ICEWEB INC
Form 10-Q
August 16, 2010

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

FORM 10-Q

(Mark One)

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

For the period ended June 30, 2010

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from _________ to _________

Commission file number: 0-27865

ICEWEB, INC.
(Exact name of 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
(Address of principal executive offices)

(571) 287-2380
(Issuer's telephone number)

____
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: At August 13, 2010, there were 122,949,104 outstanding shares of common stock, $.001 par value per share.

Transitional Small Business Disclosure Format (Check one):
Yes o No x

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan “believe,” “project,” “contemplate,” “would,” “should,” “could,” or “may.” With respect to any forward-looking statement that includes a 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 JUNE 30, 2010

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ICEWEB, Inc.
Consolidated Balance Sheets

	June 30, 2010 (Unaudited)	September 30, 2009 (1)
CURRENT ASSETS:		
Cash	$ 1,276,863	$ 3,310
Accounts receivable, net	1,691,605	424,919
Inventory	114,746	151,361
Other current assets	13,750	6,390
Prepaid expenses	42,544	25,180
	3,139,508	671,160
OTHER ASSETS:		
Property and equipment, net	524,119	752,162
Deposits	13,320	13,320
Marketable Securities	800,000	0
Intangible assets, net	607,725	790,042
Total Assets	$ 5,084,672	$ 2,226,684
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,903,186	$ 1,971,376
Notes payable	1,753,194	1,847,755
Deferred revenue	47,584	10,261
	3,703,964	3,829,392
LONG-TERM LIABILITIES		
Notes Payable	1,057,554	934,756
Total Liabilities	4,761,518	4,764,148
STOCKHOLDERS' EQUITY (DEFICIT)		
Series B convertible preferred stock ($.001 par value; 1,253,334 shares issued and outstanding)	626	626
Common stock ($.001 par value; 1,000,000,000 shares authorized; 121,951,604 shares issued and 121,789,104 shares outstanding)	121,791	68,471
Additional paid in capital	26,974,988	20,064,997
Accumulated deficit	(27,430,251)	(22,658,558)
Accumulated other comprehensive income	752,000	-
Subscription receivable	(83,000)	-
Treasury stock, at cost, (162,500 shares)	(13,000)	(13,000)
Total stockholders' equity (deficit)	323,154	(2,537,464)
Total Liabilities and Stockholders Equity (Deficit)	$ 5,084,672	$ 2,226,684

(1) Derived from audited financial statements

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	2010	2009	2010	2009
Sales	$ 1,203,878	$ 826,182	$ 2,815,900	$ 3,936,472
Cost of sales	613,287	404,641	1,343,006	2,478,707
Gross profit	590,591	421,541	1,472,894	1,457,765
Operating expenses:				
Marketing and selling	404,443	357,596	1,189,661	864,184
Depreciation and amortization expense	165,585	85,793	495,984	432,839
Research and development	167,061	94,020	353,092	250,450
General and administrative	1,130,005	688,154	3,783,654	1,739,492
Total Operating Expenses	1,867,094	1,225,563	5,822,391	3,286,965
Loss From Operations	(1,276,503)	(804,022)	(4,349,497)	(1,829,200)
Other income (expenses):				
Gain/(loss) from sale of assets	0	0	0	3,452,236
Interest income	0	0	0	1,142
Interest expense	(147,240)	(144,884)	(422,196)	(510,178)
Total other income (expenses):	(147,240)	(144,884)	(422,196)	2,943,200
Net income (loss)	$ (1,423,743)	$ (948,906)	$ (4,771,693)	$ 1,114,000
Basic income (loss) per common share	$ (0.01)	$ (0.02)	$ (0.05)	$ 0.03
Diluted income (loss) per common share	$ (0.01)	$ (0.02)	$ (0.05)	$ 0.03
Weighted average common shares outstanding basic	110,570,437	38,794,632	92,635,584	35,431,837
Weighted average common shares outstanding diluted	110,570,437	38,794,632	92,635,584	37,637,725

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
NET CASH USED IN OPERATING ACTIVITIES	$ (2,900,065)	$ (1,396,144)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(85,624)	(28,318)
Investment in marketable securities	(48,000)	-
NET CASH USED IN INVESTING ACTIVITIES	(133,624)	(28,318)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of equipment financing	-	(45,114)
Proceeds from the sale of restricted common stock	2,320,630	97,000
Proceeds from notes payable	985,900	7,060,871
Payments on notes payable	(957,662)	(6,122,036)
Proceeds from exercise of common stock options	1,898,374	454,300
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,247,242	1,445,021
NET INCREASE IN CASH	1,213,553	20,559
CASH - beginning of period	63,310	4,780
CASH - end of period	$ 1,276,863	$ 25,339
Supplemental disclosure of cash flow information:		
Cash paid for :		
Interest	$ 402,056	$ 365,294
Income taxes		

See accompanying notes to unaudited consolidated financial statements

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - NATURE OF BUSINESS

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

- IceWEB Storage Systems
- Custom Built Appliances
- Cloud Based Software and Services

IceWEB Storage Systems

IceWEB is a provider of high performance Unified Network Storage solutions. We believe that our product offerings have broad appeal in the small to medium enterprise (SME) and federal marketplaces, and are used as core building blocks (enabling technologies) within 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 (ISP's), Managed Service Providers (MSP's), oil and gas, and health care. Our innovative storage systems deliver levels of performance, scalability, versatility and simplicity that exceed existing network storage alternatives at a significantly lower price point. Our Unified Network Storage offering is deployed as storage operating system software on our Network-Attached Storage (NAS) and Storage Area Network (SAN) systems. This IceWEB Unified Network Storage environment empowers companies to quickly and easily deploy large, complex data storage infrastructure environments; to reduce administrative costs for managing their storage by making complex technical tasks far more simple to accomplish; to reduce hardware and capital expenditure costs by more effectively using the storage within the system and repurposing older legacy hardware; to protect their business critical data by leveraging the IceWEB 5000 built-in data replication features; and to integrate with the leading server virtualization software (VMware, Citrix Xen and Microsofts HyperV) to better manage those solutions.

