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ICEWEB INC
Form 10QSB
August 20, 2004

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

FORM 10-QSB

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

FOR THE QUARTER ENDED JUNE 30, 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
(STATE OF INCORPORATION)

13-2640971
(I.R.S. ID)

205 VAN BUREN STREET, SUITE 420, 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 No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 42,864,924 issued and outstanding at July 31, 2004.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

Transitional Small Business Disclosure Format: Yes No

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ICEWEB INCORPORATED

FORM 10-QSB

FOR THE QUARTER ENDED JUNE 30, 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,

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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.

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PART I

ITEM 1. Financial Statements

Iceweb, Inc. and Subsidiaries
 CONSOLIDATED BALANCE SHEET
 June 30, 2004
 (Unaudited)

Current assets:	
Cash	\$ 271,354
Accounts receivable, net	950,447
Prepaid expense	7,118
Other current assets	8,974

Total current assets	1,237,893
Property and equipment, net	89,709
Goodwill	1,812,999
Deposits	25,703
Due from related party	71,938

Total assets	\$ 3,238,242

Liabilities and stockholders' equity	
Current liabilities:	
Deferred revenue	\$ 28,545
Accounts payable	810,808
Accrued expenses	173,990
Notes payable - related parties	430,387
Note payable	150,000

Total current liabilities	1,593,730

Stockholders' equity:	

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Preferred stock (par value \$.001; 1,000,000 shares authorized)	-
Common stock (par value \$.001; 100,000,000 shares authorized, 42,864,924 issued, and 41,564,924 outstanding)	42,865
Treasury Stock, at cost, (1,300,000 shares)	(13,000)
Additional paid in capital	4,505,068
Accumulated deficit	(2,890,421)

Total stockholders' equity	1,644,512
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Total liabilities and stockholders' equity	\$ 3,238,242
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See accompanying notes to consolidated financial statements

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Iceweb, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	June 30, 2004 (Unaudited)	June 30, 2003 (Unaudited)
	-----	-----
Revenue	\$ 1,699,783	\$ 595,631
Cost of Sales	1,153,591	452,817
Gross Profit	546,192	142,814
Operating Expenses:		
Marketing & Selling	58,231	10,683
Research & Development	199,614	
General and Administrative	486,914	29,598
Total Operating Expense	744,759	40,281
Operating Loss	(198,567)	102,533
Other Income/Expense	38,652	0
Interest Expense	(11,787)	(7,850)
Net Loss	(\$ 171,702)	\$ 94,683
Basic & Diluted Loss per common share	(\$ 0.00)	\$ 0.00
Weighted average common shares outstanding	41,190,451	31,909,100

See accompanying notes to consolidated financial statements

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Icweb, Inc. and Subsidiaries CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine Months Ended	
	June 30, 2004 (Unaudited)	June 30, 2003 (Unaudited)
	-----	-----
Revenue	\$ 4,848,499	\$ 628,496
Cost of Sales	3,379,655	463,563
<hr style="border-top: 1px dashed black;"/>		
Gross Profit	1,468,844	164,933
Operating Expenses:		
Marketing & Selling	154,440	16,018
Research & Development	327,284	
General and Administrative	1,314,072	231,721
<hr style="border-top: 1px dashed black;"/>		
Total Operating Expense	1,795,796	247,739
Operating Loss	(326,952)	(82,806)
Other Income/Expense	38,652	
Interest Expense	(33,739)	(17,447)
<hr style="border-top: 1px dashed black;"/>		
Net Loss	(\$ 322,039)	(\$ 100,253)
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Basic & Diluted Loss per common share	(\$ 0.01)	\$ 0.00
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Weighted average common shares outstanding	39,385,335	31,909,100
<hr style="border-top: 1px dashed black;"/>		

See accompanying notes to consolidated financial statements

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Icweb, Inc. and Subsidiaries CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	June 30, 2004 (Unaudited)	June 30, 2003 (Unaudited)
	-----	-----
<hr style="border-top: 1px dashed black;"/>		
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 30,428	(\$ 72,078)
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CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(77,437)	(26,502)

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Cash acquired in acquisitions	103,107	85,713
Acquisition of subsidiaries	0	(42,000)

NET CASH PROVIDED BY INVESTING ACTIVITIES	25,670	17,211

CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments to related parties	(44,318)	(136,845)
Common stock issued for cash	158,600	289,310
Proceeds from the exercise of common stock options	9,660	0
Purchase of treasury stock	(13,000)	0

NET CASH PROVIDED BY FINANCING ACTIVITIES	110,942	152,465

NET INCREASE (DECREASE) IN CASH	167,040	97,598
CASH - beginning of period	104,314	9,010

CASH - end of period	\$ 271,354	106,608

See accompanying notes to consolidated financial statements

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ICEWEB, INC and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

