ICEWEB INC
Form 10QSB
May 18, 2004

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED MARCH 31, 2004

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-27865

ICEWEB INCORPORATED

DELAWARE	13-2640971
(STATE OF INCORPORATION)	(I.R.S. ID)

620 HERNDON PARKWAY, SUITE 360, HERNDON, VA 20170
(703) 964-8000

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE $0.001 PER SHARE

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 39,771,924 issued and outstanding at April 30, 2004.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

Transitional Small Business Disclosure Format: Yes [ ]   No [X]

ICEWEB INCORPORATED

FORM 10-QSB

FOR THE QUARTER ENDED MARCH 31, 2004

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FORWARD-LOOKING STATEMENTS

This Quarterly Report and related documents include "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements involve known and unknown risks, uncertainties, and other factors which could cause the Company's actual results, performance (financial or operating) or achievements expressed or implied by such forward looking statements not to occur or be realized. Such forward looking statements generally are based upon the Company's best estimates of future results, performance or achievement, based upon current conditions and the most recent results of operations. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "will," "expect," "believe," "estimate," "anticipate," "continue," or similar terms, variations of those terms or the negative of those terms. Potential risks and uncertainties include, among other things, such factors as: our high level of indebtedness and ability to satisfy the same, our history of unprofitable operations, the continued availability of financing in the amounts, at the times and on the terms required, to support our future business and capital projects, the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products, changes in economic conditions specific to any one or more of our markets, changes in general economic conditions, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements, and the other factors and information disclosed and discussed in other sections of this report. Investors and shareholders should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. Financial Statements

Iceweb, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEET
March 31, 2004
(Unaudited)

Current Assets:	
Cash	$239,544
Accounts receivable, net	981,577
Total current assets	1,221,121
Property and equipment, net	90,912
Goodwill	718,353
Deposits	12,665
Due from related party	21,261
Total assets	$2,064,312
Liabilities and stockholders' equity	
Current liabilities:	
Deferred revenue	$38,060
Accounts payable	1,002,947
Accrued expenses	75,491
Notes payable - related parties	453,411
Total current liabilities	1,569,909
Stockholders' equity:	
Common stock, par value $.001	39,772
100,000,000 shares authorized, 39,771,924 issued and outstanding	
Additional paid in capital	3,199,900
Accumulated deficit	(2,719,269)
Subscription receivable	(26,000)
Total stockholders' equity	494,403
Total liabilities and stockholders' equity	$2,064,312

See accompanying notes to consolidated financial statements

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Iceweb, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2004 (Unaudited)	Three Months Ended March 31, 2003 (Unaudited)
Revenue	$1,623,358	$13,054
Cost of Sales	1,223,282	2,625
Gross Profit	400,076	10,429
Operating Expenses:		
Marketing & Selling	59,349	3,964
Research & Development	71,670	
General and Administrative	438,349	82,965
Total Operating Expense	569,368	86,929
Operating Loss	(169,292)	(76,500)
Interest Expense	(10,976)	(9,601)
Net Loss	($180,268)	($86,101)
Basic & Diluted Loss per common share	($0.00)	($0.00)
Weighted average common shares outstanding	38,775,553	30,744,465

See accompanying notes to consolidated financial statements

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Iceweb, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Six Months Ended March 31, 2004 (Unaudited)	Six Months Ended March 31, 2003 (Unaudited)
Revenue	$3,148,716	$32,865
Cost of Sales	2,226,064	10,746
Gross Profit	922,652	22,119
Operating Expenses:		

Marketing & Selling	96,209	12,024
Research & Development	127,670	
General and Administrative	827,158	195,434
Total Operating Expense	1,051,037	207,458
Operating Loss	(128,385)	(185,339)
Interest Expense	(21,952)	(9,597)
Net Loss	($150,337)	($194,936)
Basic & Diluted Loss per common share	($0.00)	($0.01)
Weighted average common shares outstanding	38,482,777	30,526,237

See accompanying notes to consolidated financial statements

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Iceweb, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOW

	Six Months Ended	
	March 31, 2004 (Unaudited)	March 31, 2003 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	($177,853)	($88,982)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(66,679)	
NET CASH USED IN INVESTING ACTIVITIES	(66,679)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments to related parties	(27,156)	(9,635)
Proceeds from related parties	79,538	
Common Stock issued for cash	255,000	
Proceeds from the exercise of common stock options	72,380	97,310
Increase in cash overdraft		(7,703)