The IceWEB Unified Storage products replace complex and performance-limited products with high performance, scalable and easy to use systems capable of handling the most data intensive applications and environments.

Custom Built Appliances

IceWEB has been building Purpose Built Network and Data Appliances for several years. Purpose Built Network and Data Appliances are systems which provide computing resources (processors and memory), data storage, and specific software for a dedicated application. Historically, the appliance products that IceWEB has built have supported a single large business partner, ESRI Corporation. In this relationship, IceWEB and ESRI have collaborated to create a family of ultra-high performance IceWEB/ESRI Geographic Information System (GIS) appliances that give customers access to massive amounts of data with unprecedented levels of performance. IceWEB creates, builds and ships a line of GIS appliances for ESRI which includes a full set of ESRI GIS data pre-loaded on internal storage. ESRI Corporation has the responsibility for marketing these appliances to their customers and business partners via their worldwide sales and consultancy organization. IceWEB also periodically distributes updates for these GIS appliances, which is a source of recurring revenue for the Company.

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

Cloud Based Software and Services

In December 2005, IceWEB launched IceMAILTM, a software service that provides network–hosted groupware, email, calendaring and collaboration functionality. Typical customers are organizations desiring to deploy Microsoft Exchange and Outlook who wish to avoid the overhead associated with procurement, maintainence and management of their own equipment and software. These online services subsequently were expanded to include IcePORTALTM, which provides customers with a complete Intranet portal, and IceSECURETM, a hosted email encryption service. Formerly referred to as "Software as a Service" (SaaS), we refer to these hosted services today as Cloud Computing or Cloud Services. The benefits of Cloud Computing are many. First, adoption of an application, infrastructure or storage environment is available on demand requiring no capital expenditures by the customer. This represents an attractive proposition from a financial perspective. Second, this model significantly diminishes the need for the customer to retain highly-paid internal technical staff to support these traditional IT functions, freeing these critical resources to focus on tasks related to the core business. Finally, 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.

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

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

Research and development

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

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - NATURE OF BUSINESS (continued)

Intellectual Property

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

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

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

Copyright 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.

Purchase of Interest in VOIS Inc.

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

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2009 ("Form 10-K").

The unaudited consolidated financial statements contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to state fairly the Company's consolidated financial position at June 30, 2010, and the consolidated results of its operations for the three and nine months ended June 30, 2010 and 2009, and the consolidated cash flows for the three and nine months ended June 30, 2010 and 2009. The results of operations for the three and nine months ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year.

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

The Company's significant accounting policies are disclosed in the Company's Form 10-K. These financial statements consider subsequent events through the date of filing with the Securities and Exchange Commission.

Fiscal Year

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

Recent Accounting Pronouncements

Subsequent Events: In February 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-09 "Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements." ASU 2010-09 amends the subsequent events disclosure guidance. The amendments include a definition of an SEC filer, requires an SEC filer or conduit bond obligor to evaluate subsequent events through the date the financial statements are issued, and removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. ASU 2010-09 was effective upon issuance except for the use of the issued date for conduit debt obligors. The impact of ASU 2010-09 on our disclosures is reflected in Note 15 - Subsequent Events.

Fair Value Measurements and Disclosures: In January 2010, the FASB issued ASU No. 2010-06 "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements." ASU 2010-06 amends the fair value disclosure guidance. The amendments include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The impact of ASU 2010-06 on our disclosures is reflected in Note 10 - Fair Value Measurements.

Consolidations: In December 2009, the FASB issued ASU No. 2009-17 (formerly Statement No. 167), "Consolidations (Topic 810) – Improvements to Financial Reporting for Enterprises involved with Variable Interest Entities". ASU 2009-17 amends the consolidation guidance applicable to variable interest entities. The amendments to the consolidation guidance affect all entities, as well as qualifying special-purpose entities (QSPEs) that are currently excluded from previous consolidation guidance. ASU 2009-17 was effective as of the beginning of the first annual reporting period that begins after November 15, 2009. ASU 2009-17 did not have an impact on our financial condition, results of operations, or disclosures.

Accounting for Transfers of Financial Assets: In December 2009, the FASB issued ASU No. 2009-16 (formerly Statement No. 166), "Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets". ASU 2009-16 amends the derecognition accounting and disclosure guidance. ASU 2009-16 eliminates the exemption from consolidation for QSPEs and also requires a transferor to evaluate all existing QSPEs to determine whether they must be consolidated. ASU 2009-16 was effective as of the beginning of the first annual reporting period that begins after November 15, 2009. ASU 2009-16 did not have an impact on our financial condition, results of operations, or disclosures.

Reclassifications

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

Going Concern

The Company's auditors stated in their report on the consolidated financial statements of the Company for the years ended September 30, 2009 and 2008 that the Company is dependent on outside financing and has had losses since inception that raise doubt about its ability to continue as a going concern. For the nine months ended June 30, 2010, the Company had a net loss of $4,771,693 which included noncash expenses of $2,669,644. Cash used in operations totaled $2,900,065. The consolidated financial statements do not include any adjustments related to the recovery and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

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

Use of estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consists of normal trade receivables. The Company recorded a bad debt allowance of $9,000 as of June 30, 2010. Management performs ongoing evaluations of its accounts receivable. Management believes that all remaining receivables are fully collectable. Bad debt expense amounted to $0 and $0 for the three and nine months ended June 30, 2010 and 2009, respectively.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

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

Intangible Assets

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

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

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

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

Property and Equipment

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

Long-lived Assets

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

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

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

Revenue Recognition

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

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

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

Earnings per Share

We compute earnings per share in accordance with ASC Topic 260, "Earnings Per Share" (formerly SFAS No. 128, "Earnings per Share") Under the provisions of ASC Topic 260, basic earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and upon the conversion of convertible preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive. At June 30, 2010, there were options and warrants to purchase 14,126,304 shares of common stock, 626,667 shares issuable upon conversion of Series B preferred stock, and no shares of Series C preferred stock outstanding which could potentially dilute future earnings per share.