JUNE 30, 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 - Acquisitions

On May 13th, 2004, the Company, through its wholly owned subsidiary Propster, Inc., acquired substantially all of the assets of DevElements, Inc. of VA. The

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company purchased software licenses, source code, potential patents and trademarks, cash, hardware, and equipment for a combined stock and cash value of approximately \$1,290,000. The Company issued 1,500,000 shares of its common stock and options to purchase 1,500,000 shares of common stock exercisable at a price of \$0.34 per share and expiring May 13, 2009. These items are reflected in the Financial Statements as \$103,107 in cash, \$73,101 accounts receivable, \$7,118 other current asset, \$12,028 fixed assets, \$1,094,645 goodwill and \$150,000 note payable to SunTrust Bank, which was assumed by IceWeb in lieu of a cash payment to DevElements, Inc. The SunTrust liability was an open-ended revolving line of credit in the amount of \$150,000, principle due on demand and interest charged at a rate of prime plus 2.00%.

DevElements, Inc. is a professional IT consultancy that designs, develops and implements Web-based employee productivity solutions for organizations with operational efficiency goals. By combining leading edge technologies with an innovative approach to business process management, the staff builds solutions that capitalize on an organization's strengths and empower their employees to do their jobs better, faster and cheaper. From Highly creative, interactive, sales-focused Web sites to knowledge management and employee information systems, DevElements solutions embody the vision of the paperless workplace.

DevElements was incorporated in the State of Virginia in June 1999. At the time of acquisition, DevElements employed 30 people. Over the last five years, revenues have increased from \$800,000 in 1999 to \$2,900,000 in 2003.

Note 3 - Related Parties

The Company has a note payable to John R. Signorello, the Chairman and CEO, for \$130,176 plus accrued interest of approximately \$ 33,000. This note bears interest at a rate of 12.5% per annum and is due on-demand. Other Stockholders/Employees have loans totaling \$226,186 plus accrued interest of approximately \$ 41,000. Of this amount, \$149,000 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.

The Company also has a receivable from related parties in the amount of \$71,938 which represents payments made on behalf of Iplicity, Inc. and DevElements, Inc. The Company purchased only the assets of the two entities, Iplicity, Inc. and DevElements, Inc., but reserved the right to pay certain liabilities on their behalf. These amounts are recorded as an asset and are due from the respective entities. Of the total \$71,938, approximately 40% is due from Iplicity, Inc. and 60% is due from DevElements, Inc.

Note 4 - Stockholder's Equity

The Company is authorized to issue 1,000,000 shares of Preferred Stock, par value \$.001, with such designations, rights and preferences as may be determined from time to time by the Board of Directors. There are currently zero shares of Preferred Stock issued and outstanding.

During the three month period ending June 30, 2004 the Company sold 1,545,000 shares to accredited investors for \$158,600 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 1,545,000 stock options during the period, 1,500,000 of which were part of the DevElements acquisition and 45,000 were to employees.

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

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\$26,000 stock subscription receivable. During the current period, the \$26,000 receivable was forgiven and recognized as compensation expense.

Note 5 - 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	
Granted		1,545,000	.34
Exercised		(48,000)	.11 - .37
Forfeited		(4,486,509)	.37
Balance, June 30, 2004	3,808,513	5,418,487	

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 June 30, 2004:

Actual net loss	(171,702)
SFAS 123 Compensation Cost	77,600

Pro forma net loss	(249,302)

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	4%
Expected dividends	0
Volatility factor	119%

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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 options.

Note 6 - 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 \$9,955 in the period ending June 30, 2004. The majority of this amount was due from a company that has declared bankruptcy and is no longer conducting business. Management believes that all remaining receivables are fully collectable.

Note 7 - Subsequent Events

On July 21st, 2004, the Company entered into a Loan and Security agreement with Comerica Bank, to obtain a revolving credit line in the amount of \$500,000. The terms of the agreement give Comerica Bank a first position on the Company's debt. The Loan and Security agreement is attached hereto as an exhibit.

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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.

OVERVIEW

We are a diversified technology company headquartered in Herndon, VA, with satellite offices in Portland, OR, Miami, FL and Charlotte, NC. Since our formation in 2001, our business plan has evolved. Part of this evolution has not only effected the technical direction of our product line, but has altered our approach to growth. As with most small startups, we were adversely affected by the terrorist's attacks of September 11, 2001. Economic conditions post-9/11 dictated a conservative approach to organic growth through research and development of products and shifted our expansion focus towards government contracts and growth by acquisitions. As a result, we have completed five transactions in the last 24 months. We believe that these acquisitions and the internal growth over the last 24 months have positioned our company uniquely to deliver an integrated solution of customized software, services and hardware. Today, we offer skilled technical consulting services, a full catalog of third party hardware and software and a branded suite of online training, content management (CMS), collaboration, portal and integration products.

