ICEWEB INC
Form 10-Q
May 16, 2011

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 March 31, 2011

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 small business issuer as specified in its charter)

Delaware	**13-2640971**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

22900 Shaw Road, Suite 111

Sterling, VA 20166

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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 May 16, 2011, there were 145,017,061 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, believe, project, contemplate, would, should, could, or may. With respect to any forward-looking statemen 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 March 31, 2011

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ICEWEB, Inc.

Consolidated Balance Sheets

	March 31, 2011 (Unaudited)	September 30, 2010[1]
CURRENT ASSETS:		
Cash	$ 42,259	$ 540,156
Accounts receivable, net	2,173,588	1,529,852
Inventory	84,252	62,197
Other current assets	20,624	6,875
Prepaid expenses	40,150	31,230
	2,360,875	2,170,310
OTHER ASSETS:		
Property and equipment, net	262,344	418,873
Deposits	13,320	13,320
Marketable Securities	172,800	524,800
Intangible assets, net	425,407	546,952
Total Assets	$ 3,234,745	$ 3,674,255
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 2,173,786	$ 1,711,621
Notes payable	1,776,133	1,649,140
Deferred revenue	27,124	59,582
	3,977,043	3,420,343
Total Liabilities	3,977,043	3,420,343
Stockholders' Equity (Deficit)		
Series B convertible preferred stock ($.001 par value; 626,667 shares issued and outstanding)	626	626
Common stock ($.001 par value; 1,000,000,000 shares authorized; 142,912,886 shares issued and 142,750,386 shares outstanding)	142,752	134,445
Additional paid in capital	30,598,377	29,360,833
Accumulated deficit	(31,512,853)	(29,622,792)
Accumulated other comprehensive income	124,800	476,800
Subscription receivable	(83,000)	(83,000)
Treasury stock, at cost, (162,500 shares)	(13,000)	(13,000)

Total stockholders' equity (deficit)		(742,298)		253,912
Total Liabilities and Stockholders Equity (Deficit)	$	3,234,745	$	3,674,255

(1) Derived from audited financial statements

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Sales	$ 1,116,585	$ 1,011,205	$ 1,794,437	$ 1,612,022
Cost of sales	585,858	456,094	936,515	729,718
Gross profit	530,727	555,111	857,922	882,304
Operating expenses:				
Sales and marketing	319,322	472,359	774,344	785,217
Depreciation and amortization expense	127,177	162,926	293,794	330,399
Research and development expense	153,642	105,745	359,768	185,311
General and administrative	464,457	1,560,401	1,121,823	2,654,370
Total Operating Expenses	1,064,598	2,301,431	2,549,729	3,955,297
Loss from operations	(533,871)	(1,746,320)	(1,691,806)	(3,072,993)
Other income (expenses):				
Interest expense	(100,376)	(141,995)	(198,256)	(274,956)
Total other expenses:	(100,376)	(141,995)	(198,256)	(274,956)
Net loss	$ (634,247)	$ (1,888,315)	$ (1,890,063)	$ (3,347,949)
Basic and diluted loss per common share	$ (0.00)	$ (0.02)	$ (0.01)	$ (0.04)
Basic and diluted weighted average common shares outstanding	140,456,142	88,205,555	138,429,677	83,652,224

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended March 31, 2011		Six Months Ended March 31, 2010	
NET CASH USED IN OPERATING ACTIVITIES	$	(1,456,279)	$	(1,431,078)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment in marketable securities				(48,000)
Purchase of property and equipment		(15,720)		(37,444)
NET CASH USED IN INVESTING ACTIVITIES		(15,720)		(85,444)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from the sale of restricted common stock		225,000		490,000
Proceeds from notes payable		628,428		799,460
Proceeds from exercise of common stock options		622,109		1,122,134
Payments on notes payable		(501,435)		(811,082)
NET CASH PROVIDED BY FINANCING ACTIVITIES		974,102		1,600,512
NET INCREASE (DECREASE) IN CASH		(497,897)		83,990
CASH - beginning of period		540,156		63,310
CASH - end of period	$	42,259	$	147,300
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest	$	198,225	$	274,956
Income taxes				

See accompanying notes to unaudited consolidated financial statements

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

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).

A unified storage system simultaneously enables storage of file data and handles the block-based I/O (input/output) of enterprise applications. We believe one advantage of unified storage is reduced hardware requirements. Instead of separate storage platforms, like NAS for file-based storage and a RAID (Redundant Array of Independent Disks) disk array for block-based storage, unified storage combines both modes in a single device. Alternatively, a single device could be deployed for either file or block storage as required.