Stock-Based Compensation

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

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.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

	Estimated Life	June 30, 2010	September 30, 2009
Office equipment	5 years	$ 699,282	$ 637,920
Computer software	3 years	612,379	607,278
Furniture and fixtures	5 years	261,385	261,385
Leasehold improvements	2 - 5 years	1,026,470	1,007,250
		2,599,516	2,513,833
Less: accumulated depreciation		(2,075,397)	(1,761,671)
		$ 524,119	$ 752,162

Depreciation expense for the nine months ended June 30, 2010 and 2009 was $313,666 and $204,608 respectively.

NOTE 4 - INVENTORY

Inventory consisted of the following:

	June 30, 2010	September, 30, 2009
Raw materials	$ 91,797	$ 78,966
Work in progress	17,212	14,862
Finished goods	5,737	57,533
	114,746	151,361
Less: reserve for obsolescence	-	-
	$ 114,746	$ 151,361

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 - ACQUISITION AND DISPOSITIONS

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

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

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

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

Intangible assets acquired from Inline were assigned the following values: value of manufacturing GSA schedule with an assigned valued of $750,000 amortized straight line over five years; value of customer relationships with an assigned value of $465,450 amortized straight line over five years. Intangible assets acquired from Inline had the following unamortized values at June 30, 2010: value of manufacturing GSA schedule of $412,500; value of customer relationships of $255,998.

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

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ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 - NOTES PAYABLE

Sand Hill Finance, LLC

On December 19, 2005, the Company entered into a Financing Agreement with Sand Hill Finance, LLC pursuant to which, together with related amendments, the Company may borrow up to 80% on the Company's accounts receivable balances up to a maximum of $1,800,000. In conjunction with the acquisition of Inline Corporation in December, 2008, the lending limit on the credit facility was increased to $2,750,000. In addition, the Company and Sand Hill Finance, LLC entered into a 36 month term note agreement in the amount of $1,000,000. Amounts borrowed under the Financing Agreement are secured by a first security interest in substantially all of the Company's assets. At June 30, 2010, the principal amount due under the Financing Agreement amounted to $1,753,294.

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 $1,057,554 at June 30, 2010.

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

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

In connection with the term note, the Company issued Sand Hill Finance, LLC a seven-year common stock purchase warrant to purchase 120,000 shares of our common stock at an exercise prices $1.00 per share. The exercise price was subsequently reduced to $0.50 per share pursuant to Warrant Amendment Agreement which was executed in conjunction with the convertible debenture. The warrant contains a cashless exercise provision which means that at the option of the holder, the warrant is convertible into a number of shares of our common stock as determined by dividing the aggregate fair market value of the Company's common stock minus the aggregate exercise price of the warrant by the fair market value of one share of common stock. The number of shares issuable upon the exercise of the warrant and the exercise price are subject to adjustment in the event of stock dividends, stock splits and reclassifications. The fair value of the warrant of $13,587 has been recorded as an addition to paid-in capital and deferred finance costs during the year ended September 30, 2008.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 - NOTES PAYABLE (continued)

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 7 - EQUIPMENT FINANCING PAYABLE

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

NOTE 8 - CONCENTRATION OF CREDIT RISK

Bank Balances

The Company maintains its cash bank deposits at various financial institutions which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Company has not experienced any losses in such accounts.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 9 - INVESTMENTS

(a) Summary of Investments

The following tables summarize the Company’s investments at June 30, 2010:

JUNE 30, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Publicly traded equity securities	$ 48,000	$ 752,000	$ -	$ 800,000
Total	$ 48,000	$ 752,000	$ -	$ 800,000

(b) Gains and Losses on Investments

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

	Three Months Ended June 30		Nine months Ended June 30	
	2010	2009	2010	2009
Net gains/(loss) on investments in publicly traded equity securities	$ (1,120,000)	$ -	$ 752,000	$ -
Net gains on investments	$ (1,120,000)	$ -	$ 752,000	$ -

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

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

There were no impairment charges on investments in publicly traded equity securities for the nine months ended June 30, 2010 or for the nine months ended June 30, 2009.

The Company has evaluated its publicly traded equity securities as of June 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.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10- COMPREHENSIVE INCOME (LOSS)

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

Our other comprehensive income consists of unrealized gains on marketable securities available for sale of $752,000.

NOTE 11 – COMMITMENTS

We lease office space in Sterling, Virginia under a two-year operating lease that expires on June 30, 2011. The office lease agreement has certain escalation clauses and renewal options. Additionally, we have lease agreements for computer equipment and an office copier/fax machine. Future minimum rental payments required under these operating leases are as follows:

Years ending September 30:	
2010 (remaining three months)	$ 18,806
2011	37,611
2012	-
2013	-
2014 and thereafter	-
	$ 56,417

NOTE 12 - STOCKHOLDERS' EQUITY

On May 18, 2010 we executed an Exclusive Finders' Agreement pursuant to which the Finder acted as the exclusive Finder with respect to sales by us in a private placement transaction of up to $5 million in aggregate principal amount of Equity, Equity-related or debt securities. In the aggregaten in connection with the finders' fee agreemen, we sold 13,080,000 units in exchange for gross proceeds of $2,316,000. These sales were made in a private transaction exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of the Act and Regulation D thereunder.