Our future growth and the continued support of a comprehensive product line is dependent upon a significant growth in revenues from software licenses and the availability of additional working capital to fund the next version of software. While we continue to explore acquisition opportunities, our short-term focus is development and launch of the new version of IceWEB software know as "Smart Enterprise Suite 3.0." This version of the IceWEB product line will include new features, including wireless and PDA connectivity, more robust reporting tools and a tightly integrated technology platform. The product will be offered as an application service over the internet. It will include functionality that allows

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the customer to click and choose what service is needed and the length of which time the software is to be used.

In reaction to customer demands and recent market data from organizations such as Gartner, we have over the last three months made an internal investment of approximately \$300,000 in research and development in order to consolidate our suite of products into a single Smart Enterprise Suite offering for small and medium sized businesses and government institutions. Our goal is to launch the Smart Enterprise Suite at the end of the second quarter of fiscal 2005. In the third quarter of fiscal 2004 we launched, IPS, a subsidiary which is an offshoot of our integration business to supply networking infrastructure and support for government and commercial customers.

Our client base has also broadened over the last two quarters by marketing and selling our products, services and solutions to businesses, nonprofits and government institutions in two key regions - Metropolitan Miami, Florida and Metropolitan Washington, D.C. Washington, D.C. provides us with certain key advantages including proximity to the Federal government and many of the large systems integrators who work directly with Federal customers and the region's traditional economic condition which tends to be more stable and self-sustaining than other regions. Miami and its surrounding areas were targeted because they provide us with the opportunity to expand our reach in the hospitality vertical market, due to its destination as a vacation spot.

In order to reach potential customers in these key areas, we are utilizing a combination of direct sales, lead generation activities, web site marketing, search engine optimization and strategic partnerships. In addition, we believe that the contracts obtained during recent acquisitions, combined with the breadth and depth of experience of our management team, have created momentum in consulting services sales.

We believe that the combined efforts of sales, marketing and partner relationships will sustain our operations as well as provide funding for ongoing research and development efforts. To continue the current growth rate it is estimated that the company will need to raise approximately \$2,000,000 over the next two quarters. In the event that we cannot raise additional capital, the growth of the company will be impaired significantly.

RESULTS OF OPERATIONS

Revenues

We generate revenues from software, application development and network management services and integrated technology, infrastructure solutions and third party hardware sales. For the nine months ended June 30, 2004, approximately 52% and approximately 48%, respectively, were derived from these sources. For the three months ended June 30, 2004, we generated revenues of \$1,699,783 compared to \$595,631 the comparative period in 2003, an increase of approximately 185%. For the nine months ended June 30, 2004, we generated revenues of \$4,848,499 compared to \$628,496 the comparative period in 2003, an increase of approximately 671%. The primary reason for the increases in our revenues is the successful integration of the subsidiaries acquired over the last 12 months.

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Cost of Sales

For the three months ended June 30, 2004, cost of sales was \$1,153,591, or approximately 67% of revenues, compared to \$452,817, or approximately 76% of revenues, for the three months ended June 30, 2003. For the nine months ended

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June 30, 2004, cost of sales was \$3,379,655, or approximately 69% of revenues, compared to \$463,563, or approximately 74% of revenues, for the comparative nine month period in 2003. The increase in our gross margins during fiscal 2004 is largely due to the two software acquisitions made this fiscal year which represent higher margin business. The gross margin for the software and application development division is currently running at approximately 50% and the gross margins for the hardware and network management and power solutions divisions are approximately 20% to 30%.

Total Operating Expenses

Our total operating expenses increased approximately 175% and approximately 625% for the three months and nine months ended June 30, 2004 as compared to the same periods in fiscal 2003. These increases include:

MARKETING AND SELLING - our marketing and selling expense consists of personnel costs, including commissions, public relations, advertising, marketing programs, lead generation, travel and trade shows. For the three months ended June 30, 2004, marketing and selling costs were \$58,231 as compared to \$10,683 for comparative period in 2003, an increase of \$47,548 or approximately 445%. For the nine months ended June 30, 2004, marketing and selling costs were \$154,440 as compared to \$16,018 for the comparative period in 2003, an increase of \$138,422 or approximately 864%. These increases were the result of additional marketing personnel, trade show events, online web marketing, advertising and print advertising during fiscal 2004.