In addition to lower capital expenditures for the enterprise, unified storage systems can also be simpler to manage than separate products. The IceWEB Storage System offers one platform for file and block data of all kinds**.** The IceWEB Storage System is an all-inclusive storage management system which includes de-duplication; unlimited snapshots; thin provisioning; local or remote, real-time or scheduled replication; capacity and utilization reporting, and integration with virtual server environments. Unified storage systems enjoy the same level of reliability as dedicated file or block storage systems.

We generate revenues from the manufacture and sale of high-performance unified data storage products, data storage appliances and servers, and the sale of software services.

<u>IceWEB Storage Systems</u>

IceWEB is a provider of high performance Unified Network Storage solutions. 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 Microsoft's 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, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

NOTE 1 - NATURE OF BUSINESS (continued)

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.

Cloud Based Software and Services

In December 2005, IceWEB launched IceMAIL™, a software service that provides network hosted groupware, email, calendaring and collaboration functionality. Typical customers are organizations that desire to deploy Microsoft Exchange and Outlook and who want to avoid the overhead associated with procurement, maintenance and management of their own equipment and software. These online services subsequently were expanded to include IcePORTAL™, which provides customers with a complete Intranet portal, and IceSECURE™, 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.

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.

Merger with United Strategies, Inc./ProMark

On March 4, 2011, the Company executed a definitive merger agreement with United Strategies, Inc. (USI). USI, along with its wholly owned subsidiary, Promark Technology, Inc. is a privately held U.S. company recognized as a well established premier value added distributor of data products and solutions.

Pursuant to the terms of the transaction, IceWEB will pay the selling shareholders of USI total consideration of approximately $10,778,950. Based on USI s historical financial performance, it is expected to contribute approximately $100 million in revenues to IceWEB in the coming calendar year. The merger is expected to close in the fiscal 3rd quarter ending June 30, 2011.

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

March 31, 2011

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

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and with the instructions to Securities and Exchange Commission (SEC) Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all the information and footnote disclosures required by GAAP for complete financial statements. For further information, these financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company s Annual Report on Form 10-K (File No. 000-27865) for the year ended September 30, 2010 (Form 10-K).

The unaudited consolidated financial statements contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to state fairly the Company s consolidated financial position at March 31, 2011, and the consolidated results of its operations for the three and six months ended March 31, 2011 and 2010, and the consolidated cash flows for the six months ended March 31, 2011 and 2010. The results of operations for the three and six months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year.

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

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 2011, for example, refer to the fiscal year ending September 30, 2011.

Fair value of financial instruments

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

Marketable Securities

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

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheets and the reported amounts of sales and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, the valuation of stock-based compensation, the allowance for inventory obsolescence and the useful life of property and equipment and intangible assets, and litigation reserves.

Cash and Cash Equivalents

We consider all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Inventory

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

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ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

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

Property and Equipment

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

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.

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to fiscal 2011 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, 2010 and 2009 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 six months ended March 31, 2011, the Company had a net loss of $1,890,063 which included noncash expenses of $631,068. Cash used in operations totaled $1,456,279. 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.

Accounts Receivable

Accounts receivable consists of normal trade receivables. The Company recorded a bad debt allowance of $409,000 as of March 31, 2011. 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 six months ended March 31, 2011 and 2010, respectively.

Intangible Assets

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

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

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

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

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

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

Property and Equipment

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

Long-lived Assets

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

Revenue Recognition

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

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

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

Earnings per Share

We compute earnings per share in accordance with ASC Topic 260, Earnings Per Share (formerly SFAS No. 128, Earnings per Share) under the provisions of ASC Topic 260, basic earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and upon the conversion of convertible preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive. At March 31, 2011, 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.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

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

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

Recent Accounting Pronouncements

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

	Estimated Life		March 31, 2011		September 30, 2010
Office equipment	5 years	$	715,002	$	699,282
Computer software	3 years		612,379		612,379
Furniture and fixtures	5 years		261,385		261,385
Leasehold improvements	2 - 5 years		1,026,470		1,026,470
			2,615,236		2,599,516
Less: accumulated depreciation			(2,352,892)		(2,180,643)
		$	262,344	$	418,873

Depreciation expense for the six months ended March 31, 2011 and 2010 was $172,249 and $208,854 respectively.

NOTE 4 - INVENTORY

Inventory consisted of the following:

		March 31, 2011		September, 30, 2010
Raw materials	$	67,402	$	49,757
Work in progress		12,638		9,330
Finished goods		4,213		3,110
	$	84,253	$	62,197

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

NOTE 5 - NOTES PAYABLE

Sand Hill Finance, LLC

On December 19, 2005, the Company entered into a Financing Agreement with Sand Hill Finance, LLC pursuant to which, together with related amendments, the Company may borrow up to 80% on the Company s accounts receivable balances up to a maximum of $1,800,000. In conjunction with the acquisition of Inline Corporation in December, 2008, the lending limit on the credit facility was increased to $2,750,000. In addition, the Company and Sand Hill Finance, LLC entered into a 36 month term note agreement in the amount of $1,000,000. Amounts borrowed under the Financing Agreement are secured by a first security interest in substantially all of the Company s assets. At March 31, 2011, the principal amount due under the Financing Agreement amounted to $1,776,133.