Jesup & Lamont Securities Incorporated, a broker-dealer and member of FINRA, acted as finder for us in the Offering. Under the terms of a Finder's Agreement with the firm, we paid Jesup & Lamont Securities Incorporated a fee of $162,370 and issued them one-year common stock purchase warrants to purchase an aggregate of 877,100 shares of our common stock at an exercise price of $0.40 per share. In addition, we paid Jesup & Lamont Securities Incorporated legal expenses totaling $25,000 incurred in the preparation of the various transactional documents. We are using the net proceeds of this offering for general working capital.

Terms of the private placement

We offered for sale restricted stock units, each Restricted Stock Unit ("Unit") being defined as one (1) share of our Common Stock (the "Shares") and a warrant (the "Warrants") to purchase an additional 0.50 shares of our common stock. The Warrants have a term of twelve (12) months, with an exercise price of $0.40/share. The Warrant is callable by us in the event the closing price of our Common Stock on the OTCBB exchange closes above $0.50/share for ten (10)

consecutive trading days.

Under the terms of the Securities Purchase Agreement we also indemnified the purchasers and each of their officers, directors, shareholders, partners, employees, agents and control persons from any losses or damages as a result of a breach of the agreement by us or any action instituted against a purchaser by any of our shareholders who are not an affiliate of the purchasers with respect to this Offering, other than in the instance of gross negligence or fraud by the purchaser.

During the nine months ended June 30, 2010, in connection with the exercise of 24,087,800 stock options, the Company issued 24,087,800 shares of common stock for cash proceeds of $1,898,374.

During the nine months ended June 30, 2010, we issued 2,000,000 shares of common stock at a per share price of $0.042, valued at $83,000 to an accredited investor. As of June 30, 2010 the Company had not yet received the proceeds from the investor and as a result the Company recorded the subscription receivable as a contra equity account on its balance sheet. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we issued 1,000,000 shares of common stock at a per share price of $0.15, valued at $150,000 to an accredited investor as part of a settlement agreement to settle litigation. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we issued 300,000 shares of common stock at a per share price of $0.20, valued at $60,000 to an accredited investor as part of a settlement agreement to settle litigation. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we issued 150,000 shares of common stock at an average per share price of $0.269, valued at $40,285 to an accredited investor for investor relations activity. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we sold 1,000,000 shares of common stock, valued at $130,000 to a Director for $40,000, and recognized stock based compensation expense of $90,000. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we sold 1,500,000 shares of common stock at a per share price of $0.10, valued at $150,000 to an accredited investor, and the issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we issued 1,000,000 shares of common stock at a per share price of $0.17, valued at $170,000 to an accredited investor. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010 we issued 9,001,687 shares of restricted common stock at a per share price of $0.089, valued at $802,865, in lieu of pay to our employees. The issuances were exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

ICEWEB, INC. AND SUBSIDIARIES
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NOTE 12 - STOCKHOLDERS' DEFICIT (continued)

Common Stock Warrants

A summary of the status of the Company's outstanding common stock warrants as of June 30, 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	225,000	$ 1.78
Granted	7,992,100	0.40
Exercised	—	—
Forfeited	(75,000)	6.00
Balance at end of period	8,142,100	0.40
Warrants exercisable at end of period	8,142,100	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 June 30, 2010:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Price	Number Outstanding at June 30, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at June 30, 2010	Weighted Average Exercise Price
$ .20	200,000	0.82 Years	$ 0.20	200,000	$ 0.20
$ .40	7,792,100	0.9 Years	$ 0.40	7,792,100	$ 0.40
$ .50	145,000	3.59 Years	$ 0.50	145,000	$ 0.50
$ 2.00	5,000	1.06 Years	$ 2.00	5,000	$ 2.00
	8,142,100		$ 0.40	8,142,100	$ 0.40

NOTE 13 - STOCK OPTION PLAN

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

The purpose of the Plan is to advance the Company's interests and those of its stockholders by providing a means of attracting and retaining key employees, directors and consultants. In order to serve this purpose, the Company believes

the Plan encourages and enables key employees, directors and consultants to participate in its future prosperity and growth by providing them with incentives and compensation based on its performance, development and financial success. Participants in the Plan may include the Company’s officers, directors, other key employees and consultants who have responsibilities affecting our management, development or financial success.

ICEWEB, INC. AND SUBSIDIARIES
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NOTE 13 - STOCK OPTION PLAN (continued)

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:

	June 30,	
	2010	2009
Expected volatility	135% - 325%	87% - 198%
Expected term	0 - 5 Years	1 - 5 Years
Risk-free interest rate	0.03% - 0.45%	2.34% - 2.45%
Forfeiture Rate	0% - 45%	0% - 45%
Expected dividend yield	0%	0%

ICEWEB, INC. AND SUBSIDIARIES
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NOTE 13 - STOCK OPTION PLAN (continued)

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 nine months ended June 30, 2010, total stock-based compensation charged to operations for option-based arrangements amounted to$1,288,156. At June 30, 2010, there was approximately $493,907 of total unrecognized compensation expense related to non-vested option-based compensation arrangements under the Plan.

A summary of the status of the Company's outstanding stock options as of June 30, 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 period	10,944,483	$ 0.27
Granted	25,750,000	0.08
Exercised	(24,087,800)	0.08
Forfeited	(549,479)	0.22
Balance at end of period	12,057,204	$ 0.27
Options exercisable at end of period	9,775,937	$ 0.30
Weighted average fair value of options granted during the year		$ 0.08

The following table summarizes information about employee stock options outstanding at June 30, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at June 30, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at June 30, 2010	Weighted Average Exercise Price
$ 0.001- $ 0.25	8,072,200	1.52 Years	$ 0.11	5,997,933	$ 0.11
0.30-0.48	695,000	1.39 Years	0.43	535,600	0.45
0.51-0.60	2,475,004	2.15 Years	0.58	2,427,554	0.59
0.61-0.80	815,000	1.34 Years	0.68	814,850	0.70
	12,057,204		$ 0.24	9,775,937	$ 0.30

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - SEGMENT REPORTING

Although the Company has two 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 June 30, 2010 and 2009 all material assets and revenues of the Company were in the United States.