NET CASH PROVIDED BY FINANCING ACTIVITIES	379,762	79,972
NET INCREASE (DECREASE) IN CASH	135,230	(9,010)
CASH - beginning of period	104,314	9,010
CASH - end of period	$239,544	

See accompanying notes to consolidated financial statements

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ICEWEB, INC and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

MARCH 31, 2004

Note 1--Basis of Presentation

The financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustment) that are, in the opinion of management, necessary for a fair presentation. These financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual Report for the year ended September 30, 2003, which is included in the Company's Form 10-KSB for the year ended September 30, 2003. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

Note 2--Related Parties

The Company has a note payable to John R. Signorello, the Chairman and CEO, for $163,000 plus accrued interest of approximately $ 32,000. This note bears interest at a rate of 12.5% per annum and is due on-demand. Other Stockholders/Employees have loans totaling $227,186 plus accrued interest of approximately $ 32,000. Of this amount, $150,000 bears interest at a rate of 12.5% per annum and is due on-demand. The remaining $77,186 bears zero interest and is due on or before December 31, 2004.

Note 3 - Common Stock & Stock Options

The Company sold 925,000 shares to accredited investors for $185,000 exempt from registration pursuant to Section 4(2). The investors were sophisticated and had access to the consolidated financial statements of the corporation. The Company issued 1,290,000 stock options to employees under the Company's stock option plan.

During March 2004, the Company granted options to purchase 150,000 shares of common stock to employees recognizing $27,000 in compensation expense.

Note 4 - Stock Options

Stock option activity during the period is indicated as follows:

	Options Available for Grant	Options	Exercise Price
Balance, September 30, 2003	6,098,000	3,902,000	.08 - .40
Granted		3,940,996	.35 - .40
Exercised		(160,000)	.20
Forfeited		-	
Balance, December 31, 2003	2,157,004	7,682,996	
Granted		1,290,000	.18 - .39
Exercised		(565,000)	.12 - .20
Forfeited		-	
Balance, March 31, 2004	867,004	8,407,996	

SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS 123") and SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") requires the Company to disclose pro forma information regarding option grants made to its employees. SFAS 123 specifies certain valuation techniques that produce estimated compensation charges that are included in the pro forma results below. These amounts have not been reflected in the Company's Statement of Operations, because Accounting Principles Board Opinion 25, "Accounting for Stock issued to Employees" specifies that no compensation charge arises when the price of the employees' stock options equal the market value of the underlying stock at the grant date, as in the case of options granted to the Company's employees.

Pro forma results are as follows for the three months ended March 31, 2004:

Actual net loss	(180,268)
SFAS 123 Compensation Cost	76,694
Pro forma net loss	(256,962)
Pro forma basic and diluted net loss per share	(0.01)

Under SFAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used:

Risk free interest rate	3%
Expected dividends	0
Volatility factor	101%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company's optons.

Note 5 - Accounts Receivable

Accounts receivable consist of normal trade receivables. The Company assesses the collectibility of its accounts receivable regularly. Based on the most recent assessment, we recorded bad debt expense of $35,970 in the period ending March 31, 2004. This was an old receivable carried forward from one of the companies acquired last fiscal year and management believes that all remaining receivables are fully collectable.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS or PLAN OF OPERATION

THE FOLLOWING DISCUSSION SHOULD BE READ TOGETHER WITH THE INFORMATION CONTAINED IN THE FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED ELSEWHERE IN THIS REPORT.

IceWEB markets proprietary software products and integration services. The software's first version began shipping in 2001. The Company also launched an e-learning portal in 2002. Prior to this year the Company had significant problems generating revenue and was forced to scale the Company back after September 2001. In 2003, the business of IceWEB started on an upswing. We acquired two companies that provide liquidity from contracts stemming from two large customers. We do not believe the contracts are in jeopardy but the loss of those contracts could impair our positive momentum. In the past we incurred substantial operating losses. A substantial part of the losses was acquired from prior acquisitions and the reverse merger in 2002. The Company currently is operating at break even but will need additional outside funding to sustain the current growth. The Company believes with additional financing, increased sales and marketing and a release of the next version of software, it will be able to generate positive cash flow. Over the course of the year, expenses were in line with budget, and expect to be in line again in 2004.

CRITICAL ACCOUNTING POLICIES

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.