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.

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

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

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

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

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

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

NOTE 5 - NOTES PAYABLE (continued)

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

NOTE 6 - CONCENTRATION OF CREDIT RISK

Bank Balances

The Company maintains its cash bank deposits at various financial institutions which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2010, the Company had no balances in excess of FDIC insured limits. The Company has not experienced any losses in such accounts.

One customer accounted for 76% of net sales for the six months ended March 31, 2011. One customer accounted for 42% of net sales for the six months ended March 31, 2010.

One customer s accounts receivable balance accounted for 99% of net accounts receivable at March 31, 2011. Two customers accounts receivable balances accounted for 28% and 22% of net accounts receivable at March 31, 2010.

NOTE 7 - INVESTMENTS

(a) Summary of Investments

Marketable Equity Securities:

As of March 31, 2011, the Company s investments in marketable equity securities are based on the March 31, 2011 stock price as reflected on the OTCBB stock exchange , reduced by a discount factor if those shares have selling restrictions. These marketable equity securities are summarized as follows:

March 31, 2011		**Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Fair Value**
Publicly traded equity securities	$	48,000	$	124,800	$		$	172,800
Total	$	48,000	$	124,800	$		$	172,800

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

(b) Gains and Losses on Investments

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

	Six Months Ended March 31,			
		2011		**2010**
Net losses on investments in publicly traded equity securities	$	(352,000)	$	
Net losses on investments	$	(352,000)	$	

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

NOTE 7 - INVESTMENTS (continued)

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

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

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

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

Investment Measured at Fair Value on a Recurring Basis:

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets	**Significant Other Observable Inputs**	**Significant Unobservable Inputs (Level 3)**

	(Level 1)	(Level 2)		
Marketable Equity Securities, net of discount for effect of restriction	$	$	$	172,800

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

Under the guidance of ASC 320, Investments , we periodically evaluate other-than-temporary impairment (OTTI) of securities to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term other-than-temporary is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized. In the assessment of OTTI for various securities at September 30, 2010 the guidance in ASC 320, the Investment-Debt and Equity Securities, is carefully followed.

There were no impairment charges on investments in publicly traded equity securities for the six months ended March 31, 2011 or 2010.

The Company has evaluated its publicly traded equity securities as of March 31, 2011, 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

March 31, 2011

NOTE 8 - COMPREHENSIVE INCOME (LOSS)

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

Our other comprehensive income consists of unrealized gains on marketable securities available for sale of $124,800 at March 31, 2011, and $476,800 at September 30, 2010.

NOTE 9 - COMMITMENTS

We are on a month to month tenancy in our office space in Sterling, Virginia, as our two-year operating lease that expired on March 31, 2011. The office lease agreement has certain escalation clauses and renewal options. We currently have no future minimum rental payments under operating leases.

NOTE 10 - STOCKHOLDERS DEFICIT

During the six months ended March 31, 2011, in connection with the exercise of 5,081,085 stock options, the Company issued 5,081,085 shares of common stock for cash proceeds of $622,109.

During the six months ended March 31, 2011, we issued 2,250,000 shares of common stock at a per share price of $0.10, valued at $225,000 to three accredited investors. These issuances were exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

During the six months ended March 31, 2011 we issued 1,175,646 shares of restricted common stock at an average per share price of $0.1846, valued at $217,000, as compensation to our employees. These issuances were exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

Common Stock Warrants

A summary of the status of the Company s outstanding common stock warrants as of March 31, 2011 and changes during the period ending on that date is as follows:

	Number of Warrants		**Weighted Average Exercise Price**
Common Stock Warrants			
Balance at beginning of year	8,287,100	$	0.40
Granted	500,000		0.40
Exercised			
Forfeited			
Balance at end of period	8,787,100	$	0.40
Warrants exercisable at end of period	8,787,100	$	0.40
Weighted average fair value of warrants granted or re-priced during the period		$	0.40

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

NOTE 10 - STOCKHOLDERS DEFICIT (continued)

The following table summarizes information about common stock warrants outstanding at March 31, 2011:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Price	Number Outstanding at March 31, 2011	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at March 31, 2011	Weighted Average Exercise Price
$ 0.20	200,000	0.07 Years	$ 0.20	200,000	$ 0.20
$ 0.40	8,292,100	0.19 Years	$ 0.40	8,292,100	$ 0.40
$ 0.50	290,000	2.53 Years	$ 0.50	290,000	$ 0.50
$ 2.00	5,000	0.31 Years	$ 2.00	5,000	$ 2.00
	8,787,100		$ 0.40	8,787,100	$ 0.40

NOTE 11 - STOCK OPTION PLAN

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

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

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

As amended in October, 2009, the Plan permits the grant of options and shares for up to 60,000,000 shares of the Company s common stock. The Plan terminated in August, 2010.