NOTE 15 – SUBSEQUENT EVENTS

For purposes of determining whether a post-balance sheet event should be evaluated to determine whether it has an effect on the financial statements for the three months ended June 30, 2010, subsequent events were evaluated by the Company through the date the unaudited consolidated financial statements for the three months ended June 30, 2010, were issued.

No recognized or non-recognized subsequent events were noted.

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 and nine months ended June 30, 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 2009, the Company has three key product offerings:

- IceWEB 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.

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On June 30, 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 AND NINE MONTHS ENDED JUNE 30, 2010 COMPARED TO THE THREE AND NINE MONTHS ENDED JUNE 30, 2009

The following table provides an overview of certain key factors of our results of operations for the three and nine months ended June 30, 2010 as compared to the three and nine months ended June 30, 2009:

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	2010	2009
Net Revenues	$ 1,203,878	$ 826,182	$ 2,815,900	$ 3,936,472
Cost of sales	613,287	404,641	1,343,006	2,478,707
Operating Expenses:				
Marketing and selling	404,443	357,596	1,189,661	864,184
Depreciation and amortization	165,585	85,793	495,984	432,839
Research and development	167,061	94,020	353,092	250,450
General and administrative	1,130,005	688,154	3,783,654	1,739,492
Total operating expenses	1,867,094	1,225,563	5,822,391	3,286,965
Loss from operations	(1,276,503)	(804,022)	(4,349,497)	(1,829,200)
Total other income (expense)	(147,240)	(144,884)	(422,196)	2,943,200
Net income (loss)	$ (1,423,743)	$ (948,906)	$ (4,771,693)	$ 1,114,000

Other Key Indicators:

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	2010	2009
Cost of sales as a percentage of revenues	50.94%	48.98%	47.69%	62.97%
Gross profit margin	49.06%	51.02%	52.31%	37.03%
General and administrative expenses as a percentage of revenues	93.86%	83.29%	134.37%	44.19%
Total operating expenses as a percentage of revenues	155.09%	148.34%	206.77%	83.50%

Nine Month Period ended June 30, 2010

Revenues

For the nine months ended June 30, 2010, we reported revenues of $2,815,900 as compared to revenues of $3,936,472 for the nine months ended June 30, 2009, a decrease of $1,120,572 or approximately 28.5%. The decrease is primarily due to the Company’s focus on our high margin data storage business unit and the related decrease in our third party product sales through IceWEB Solutions Group. Storage revenue accounted for approximately 94.7% of our revenue for the nine month period ended June 30, 2010 as compared to 53% in the year-ago period.

Cost of Sales

Our cost of sales consists primarily of component parts for the manufacture of our storage products. For the nine months ended June 30, 2010, cost of sales was $1,343,006, or approximately 47.7% of revenues, compared to $2,478,707, or approximately 63% of revenues, for the nine months ended June 30, 2009. The decrease in costs of sales as a percentage of revenue and the corresponding increase in our gross profit margin for the nine months ended June 30, 2010 as compared to the nine months ended June 30, 2009 was the result of improved mix of higher margin storage products during the nine months ended June 30, 2010 as a percentage of total revenue. We anticipate that our gross profit margins will continue to improve through the balance of fiscal 2010.

Total Operating Expenses

Our total operating expenses increased approximately 77% to $5,822,391for the nine months ended June 30, 2010 as compared to $3,286,965 for the nine months ended June 30, 2009. These changes include:

- Sales and marketing expense. Sales and marketing expense includes salaries, commission, occupancy, telephone, travel, and entertainment expenses for direct sales personnel. For the nine months ended June 30, 2010, sales and marketing costs were $1,189,661 as compared to $864,184 for the nine months ended June 30, 2009, an increase of $325,477or approximately 38%. The increase was due primarily to hiring additional sales and marketing personnel to support our channel distribution sales and marketing approach during the nine months ended June 30, 2010.

- Depreciation and amortization expense. For the nine months ended June 30, 2010, depreciation and amortization expense amounted to $495,894 as compared to $432,839 for the nine months ended June 30, 2009, an increase of $63,145 or 15%.

- Research and Development. For the nine months ended June 30, 2010, research and development costs were $353,092 as compared to $250,450 for the nine months ended June 30, 2009, an increase of $102,642 or approximately 41%.

- General and administrative expense. For the nine months ended June 30, 2010, general and administrative expenses were $3,783,654 as compared to $1,739,492 for the nine months ended June 30, 2009, an increase of $2,044,162 or approximately 118%. For the nine months ended June 30, 2010 and 2009 general and administrative expenses consisted of the following:

	Fiscal Q3 2010	Fiscal Q3 2009
Occupancy	$ 16,065	$ 21,383
Consulting	172,872	70,415
Employee compensation	2,958,365	1,324,193
Professional fees	175,120	137,602
Internet/Phone	8,575	31,272
Travel/Entertainment	24,374	3,399
Investor Relations	265,337	49,278
Insurance	34,761	26,889
Other	128,185	75,061
	$ 3,783,654	$ 1,739,492

- For the nine months ended June 30, 2010, Occupancy expense decreased to $16,065 as compared to $21,383. Occupancy expense is lower due to the Company's relocation to its manufacturing facility in Sterling, Virginia.

- For the nine months ended June 30, 2010, Consulting expense increased to $172,872 as compared to $70,415. Consulting expense increased primarily as a result of recruiting costs incurred to hire engineering, sale and marketing personnel.