RESEARCH AND DEVELOPMENT - our research and development expense consists primarily of personnel costs related to the development of the software products. For the three months ended June 30, 2004, research and development expenses were 199,614 as compared to \$0 the comparative period in 2003. For the nine months ended June 30, 2004 research and development expenses were \$327,284 as compared to \$0 the comparative period in 2003. The research and development expenses in fiscal 2004 are related to efforts to further develop and enhance certain software products acquired by us during this fiscal year

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. For the three months ended June 30, 2004, general and administrative expenses were \$486,914 as compared to \$29,598 for the comparative period in 2003, an increase of \$457,316 or approximately 1,545%. For the nine months ended June 30, 2004, general and administrative expenses were \$1,314,072 as compared to \$231,721 the comparative period in 2003, an increase of \$1,082,351 or approximately 467%. These increased general and administrative expenses reflect increases in personnel costs and other fixed expenses resulting from acquisitions made by us during fiscal 2004. Like many companies that grow through mergers and acquisition, we have recently experienced attrition in our technical consulting division. This attrition has not presently impacted client delivery as there is skill set overlap in many areas. As we continue to implement our business strategies, we expect general and administrative expenses to remain nearly flat and potentially decrease as a percentage of sales due to the process efficiencies we have already put in place. At this time, we do not anticipate any significant changes in the number of employees through hiring or firing practices; however, any additional acquisitions could result in increased general and administrative expenses.

Other Income/Expense

For the three months and nine months ended June 30, 2004, we recognized other income of \$38,652 which represented the write-off of certain payables that have either been resolved or were determined to have been carried on the books in error. These items date back to 2001 and were previously reflected as liability

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to be conservative, since no resolution had been determined. During the current period, we were able to resolve these items.

Interest Expense

Interest expense consists primarily of the amounts accrued on the notes payable to John R. Signorello and an unaffiliated third party as described in Note 3 of the Notes to Consolidated Financial Statements appearing elsewhere herein. For the three months ended June 30, 2004 interest expense was \$11,787 as compared to \$7,850 the comparative period in 2003. For the nine months ended June 30, 2004, interest expense was \$33,739 as compared to \$17,447 the comparative period in 2003.

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LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2004, we had a cash balance of \$271,354 and a working capital deficit of \$355,837. The report of our independent auditors on our financial statements for the year ended September 30, 2003 contains an explanatory paragraph regarding our ability to continue as a going concern. Net cash provided by operations was \$30,428 for the nine months ended June 30, 2004, as compared to net cash used in operations of (\$72,078) for the nine months ended June 30, 2003. For the nine months ended June 30, 2004, we used cash to fund our net loss of (\$322,039) offset by non-cash items such as depreciation expense of \$40,256, and acquisition of subsidiaries of \$468,628 as well as changes in assets and liabilities of (\$156,417). The acquisition of subsidiaries amount relates to the DevElements, Inc. acquisition which was in essence a cashless transaction since we assumed \$150,000 liability in lieu of a cash payment.

Net cash provided by investing activities for the nine months ended June 30, 2004 was \$25,670 as compared to \$17,211 for the comparative period in 2003. For the nine months ended June 30, 2004, we received \$103,107 in cash from the acquisition of subsidiaries offset by (\$77,437) in capital expenditures. For the nine months ended June 30, 2003, we received \$43,713 in cash from the acquisition of subsidiaries offset by (\$26,502) in capital expenditures.

Net cash provided by financing activities for the nine months ended June 30, 2004 was \$110,942 as compared to \$152,465 for the comparative period in 2003. For the nine months ended June 30, 2004, we received \$158,600 from the issuance of common stock and \$9,660 from the exercise of common stock option by employees offset by the re-purchase of 1,300,000 shares of common stock for (\$13,000) and the net amount paid to related parties of (\$44,318).

Our operations continue to use more cash than they currently generate. We have expended funds not only for our continuing operations but to fund research and development costs associated with our software. We do not have any commitments for capital expenditures during the balance of fiscal 2004. 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. While we presently expect an increase in software sales during the balance of fiscal 2004 and into fiscal 2005, which would have a positive effect on the operating cash flow, as a result of 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

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currently have no commitments to provide us with any additional working capital and there are no assurances additional working capital will be available to us when needed, if at all. If we do not have sufficient working capital to fund our ongoing operations, our ability to implement our business model and continue to grow our company will be adversely affected.

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.

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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.

Item 3. Controls and Procedures

Evaluation of disclosure controls and procedures

Within the 90 days prior to the filing date of this report we 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 our Chief Executive Officer. Based upon that evaluation, he concluded that our disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy our disclosure obligations under the Exchange Act.

Changes in internal controls

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

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

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None.

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

During the third quarter of the fiscal 2004, we sold an aggregate of 1,545,000 shares of our common stock to five (5) accredited investors in private transactions exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) t hereof. We received gross proceeds of \$158,600. These investors had access to relevant information about our company and represented to us that they 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

(a) Exhibits

Exhibit 10.1 Comerica Bank Loan and Security Agreement

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302

Exhibit 31.2 Certification of Principal Financial Officer pursuant to Section 302

Exhibit 32.1 Certification of Chief Executive Officer pursuant to Section 906

b) Reports on Form 8-K

None

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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: August 19, 2004

By: /s/ John R. Signorello

John R. Signorello,
Chairman and CEO

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