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:

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

NOTE 11 - STOCK OPTION PLAN (continued)

	March 31,	
	2011	**2010**
Expected volatility	135% - 325%	135% - 325%
Expected term	0 - 5 Years	0 - 5 Years
Risk-free interest rate	0.03%	0.03%
Forfeiture Rate	0% - 45%	0% - 45%
Expected dividend yield	0%	0%

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

For the six months ended March 31, 2011, total stock-based compensation charged to operations for option-based arrangements amounted to $120,274. At March 31, 2011, there was approximately $56,305 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 March 31, 2011 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	11,704,404	$	0.28
Granted			
Exercised	(5,081,015)		0.12
Forfeited	(185,000)		0.21
Balance at end of period	6,438,389	$	0.40

Options exercisable at end of period	5,535,622	$	$0.44
Weighted average fair value of options granted during the year		$	

The following table summarizes information about employee stock options outstanding at March 31, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	**Number Outstanding at March 31, 2011**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at March 31, 2011**	**Weighted Average Exercise Price**
$ 0.001-0.25	2,393,385	2.28 Years	$ 0.08	1,594,818	$ 0.08
0.30-0.48	695,000	1.42 Years	0.45	590,800	0.45
0.54-0.60	2,575,004	1.3 Years	0.58	2,575,004	0.58
0.61-0.80	775,000	0.69 Years	0.70	775,000	0.70
	6,438,389		$ 0.40	5,535,622	$ 0.44

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

NOTE 12 - SEGMENT REPORTING

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

Our chief operating decision-maker is considered to be our Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The financial information reviewed by the CEO is identical to the information presented in the accompanying consolidated statements of operations. Therefore, the Company has determined that it operates in a single operating segment, specifically, web communications services. For the periods ended March 31, 2011 and 2010 all material assets and revenues of the Company were in the United States.

NOTE 13 - 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 March 31, 2011, subsequent events were evaluated by the Company as of May 16, 2011, the date on which the unaudited consolidated financial statements for the three and six months ended March 31, 2011, were available to be issued.

Other than the disclosures shown, we did not identify any events or transactions that should be recognized or disclosed in the accompanying financial statements.

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 six months ended March 31, 2011 and 2010 should be read in conjunction with the consolidated financial statements, including footnotes, appearing elsewhere in this quarterly report.

OVERVIEW

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

In March, 2009, we sold our wholly owned subsidiary, IceWEB Virginia, Inc. to an unrelated 3rd 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.

We currently have three key product offerings:

IceWEB 3000/5000 Unified Network Storage Solutions

Purpose Built Network/Data Appliances

Cloud Computing Products/Services

<u>IceWEB 3000/5000 Unified Network Storage Solutions</u>

IceWEB is a leading provider of high performance Unified Network Storage solutions. Our product offerings have broad appeal in the enterprise and federal marketplaces, and are used as core building blocks (enabling technologies) of business critical storage infrastructure for a diverse group of data intensive key vertical market segments such as geospatial information systems, entertainment, security and defense, higher education, Internet Service Providers and Managed Service Providers, Oil and Gas, and Health Care. Our innovative storage systems deliver levels of performance, scalability, versatility and simplicity that exceed existing network storage alternatives. Our Unified

Network Storage offerings, called the IceWEB 3000 and IceWEB 5000 are deployed as storage operating system software on our network attached storage (NAS), and storage area network (SAN) hardware products. The IceWEB 3000/5000 Unified Network Storage environments empower companies to:

- Quickly and easily deploy large complex data storage infrastructure environments
- Reduce administrative costs for managing their storage by making complex technical tasks far more simple to accomplish
- Reduce hardware and capital expenditure costs by more effectively using the storage within the system and repurposing older legacy hardware
- Protect their business critical data by leveraging IceWEB 5000 s built-in data replication features
- Integrate with emerging server virtualization software (VMWare, Citrix Xen and Microsoft s Hyper V) to better manage those solutions

The IceWEB 3000/5000 replaces complex and performance-limited products with high performance, scalable and easy to use systems capable of handling the most data intensive applications and environments. Our users value the IceWEB 3000/5000s solution because it delivers three key benefits:

Performance which equals or exceeds all competitive products.