- For the nine months ended June 30, 2010, salaries and related expenses increased to $2,958,365 as compared to $1,324,193, an increase of $$1,634,172. The increase is due primarily to an increase in non-cash compensation expense of $1,779,332.

- For the nine months ended June 30, 2010, Professional fees expense increased to $175,120 as compared to $137,602. Professional fees expense increased due to increase costs related to intellectual property patent applications and other legal fees.

- For the nine months ended June 30, 2010, travel and entertainment expense increased to $24,374 as compared to $3,399. This increase is primarily due to the increased travel by senior management related to business development activities and investor relations.

- For the nine months ended June 30, 2010 Other expense amounted to $128,185 as compared to $75,061for the nine months ended June 30, 2009, an increase of $53,124.

- For the nine months ended June 30, 2010 Investor relations expense increased to $265,337 as compared to $49,278 for the nine months ended June 30, 2009. The increase is due to increased investor relations activity.

We anticipate that general and administrative expenses will decline for the balance of fiscal 2010, as we expect to incur lower of share-based expenses.

LOSS FROM OPERATIONS

We reported a loss from operations of $4,349,497 for the nine months ended June 30, 2010 as compared to a loss from operations of $1,829,200 for the nine months ended June 30, 2009, an increased loss of $2,520,297 or approximately 137.8%.

OTHER INCOME (EXPENSES)

Gain from sale of subsidiary. The gain on sale of subsidiary of $3,452,236 resulted from the sale of IceWEB Virginia, Inc. in March, 2009. We did not have a similar transaction in the nine month period ended June 30, 2010.

Interest Income. We did not earn any interest income for the nine months ended June 30, 2010, as compared to interest income of $1,142 in the nine month period ended June 30, 2009. Interest income represented interest earned on interest bearing cash accounts.

Interest Expense. For the nine months ended June 30, 2010, interest expense amounted to $422,196 as compared to $510,178 for the nine months ended June 30, 2009, a decrease of $87,982 or 17.2%. The decrease in interest expense is primarily attributable to the decrease in borrowings and certain interest bearing liabilities related to our notes payable. Also, during the nine months ended June 30, 2010, we amortized deferred financing costs of $13,265, as compared to $40,233 during the nine months ended June 30, 2009.

NET INCOME/ LOSS

Our net loss was $4,771,693 for the nine months ended June 30, 2010 compared to net income of $1,114,000 for the nine months ended June 30, 2009.

Three Month Period ended June 30, 2010

Revenues

For the three months ended June 30, 2010, we reported revenues of $1,203,878 as compared to revenues of $826,182 for the three months ended June 30, 2009, a decrease of $377,696 or approximately 45.7%. The decrease is primarily due to the Company's focus on our high margin data storage business unit and the related decrease in our third party product sales through IceWEB Solutions Group. For the three months ended June 30, 2010, storage revenue accounted for approximately 95% of our revenue as compared to 66% of our revenue during the three months ended June 30, 2009.

Cost of Sales

Our cost of sales consists of component parts for the manufacture of our storage products. For the three months ended June 30, 2010, cost of sales was $613,287, or approximately 51% of revenues, compared to $404,641, or approximately 49% of revenues, for the three months ended June 30, 2009. The decrease in costs of sales as a percentage of revenue and the corresponding increase in our gross profit margin for the three months ended June 30, 2010 as compared to the three months ended June 30, 2009 was the result of improved mix of higher margin storage products during the three months ended June 30, 2010 as a percentage of total revenue.

Total Operating Expenses

Our total operating expenses increased approximately 52.3% to $1,867,094 for the three months ended June 30, 2010 as compared to $1,225,563 for the three months ended June 30, 2009. These changes include:

• Sales and marketing expense. For the three months ended June 30, 2010, sales and marketing expenses were $404,443 as compared to $357,596 for the three months ended June 30, 2009, an increase of $46,847 or approximately 13.1%. The increase was due to increased headcount and sales and marketing expense related to the roll-out of our channel sales program during the three months ended June 30, 2010.

• Depreciation and amortization expense. For the three months ended June 30, 2010, depreciation and amortization expense amounted to $165,585 as compared to $85,793 for the three months ended June 30, 2009, an increase of $79,792 or 93%.

• General and administrative expense. For the three months ended June 30, 2010, general and administrative expenses were $1,130,005 as compared to $688,154 for the three months ended June 30, 2009, an increase of $441,851 or approximately 64.2%. For the three months ended June 30, 2010 and 2009 general and administrative expenses consisted of the following:

	Fiscal Q3 2010	Fiscal Q3 2009
Occupancy	$ 5,403	$ 13,517
Consulting	89,969	10,273
Employee compensation	593,657	461,258
Professional fees	120,571	123,408
Internet/Phone	3,427	5,551
Travel/Entertainment	23,858	3,400
Investor Relations	235,374	29,500
Insurance	10,808	6,000
Other	46,938	35,247
	$ 1,130,005	$ 688,154

· For the three months ended June 30, 2010, Occupancy expense increased to $5,403 as compared to $13,517.

· For the three months ended June 30, 2010, Consulting expense increased to $89,969 as compared to $10,273, an increase of $79,696 or 775.8%. Consulting expense increased as a result of increased support costs for internal accounting systems.

· For the three months ended June 30, 2010, salaries and related expenses increased to $593,657 as compared to $461,258, an increase of $132,399. The increase is due primarily to an increase in non-cash compensation expense of $25,420, which is comprised of increased stock-based compensation expense, and higher salaries.

· For the three months ended June 30, 2010, Professional fees expense decreased to $120,571 as compared to $123,408. Professional fees expense increased primarily as a result of legal fees incurred related to business development and on-going litigation activities.