Revenue Recognition - revenues are recognized at the time of shipment of the respective products and/or services. Our Company includes shipping and handling fees billed to customers as revenues. Costs of sales include outbound freight.

Use of Estimates - Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these 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 and the carrying value of inventories and long-lived assets. 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.

(a) Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability. The requirements of this Statement apply to issuers' classification and measurement of freestanding financial instruments. This Statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. For nonpublic entities, mandatorily redeemable financial instruments are subject to the provisions of this Statement for the first fiscal period beginning after December 15, 2003.

The following discussion should be read together with the information contained in the financial statements and related notes included elsewhere in this report.

RESULTS OF OPERATIONS

Net revenues - for the three months ended March 31, 2004, we generated revenues of $1,623,358 compared to $13,054 the comparative period in 2003. An increase of 12,335%. Sales for the three months ending March 31, 2004 were higher than the previous quarter and higher than the same quarter for the previous fiscal year. For the six months ended March 31, 2004, we generated revenues of $3,148,716 compared to $32,865 the comparative period in 2003. An increase of 9,481%. The primary reason for this was an increase in contract sales as well as successfully integrated acquisitions.

Marketing and Selling - our selling and marketing expense consists of personnel costs, including commissions, public relations, advertising, marketing programs, lead generation, travel and trade shows. Marketing and selling costs increased from $3,964 for the three months ended March 31, 2003 to $59,349 for the three months ended March 31, 2004, an increase of $55,385 or 1,397%. This increase was the result of additional marketing personnel, trade show events, online web marketing, advertising and print advertising.

General and administrative expense - our general and administrative expense consists primarily of personnel costs, rent, legal, accounting, human resources, telecommunications, office supplies and corporate governance and compliance. General and administrative expense increased from $82,965 for the three months ended March 31, 2003 to $466,684 for the three months ended March 31, 2004 an increase of $ 383,719 or 462%. The primary reason for this increase was do to acquisitions relating to increases in personnel costs and other fixed expenses.

Overall, our loss per share was ($.004) for the three months ended March 31, 2004.

As we continue to implement our plan of operation, we expect general and administrative expenses to remain nearly flat and actually decrease as a percentage of sales due to the process efficiencies we have already put in place.

In order to provide sufficient working capital to fund our growing operation, we will be required to raise additional capital to fund these anticipated costs. There are no assurances that we will be able to obtain the additional capital in which event our future operations would be materially and adversely affected.

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LIQUIDITY AND CAPITAL RESOURCES

Since inception, our operating and investing activities have used more cash than they have generated. Because of the continued need for substantial amounts of working capital to fund the growth of the business and to pay our operating expenses, we expect to continue to experience negative operating and investing cash flows for the foreseeable future. We expect to see a substantial increase in software sales over the next few months, which would have a positive effect on the operating cash flow, but due to the current uncertainty of the software revenues it is likely that our existing working capital will not be sufficient to fund the continued implementation of our plan of operation during the next 12 months and to meet our capital commitments and general operating expenses. We are unable to predict at this time the exact amount of additional working capital we will require, however, in order to provide any additional working capital which we may require, we will in all likelihood be required to raise additional capital through the sale of equity or debt securities. We currently have no commitments to provide us with any additional working capital. If we do not have sufficient working capital to implement our plan of operation described above, it is likely that we will cease operations. The cash balance at March 31, 2004 was $239,544.

Item 3. Controls and Procedures

Evaluation of disclosure controls and procedures

Within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. This evaluation was done under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

Changes in internal controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

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Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and small business issuer purchases of equity securities

During the second quarter of the Fiscal year, the Company made isolated sales to accredited investors of shares of our common stock. The Company raised a total of $180,000 pursuant to individually negotiated agreements with accredited investors who were sophisticated, had access to relevant information about IceWEB and acquired these shares for investment.

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 and Reports on Form 8-K

Exhibits

Exhibit 31.1 Certification pursuant to Section 302

Exhibit 32.1 Certification pursuant to Section 906

b) Reports on Form 8-K

8K filed on 2-17-04 pursuant to Item 4.

8K filed on 2-18-04 pursuant to Items 7, and 9

8K filed on 2-20-04 pursuant to Items 4, 7, and 9

SIGNATURES

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

ICEWEB Inc.

Dated: May 18, 2004

By: /s/ John R. Signorello

John R. Signorello,
Chairman and CEO