Management which requires less expertise and time from overburdened technical staffers

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

The Competitive Landscape

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

Purpose Built Network and Data Appliances

IceWEB has been building Purpose Built Network and Data Appliances for several years. Purpose Built Network & Data Appliances are devices which provide computer resources (processors & memory), data storage, and specific software for a specific application. The main appliance products that IceWEB has been building have been centered on a single large business partner. ESRI Corporation. IceWEB and ESRI have collaborated to create ultra-high performance IceWEB/ESRI GIS systems that allow customers to analyze data in ways never before possible. ESRI Corporation takes full responsibility for marketing to their customers and business partners, via their worldwide sales and consultancy organization.

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

Cloud Computing Products & Services

Cloud Computing Services

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

Cloud Storage Appliances (CSA)

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

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.
- 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, 2010 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 SIX MONTHS ENDED MARCH 31, 2011 COMPARED TO THE THREE AND SIX MONTHS ENDED MARCH 31, 2010

The following table provides an overview of certain key factors of our results of operations for the three and six months ended March 31, 2011 as compared to the three and six months ended March 31, 2010:

	Three months ended March 31,		**Six months ended March 31,**	
	2011	**2010**	**2011**	**2010**
Net Revenues	$ 1,116,585	$ 1,011,205	$ 1,794,437	$ 1,612,022
Marketing and selling	319,322	472,359	774,344	785,217
Depreciation and amortization	127,177	162,926	293,794	330,399
Research and development	153,642	105,745	359,768	185,311
General and administrative	464,457	1,560,401	1,121,823	2,654,370
Total operating expenses	1,064,598	2,301,431	2,549,729	3,955,297
Loss from operation	(533,871)	(1,746,320)	(1,691,806)	(3,072,993)
Total other income (expense)	(100,376)	(141,995)	(198,256)	(274,956)
Net income (loss)	$ (634,247)	$ (1,888,315)	$ (1,890,063)	$ (3,347,949)

Other Key Indicators:

	Three months ended March 31,		Six months ended March 31,	
	2011	2010	2011	2010
Cost of sales as a percentage of revenues	52.5%	45.1%	52.2%	45.3%
Gross profit margin	47.5%	54.9%	47.8%	54.7%
General and administrative expenses as a percentage of revenues	41.6%	154.3%	62.5%	164.7%
Total operating expenses as a percentage of revenues	95.3%	227.6%	142.1%	245.4%

Six Month Period ended March 31, 2011

Revenues

For the six months ended March 31, 2011, we reported revenues of $1,794,437 as compared to revenues of $1,612,022 for the six months ended March 31, 2010, an increase of $182,415 or approximately 11%. The increase is primarily due to the Company s focus on our high margin data storage business unit.

Cost of Sales

Our cost of sales consists primarily of component parts for the manufacture of our storage products. For the six months ended March 31, 2011, cost of sales was $936,515, or approximately 52.2% of revenues, compared to $729,718, or approximately 45.3% of revenues, for the six months ended March 31, 2010. The increase in costs of sales as a percentage of revenue and the corresponding decrease in our gross profit margin for the six months ended March 31, 2011 as compared to the six months ended March 31, 2010 was the result of pricing pressure to win sales opportunities during the six months ended March 31, 2011 as a percentage of total revenue. We anticipate that our gross profit margins will remain in the range of 45% to 50% through the balance of fiscal 2011.

Total Operating Expenses

Our total operating expenses decreased approximately 36% to $2,549,730 for the six months ended March 31, 2011 as compared to $3,955,297 for the six months ended March 31, 2010. 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 six months ended March 31, 2011, sales and marketing costs were $774,344 as compared to $785,217 for the six months ended March 31, 2010, a decrease of $10,873 or approximately 1%. The decrease is primarily due to lower stock-based compensation expense.

Depreciation and amortization expense . For the six months ended March 31, 2011, depreciation and amortization expense amounted to $293,794 as compared to $330,399 for the six months ended March 31, 2010, a decrease of $36,605 or 11%.

Research and Development . For the six months ended March 31, 2011, research and development costs were $359,768 as compared to $185,311 for the six months ended March 31, 2010, an increase of $174,457 or approximately 94%. Research and development expense is higher due to higher headcount and occupancy costs.