· For the three months ended June 30, 2010, travel and entertainment expense increased to $23,858 as compared to $3,400. Travel and entertainment expense increased due to increased business development and investor relations activity.

· For the three months ended June 30, 2010 Other expense amounted to $46,938 as compared to $35,247 for the three months ended June 30, 2009, an increase of $11,691. The increase was due primarily to increase hosting fees and other headcount related expenses, as we have added resources to support our channel sales strategy.

· For the three months ended June 30, 2010 Investor relations expense increased to $235,374 as compared to $29,500 for the three months ended June 30, 2009.

LOSS FROM OPERATIONS

We reported a loss from operations of $1,276,503 for the three months ended June 30, 2010 as compared to a loss from operations of $804,022 for the three months ended June 30, 2009, an increase of $472,481or approximately 58.8%.

OTHER INCOME (EXPENSES)

Interest Expense. For the three months ended June 30, 2010, interest expense amounted to $147,240 as compared to $144,884 for the three months ended June 30, 2009, an increase of $2,356.

NET INCOME/ LOSS

Our net loss was $1,423,743 for the three months ended June 30, 2010 compared to a net loss of $948,906 for the three months ended June 30, 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 June 30, 2010 and September 30, 2009:

	June 30, 2010	September 30, 2009	$ Change	% Change
Working Capital	$ (564,456)	$ (3,158,232)	$ 2,593,776	(82.1%)
Cash	1,276,863	63,310	1,213,553	1916.9%
Marketable Securities	800,000	-	800,000	N/A
Accounts receivable, net	1,691,605	424,919	1,266,686	298.1%
Inventory	114,746	151,361	(36,615)	(24.2%)
Total current assets	3,139,508	671,160	2,468,348	367.8%
Property and equipment, net	524,119	752,162	(228,043)	(30.3%)
Intangibles, net	607,725	790,042	(182,317)	(23.1%)
Total assets	$ 5,084,672	$ 2,226,684	$ 2,857,988	128.4%
Accounts payable and accrued liabilities	1,903,186	1,971,376	(68,190)	(3.5%)
Notes payable-current	1,753,194	1,847,755	(94,561)	(5.1%)
Deferred revenue	47,584	10,261	37,323	363.7%
Total current liabilities	3,703,964	3,829,392	(125,428)	(3.3%)
Notes payable-long term	1,057,554	934,756	122,798	13.1%
Total liabilities	4,761,518	4,764,148	(2,630)	(0.1%)
Accumulated deficit	(27,430,251)	(22,658,558)	(4,771,693)	21.1%
Stockholders' deficit	323,154	(2,537,464)	2,860,618	(112.7%)

Net cash used in operating activities was $2,900,065 for the nine months ended June 30, 2010 as compared to net cash used in operating activities of $1,396,144 for the nine months ended June 30, 2009, an increase of $1,563,921. For the nine months ended June 30, 2010, we had a loss of $1,423,743 offset by non-cash items such as depreciation and amortization expense of $495,984, share-based compensation expense of $2,181,020, amortization of deferred finance costs of $7,360, and decreases from changes in assets and liabilities of $798,017. During the nine months ended June 30, 2010 we experienced an increase in accounts receivable of $1,266,686, and a decrease in accounts payable during the period of $412,095. For the nine months ended June 30, 2009, we had net income of $1,114,000 and non-cash items such as depreciation and amortization expense of $432,839, share-based compensation expense of $855,357, amortization of deferred finance costs of $21,108, offset by the gain on sale of our IceWEB Virginia subsidiary in the amount of $3,398,671, and decreases from changes in assets and liabilities of $457,278. During the nine months ended June 30, 2009 we experienced a decrease in accounts receivable of $2,234,488, which was offset by a decrease in accounts payable during the period of $2,953,466. For the nine months ended June 30, 2008, we used cash to fund our net loss of $4,540,382 offset by non-cash items such as depreciation and amortization expense of $409,261, share-based compensation expense of $1,873,089, and offset by changes in assets and liabilities of $806,470.

Net cash used in investing activities for the nine months ended June 30, 2010 was $133,624 as compared to net cash used in investing activities of 28,318 for the nine months ended June 30, 2009. During the nine months ended June 30, 2010, we used cash of $85,624 for property and equipment purchases and $48,000 to acquire 160,000,000 shares of VOIS Inc. common stock. During the nine months ended June 30, 2009, we used cash of $28,318 for property and equipment purchases.

Net cash provided by financing activities for the nine months ended June 30, 2010 was $4,247,242 as compared to net cash provided of $1,445,021 for the nine months ended June 30, 2009. For the nine months ended June 30, 2010, net cash provided by financing activities related to proceeds received from the sale of restricted stock of $2,320,630, proceeds from notes payable of $985,900 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of $1,898,374, and proceeds from the sale of restricted stock of $2,320,630, offset by repayments on notes payable of $957,662 which were to pay down the balance on the Sand Hill Finance LLC factoring line. For the nine months ended June 30, 2009, net cash provided by financing activities related to proceeds received from notes payable of $7,060,871 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of $454,300, and proceeds from the sale of common stock of $97,000, offset by repayments on notes payable of $(6,122,036) which were to pay down the balance on the Sand Hill Finance LLC factoring line, and repayments of equipment financing of $45,114.

At June 30, 2010 we had a working capital deficit of $564,456 and an accumulated deficit of $27,430,251. The report from our independent registered public accounting firm on our audited financial statements for the fiscal year ended September 30, 2009 contained an explanatory paragraph regarding doubt as to our ability to continue as a going concern as a result of our net losses in operations. While our sales decreased significantly during the nine months ended June 30, 2010, our gross profit margin was approximately 52% and our sales were not sufficient to pay our operating expenses. We reported a net loss of $4,771,693 for the nine months ended June 30, 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 June 30, 2010 we had cash on hand of$1,276,863. 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 June 30, 2010 we owed Sand Hill Finance, LLC $1,753,194 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. 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. These covenants 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.

