful accounts of $100,000 during the three months ended December 31, 2010.

For the three months ended December 31, 2010 Investor relations expense increased to $63,193 as compared to $12,094 for the three months ended December 31, 2009. 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 2011, 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 $1,157,935 for the three months ended December 31, 2010 as compared to a loss from operations of $1,326,673 for the three months ended December 31, 2009, a decrease of $168,738 or approximately 12.7%.

OTHER INCOME (EXPENSES)

Interest Expense. For the three months ended December 31, 2010, interest expense amounted to $97,880 as compared to $132,961 for the three months ended December 31, 2009, a decrease of $35,081 or 26.4%. The decrease in interest expense is primarily attributable to the decrease in borrowings and certain interest bearing liabilities. Also, during the three months ended December 31, 2010, we amortized deferred financing costs of $6,875, as compared to $6,390 during the three months ended December 31, 2009.

NET LOSS

Our net loss was $1,255,815 for the three months ended December 31, 2010 compared to a loss of $1,459,634 for the three months ended December 31, 2009.

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, 2010 and September 30, 2009:

	December 31, 2010	**September 30, 2010**	**$ Change**	**% Change**
Working Capital	(1,754,917)	(1,250,031)	(504,886)	40.4%
Cash	256,107	540,156	(284,049)	(52.6%)
Accounts receivable, net	1,424,917	1,529,852	(104,935)	(6.9%)
Inventory	107,093	62,197	44,896	72.2%

Total current assets	1,862,208	2,170,310	(308,102)	(14.2%)
Property and equipment, net	328,748	418,873	(90,125)	(21.5%)
Intangibles, net	486,180	546,952	(60,772)	(11.1%)
Marketable Securities	51,840	524,800	(472,960)	(90.1%)
Total assets	2,742,295	3,674,255	(931,960)	(25.4%)
Accounts payable and accrued liabilities	1,846,861	1,711,619	135,242	7.9%
Notes payable-current	1,726,993	1,649,140	77,853	4.7%
Note payable - related party	0	0	0	0.0%
Deferred revenue	43,271	59,582	(16,311)	(27.4%)
Total current liabilities	3,617,125	3,420,341	196,784	5.8%
Total liabilities	3,617,125	3,420,341	196,784	5.8%
Accumulated deficit	(30,878,606)	(29,622,792)	(1,255,814)	4.2%
Stockholders deficit	(874,829)	253,913	(1,128,742)	(444.5%)

Net cash used in operating activities was $697,182 for the three months ended December 31, 2010 as compared to net cash used in operating activities of $848,697 for the three months ended December 31, 2009, a decrease of $151,515. For the three months ended December 31, 2010, we had a net loss of $1,255,815, along with non-cash items such as depreciation and amortization expense of $166,617, share-based compensation expense of $200,692, offset by changes in assets and liabilities of 163,609. During the three months ended December 31, 2010 we experienced a decrease in accounts receivable of $104,935, and an increase in accounts payable and accrued liabilities during the period of $135,242. For the three months ended December 31, 2009, we used cash to fund our net loss of $1,459,634 offset by non-cash items such as depreciation and amortization expense of $167,474, share-based compensation expense of $767,598, and offset by changes in assets and liabilities of $330,526. Also during the three months ended December 31, 2009 we experienced an increase in accounts receivable of $157,389, and a decrease in accounts payable during the period of $68,369.

Net cash used in investing activities for the three months ended December 31, 2010 was $15,720 as compared to net cash used in investing activities of $83,090 for the three months ended December 31, 2009. During the three months ended December 31, 2010, we used cash of $15,720 for property and equipment purchases. During the three months ended December 31, 2009, we used cash of $35,090 for property and equipment purchases, and $48,000 to acquire 800,000 shares of VOIS Inc. common stock.

Net cash provided by financing activities for the three months ended December 31, 2010 was $428,853 as compared to net cash provided of $872,592 for the three months ended December 31, 2009. For the three months ended December 31, 2010, net cash provided by financing activities related to proceeds received from notes payable of $399,012 which were advances under our factoring line with Sand Hill Finance LLC, and proceeds from the exercise of common stock options of $351,000, offset by repayments on notes payable of $321,159 which were to pay down the balance on the Sand Hill Finance LLC factoring line. 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 sale of restricted stock of $190,000, and proceeds from the exercise of common stock options of $650,000, offset by repayments on notes payable of $304,617 which were to pay down the balance on the Sand Hill Finance LLC factoring line.

At December 31, 2010 we had a working capital deficit of $1,754,917 and an accumulated deficit of $30,878,606. The report from our independent registered public accounting firm on our audited financial statements for the fiscal year ended September 30, 2010 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. Our sales decreased during the three months ended December 31, 2010 and our sales were not sufficient to pay our operating expenses. We reported a net loss of $1,255,815 for the three months ended December 31, 2010. 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, 2010 we had cash on hand of $256,107. 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, 2010 we owed Sand Hill Finance, LLC $1,726,993 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, 2010 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, 2010, 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 filed on December 29, 2010, 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.

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

During December, 2010 we issued 700,000 shares of restricted common stock at a per share price of $0.17, valued at $119,000 to three of our employees. The recipients were accredited investors and the issuances were exempt from registration under the Securities Act of 1933 in reliance on exemptions provided by Section 4(2) of that act.

During October, November, and December, 2010 we issued 265,475 shares of restricted common stock at an average per share price of $0.226, valued at $60,000 to four consultants. The recipients were accredited investors and the issuances were exempt from registration under the Securities Act of 1933 in reliance on exemptions provided by Section 4(2) of that act.

During October, November, and December, 2010 we issued 150,000 shares of restricted common stock to a consultant at an average per share price of $0.23, valued at $34,448. The recipient was an accredited investor and the issuance was exempt from registration under the Securities Act of 1933 in reliance on exemptions 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 14, 2011

By: /s/ John R. Signorello
John R. Signorello,
Chief Executive Officer, principal executive officer

February 14, 2011

By: /s/ Mark B. Lucky
Mark B. Lucky
Chief Financial Officer, principal financial and accounting officer