General and administrative expense . For the six months ended March 31, 2011, general and administrative expenses were $1,121,823 as compared to $2,654,370 for the six months ended March 31, 2010, a decrease of $1,532,547 or approximately 58%. For the six months ended March 31, 2011 and 2010 general and administrative expenses consisted of the following:

		Fiscal Q2 2011		Fiscal Q2 2010
Occupancy	$	16,458	$	10,661
Consulting		74,924		82,903
Employee compensation		555,396		2,364,708
Professional fees		32,459		54,550
Internet/Phone		12,636		5,148
Travel/Entertainment		16,121		517
Investor Relations		206,234		29,964
Insurance		22,464		23,953
Other		185,131		81,966
	$	1,121,823	$	2,654,370

For the six months ended March 31, 2011, Occupancy expense increased to $16,458 as compared to $10,661, primarily due to an increased allocation of rent expense to administration.

For the six months ended March 31, 2011, Consulting expense decreased to $74,924 as compared to $82,903. Consulting expense decreased primarily as a result of nonrecurring recruiting costs incurred to hire engineering, sale and marketing personnel incurred in the prior year.

For the six months ended March 31, 2011, salaries and related expenses decreased to $555,396 as compared to $2,364,708, a decrease of $1,809,392. The decrease is due primarily to lower non-cash compensation expense of $151,654 as compared to $1,471,396.

For the six months ended March 31, 2011, Professional fees expense decreased to $32,459 as compared to $54,550. Professional fees expense decreased due to decreased costs related to intellectual property patent applications and other legal fees.

For the six months ended March 31, 2011, internet and telephone expense increased to $12,636 as compared to $5,148. The increase was primarily due to increased headcount and one-time charges incurred.

For the six months ended March 31, 2011, travel and entertainment expense increased to $16,121 as compared to $517. The increase was primarily due to increased travel related to investor relations and analyst meetings.

For the six months ended March 31, 2011 Other expense amounted to $185,131 as compared to $81,966 for the six months ended March 31, 2010, an increase of $103,165. The increase is primarily related to increased bad debt expense of $100,000.

For the six months ended March 31, 2011 Investor relations expense increased to $206,234 as compared to $29,964 for the six months ended March 31, 2010. The increase is due to increased investor relations activity.

For the six months ended March 31, 2011, insurance expense decreased to $22,464 as compared to $23,953. The decrease was primarily due to cost cutting measures.

We anticipate that general and administrative expenses will remain stable for the balance of fiscal 2011, as we expect to incur lower share-based expenses.

LOSS FROM OPERATIONS

We reported a loss from operations of $1,691,807 for the six months ended March 31, 2011 as compared to a loss from operations of $3,072,993 for the six months ended March 31, 2010, a decreased loss of $1,381,186 or approximately 45%.

OTHER INCOME (EXPENSES)

Interest Expense . For the six months ended March 31, 2011, interest expense amounted to $198,256 as compared to $274,956 for the six months ended March 31, 2010, a decrease of $76,700 or 28%. 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 six months ended March 31, 2011, we amortized deferred financing costs of $13,750, as compared to $13,265 during the six months ended March 31, 2010.

NET INCOME/ LOSS

Our net loss was $1,890,063 for the six months ended March 31, 2011 compared to a net loss of $3,347,949 for the six months ended March 31, 2010.

Three Month Period ended March 31, 2011

Revenues

For the three months ended March 31, 2011, we reported revenues of $1,116,585 as compared to revenues of $1,011,205 for the three months ended March 31, 2010, an increase of $105,380 or approximately 10%. The increase is primarily due to the Company s focus on our high margin data storage business unit.

Cost of Sales

Our cost of sales consists of component parts for the manufacture of our storage products. For the three months ended March 31, 2011, cost of sales was $585,858, or approximately 52.5% of revenues, compared to $456,094, or approximately 45% of revenues, for the three months ended March 31, 2010. The increase in costs of sales as a percentage of revenue and the corresponding decrease in our gross profit margin for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 was the result of lower margins on competitive opportunities in order to win deals.

Total Operating Expenses

Our total operating expenses decreased approximately 54% to $1,064,568 for the three months ended March 31, 2011 as compared to $2,301,431 for the three months ended March 31, 2010. These changes include:

Sales and marketing expense . For the three months ended March 31, 2011, sales and marketing expenses were $319,322 as compared to $472,359 for the three months ended March 31, 2010, a decrease of $153,037 or approximately 32%. The decrease was due to slightly lower headcount during the three months ended March 31, 20011, and the nonrecurring sales and marketing expense related to the roll-out of our channel sales program during the three months ended March 31, 2010.

Depreciation and amortization expense . For the three months ended March 31, 2011, depreciation and amortization expense amounted to $127,177 as compared to $162,926 for the three months ended March 31, 2010, a decrease of $35,749 or 22%.