Recent Accounting Pronouncements

None.

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 in providing reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and that such information is accumulated and communicated to our management, including our CEO and CFO to allow timely decisions regarding required disclosure.

As disclosed in our Annual Report on Form 10-K for the year ended September 30, 2009 our management had previously concluded that our disclosure controls and procedures were not effective as a result of material weaknesses in our internal controls over financial reporting. Our management had concluded that our internal controls over financial reporting were not effective as a result of insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements as well as ineffective controls over period end financial disclosure and reporting processes. In order to remediate these material weaknesses, beginning in our fiscal second quarter, we have hired additional staff, and prepared and

implemented additional written policies and checklists setting forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements, including:

- Implementation of policies that improve the documentation, review, and approval of the calculation of stock option expense, and
- Implementation of additional controls over inventory management

As a result of these remediation efforts, our management was able to determine at the evaluation date that our disclosure controls and procedures were effective.

Changes in internal control over financial reporting. There have been no changes to internal controls over financial reporting during the three months ended June 30, 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

At June 30, 2010 we are the subject of, or party to, three known, pending or threatened, legal actions. As of the date of this report on Form 10-Q, none of the legal proceedings have been resolved. Following is a discussion of each:

1. We were named as the defendant in a legal proceeding brought by Charles Rothermel (the plaintiff) in the Equal Opportunity Commission. The plaintiff asserts that Iceweb discriminated against him on the basis of age. The case was filed on May 22, 2009. Plaintiff seeks reinstatement to his job.

2. We were named as the defendant in a legal proceeding brought by FCN, Inc. (the plaintiff) in the Circuit Court for Montgomery County, Maryland. The plaintiff asserts that Iceweb failed to pay certain invoices for goods or services. FCN prevailed in the Circuit Court and this claim is being appealed to the Court of Special Appeals. The case was filed July 21, 2009. Plaintiff sought $114,038.82.

3. We were named as the defendant in a legal proceeding brought by Charles Rothermel (the plaintiff) in the Circuit Court of Loudoun County, Virginia. The plaintiff asserts that Iceweb failed to pay certain commissions and salary payments and is seeking $59,065.16. We have filed counterclaims to this claim. The case was filed December 12, 2009.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We do not expect that the identified legal proceedings, individually, or in the aggregate, will have a material adverse impact on our company's financial condition, results of operations, or liquidity.

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, 2009, which could materially affect our business operations, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business operations and/or financial condition. There have been no material changes to our risk factors since the filing of our Form 10-K.

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

On May 18, 2010 we executed an Exclusive Finders' Agreement pursuant to which the Finder acted as the exclusive Finder with respect to sales by us in a private placement transaction of up to $5 million in aggregate principal amount of Equity, Equity-related or debt securities. We sold 13,080,000 units in exchange for gross proceeds of $2,316,000. These sales were made in a private transaction exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of the Act and Regulation D thereunder.

Jesup & Lamont Securities Incorporated, a broker-dealer and member of FINRA, acted as finder for us in the Offering. Under the terms of a Finder's Agreement with the firm, we paid Jesup & Lamont Securities Incorporated a fee of $162,370 and issued them one-year common stock purchase warrants to purchase an aggregate of 877,100 shares of our common stock at an exercise price of $0.40 per share. In addition, we paid Jesup & Lamont Securities Incorporated legal expenses totaling $25,000 incurred in the preparation of the various transactional documents. We are using the net proceeds of this offering for general working capital.

Terms of the private placement

We offered for sale restricted stock units, each Restricted Stock Unit ("Unit") being defined as one (1) share of our Common Stock (the "Shares") and a warrant (the "Warrants") to purchase an additional 0.50 shares of our common stock. The Warrants have a term of twelve (12) months, with an exercise price of $0.40/share. The Warrant is callable by us in the event the closing price of our Common Stock on the OTCBB exchange closes above $0.50/share for ten (10) consecutive trading days.

Under the terms of the Securities Purchase Agreement we also indemnified the purchasers and each of their officers, directors, shareholders, partners, employees, agents and control persons from any losses or damages as a result of a breach of the agreement by us or any action instituted against a purchaser by any of our shareholders who are not an affiliate of the purchasers with respect to this Offering, other than in the instance of gross negligence or fraud by the purchaser.

During the nine months ended June 30, 2010, we issued 2,000,000 shares of common stock at a per share price of $0.042, valued at $83,000 to an accredited investor. As of June 30, 2010 the Company had not yet received the proceeds from the investor and as a result the Company recorded the subscription receivable as a contra equity account on its balance sheet. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we issued 1,000,000 shares of common stock at a per share price of $0.15, valued at $150,000 to an accredited investor as part of a settlement agreement to settle litigation. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we issued 300,000 shares of common stock at a per share price of $0.20, valued at $60,000 to an accredited investor as part of a settlement agreement to settle litigation. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we issued 150,000 shares of common stock at an average per share price of $0.269, valued at $40,285 to an accredited investor for investor relations activity. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we sold 1,000,000 shares of common stock, valued at $130,000 to a Director for $40,000, and recognized stock based compensation expense of $90,000. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we sold 1,500,000 shares of common stock at a per share price of $0.10, valued at $150,000 to an accredited investor, and the issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010, we issued 1,000,000 shares of common stock at a per share price of $0.17, valued at $170,000 to an accredited investor. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the nine months ended June 30, 2010 we issued 9,001,687 shares of restricted common stock at a per share price of $0.089, valued at $802,865, in lieu of pay to our employees. The issuances were exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

* Filed herein

SIGNATURES

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

ICEWEB, INC.

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

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