General and administrative expense . For the three months ended March 31, 2011, general and administrative expenses were $464,457 as compared to $1,560,401 for the three months ended March 31, 2010, a decrease of $1,095,944 or approximately 70%. For the three months ended March 31, 2011 and 2010 general and administrative expenses consisted of the following:

		Fiscal Q2 2011		**Fiscal Q2 2010**
Occupancy	$	8,498	$	3,175
Consulting		19,688		53,130
Employee compensation		218,535		1,396,515
Professional fees		13,737		22,500
Internet/Phone		8,054		1,397
Travel/Entertainment		8,128		363
Investor Relations		143,040		17,870
Insurance		11,441		10,737
Other		33,336		54,714
	$	464,457	$	1,560,401

For the three months ended March 31, 2011, Occupancy expense increased to $8,498 as compared to $3,175.

For the three months ended March 31, 2011, Consulting expense decreased to $19,688 as compared to $53,130, a decrease of $33,442 or 63%. Consulting expense decreased primarily as a result of decreased support costs for internal accounting systems.

For the three months ended March 31, 2011, salaries and related expenses decreased to $218,535 as compared to $1,396,515, a decrease of $1,177,980. The decrease is due primarily to a decrease in non-cash stock and option based compensation expense of $1,142,683.

For the three months ended March 31, 2011, Professional fees expense decreased to $13,737 as compared to $22,500. Professional fees expense decreased primarily as a result of a decrease in legal fees incurred related to business development and on-going litigation activities.

For the three months ended March 31, 2011, Internet/Phone expense increased to $8,054 as compared to $1,397. Phone expense increased primarily due to one-time charges incurred.

For the three months ended March 31, 2011, travel and entertainment expense increased to $8,128 as compared to $363. Travel and entertainment expense increased as a result of increased travel for investor relations and general corporate travel activity.

For the three months ended March 31, 2011, Insurance expense increased to $11,441 as compared to $10,737, and increase of $704, or 6.6%.

For the three months ended March 31, 2011 Other expense amounted to $33,336 as compared to $54,714 for the three months ended March 31, 2010, a decrease of 21,378, or 39.1%.

For the three months ended March 31, 2011 Investor relations expense increased to $143,080 as compared to $17,870 for the three months ended March 31, 2010. The increase is due to increased investor relations activity.

LOSS FROM OPERATIONS

We reported a loss from operations of $533,871 for the three months ended March 31, 2011 as compared to a loss from operations of $1,746,320 for the three months ended March 31, 2010, a decrease of $1,212,449 or approximately 69%.

OTHER INCOME (EXPENSES)

Interest Expense . For the three months ended March 31, 2011, interest expense amounted to $100,376 as compared to $141,995 for the three months ended March 31, 2010, a decrease of $41,619 or 29%. The decrease in interest expense is primarily attributable to the decrease in borrowings and certain interest bearing liabilities related to the acquisition of Inline Corporation.

NET INCOME/ LOSS

Our net loss was $634,247 for the three months ended March 31, 2011 compared to net income of $1,888,315 for the three months ended March 31, 2010.

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 March 31, 2011 and September 30, 2010:

	March 31, 2011	September 30, 2010	$ Change	% Change
Working Capital (Deficit)	$ (1,616,167)	$ (1,250,033)	$ (366,134)	29.3%
Cash	42,259	540,156	(497,897)	(92.2%)
Accounts receivable, net	2,173,588	1,529,852	643,736	42.1%
Inventory	84,252	62,197	22,055	35.5%
Total current assets	2,360,875	2,170,310	190,565	8.8%
Marketable Securities	172,800	524,800	(352,000)	(67.1%)
Property and equipment, net	262,344	418,873	(156,529)	(37.4%)
Intangibles, net	425,407	546,952	(121,545)	(22.2%)
Total assets	3,234,745	3,674,255	(439,510)	(12.0%)
Accounts payable and accrued liabilities	2,173,786	1,711,619	462,167	27.0%
Notes payable-current	1,776,133	1,649,140	126,993	7.7%
Deferred revenue	27,124	59,582	(32,458)	(54.5%)

Total current liabilities	3,977,043	3,420,343	556,700	16.3%
Total liabilities	3,977,043	3,420,343	556,700	16.3%
Accumulated deficit	(31,512,853)	(29,622,792)	(1,890,061)	6.4%
Stockholders deficit	(742,297)	253,912	(996,209)	(392.3%)

Net cash used in operating activities was $1,456,279 for the six months ended March 31, 2011 as compared to net cash used in operating activities of $1,431,078 for the six months ended March 31, 2010, an increase of $25,201. For the six months ended March 31, 2011, we had a loss of $1,890,063 offset by non-cash items such as depreciation and amortization expense of $293,794, share-based compensation expense of $217,000, amortization of deferred finance costs of $13,750, and decreases from changes in assets and liabilities of $183,534. During the six months ended March 31, 2011 we experienced an increase in accounts receivable of $643,737, and an increase in accounts payable during the period of $523,636. For the six months ended March 31, 2010, we had a loss of $3,347,949 offset by non-cash items such as depreciation and amortization expense of $330,399, share-based compensation expense of $2,102,775, amortization of deferred finance costs of $13,265, and decreases from changes in assets and liabilities of $579,568. During the six months ended March 31, 2010 we experienced an increase in accounts receivable of $466,464, and a decrease in accounts payable during the period of $38,272.

Net cash used in investing activities for the six months ended March 31, 2011 was $15,720 as compared to net cash used in investing activities of $85,444 for the six months ended March 31, 2010. During the six months ended March 31, 2011, we used cash of $15,720 for property and equipment purchases. During the six months ended March 31, 2010, we used cash of $37,444 for property and equipment purchases and $48,000 to acquire 160,000,000 shares of VOIS Inc. common stock.

Net cash provided by financing activities for the six months ended March 31, 2011 was $974,102 as compared to net cash provided of $1,600,512 for the six months ended March 31, 2010. For the six months ended March 31, 2011, net cash provided by financing activities related to proceeds received from notes payable of $628,428 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of $622,109, and proceeds from the sale or restricted stock of $225,000, offset by repayments on notes payable of $501,435 which were to pay down the balance on the Sand Hill Finance LLC factoring line. For the six months ended March 31, 2010, net cash provided by financing activities related to proceeds received from notes payable of $799,460 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of $1,122,134, and proceeds from the sale or restricted stock of $490,000, offset by repayments on notes payable of $811,082 which were to pay down the balance on the Sand Hill Finance LLC factoring line.

At March 31, 2011 we had a working capital deficit of $1,616,168 and an accumulated deficit of $31,512,853. The report from our independent registered public accounting firm on our audited financial statements for the fiscal year ended September 30, 2010 contained an explanatory paragraph regarding doubt as to our ability to continue as a going concern as a result of our net losses in operations. While our sales increased slightly during the six months ended March 31, 2011, our gross profit margin was approximately 47.8% and our sales were not sufficient to pay our operating expenses. We reported a net loss of $1,890,063 for the six months ended March 31, 2011. 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 March 31, 2011 we had cash on hand of $42,259. 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 March 31, 2011 we owed Sand Hill Finance, LLC $1,776,133 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 to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis.

Changes in internal control over financial reporting . There were no changes to internal controls over financial reporting that occurred during the three months ended March 31, 2011, 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 March 31, 2011 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 Immixtechnology, Inc. (the plaintiff) in the Fairfax County Circuit Court, Fairfax, Virginia. The plaintiff asserts that Iceweb failed to pay for certain computer components purchased from plaintiff.

2. We were named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) in the Circuit Court of Fairfax County, Virginia. The plaintiff asserts that Iceweb failed to pay for delivery of services provided by plaintiff.

3. We were named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) in the Circuit Court of Fairfax County, Virginia. The plaintiff asserts that Iceweb failed to pay for delivery of services provided by plaintiff.

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.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under the heading Risk Factors in our Annual Report on Form 10-K filed on December 29, 2010, which could materially affect our business operations, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business operations and/or financial condition. There have been no material changes to our risk factors since the filing of our Form 10-K.

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

During October, 2010, we issued 78,396 shares of common stock at a per share price of $0.255, valued at $20,000 to our employees as compensation. 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.

During November, 2010, we issued 82,340 shares of common stock at a per share price of $0.243, valued at $20,000 to our employees as compensation. 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.

During December, 2010, we issued 104,739 shares of common stock at a per share price of $0.191, valued at $20,000 to our employees as compensation. 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.

During December, 2010, we issued 700,000 shares of common stock at a per share price of $0.17, valued at $119,000 to our employees as compensation. 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.

During January, 2011, we issued 109,767 shares of common stock at a per share price of $0.182, valued at $20,000 to our employees as compensation. 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.

During February, 2011, we issued 85,344 shares of common stock at a per share price of $0.176, valued at $15,000 to our employees as compensation. 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.

During March, 2011, we issued 15,061 shares of common stock at a per share price of $0.199, valued at $3,000 to our employees as compensation. 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.

During the six months ended March 31, 2011, we issued 2,250,000 shares of common stock at a per share price of $0.10, valued at $225,000 to an accredited investor. 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.

During the six months ended March 31, 2011, we issued 300,000 shares of common stock to a consultant, valued at $61,467 to an accredited investor, at a per share price of $0.2049. 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.	
	By:	/s/ John R. Signorello
May 16, 2011	John R. Signorello, Chief Executive Officer, principal executive officer	
	By:	/s/ Mark B. Lucky
May 16, 2011	Mark B. Lucky Chief Financial Officer, principal financial and accounting officer	