ICEWEB INC
Form 10-Q
August 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended June 30, 2012

£ 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 ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

State the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date: At August 14, 2012, there were 203,172,274 outstanding shares of common stock, $.001 par value per share.

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

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan “believe,” “project,” “contemplate,” “would,” “should,” “could,” or “may.” With respect to any forward-looking statement that includes a statement of its underlying assumptions or bases, we believe such assumptions or bases to be reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, we express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished. All subsequent written and oral forward-looking statements attributable to us, or anyone acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

OTHER PERTINENT INFORMATION

When used in this quarterly report, the terms “IceWEB”, the “Company”, “we”, “our”, and “us” refers to IceWEB, Inc., a Delaware corporation, and our subsidiaries. The information which appears on our web site at www.iceweb.com is not part of this quarterly report.

ICEWEB, INC. AND SUBSIDIARIES

FORM 10-Q

QUARTERLY PERIOD ENDED June 30, 2012

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ICEWEB, Inc.

Consolidated Balance Sheets

	June 30, 2012 (Unaudited)	**September 30, 2011[1]**
CURRENT ASSETS:		
Cash	$774,012	$4,120
Subscription receivable	-	1,171,520
Accounts receivable, net of allowance of $409,000	1,336,591	1,182,060
Inventory	282,602	55,981
Other current assets	13,750	6,877
Prepaid expenses	30,449	30,248
	2,437,404	2,450,806
OTHER ASSETS:		
Property and equipment, net	354,643	252,835
Deposits	13,320	13,320
Other assets	1,544	-
Marketable Securities	164,000	115,200
Deferred financing costs, net	107,180	-
Total Assets	$3,078,091	$2,832,161
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$1,032,235	$2,186,691
Notes payable	2,016,245	1,972,544
Convertible notes payable, net of discount	328,478	-
Derivative liability	4,523,086	-
Deferred revenue	-	4,904
Total Liabilities	7,900,044	4,164,139
STOCKHOLDERS' DEFICIT		
Preferred Stock ($.001 par value; 10,000,000 shares authorized)		
Series B convertible preferred stock ($.001 par value; 626,667 shares issued and outstanding)	626	626
Common stock ($.001 par value; 1,000,000,000 shares authorized; 187,233,942 shares issued and 187,071,442 shares outstanding and 158,121,066 shares issued and 157,959,066 shares outstanding, respectively)	187,073	157,961
Additional paid in capital	35,854,358	32,866,315

Accumulated deficit	(40,851,010)	(34,328,080)
Accumulated other comprehensive income	83,000	67,200
Subscription receivable	(83,000)	(83,000)
Treasury stock, at cost, (162,500 shares)	(13,000)	(13,000)
Total stockholders' Deficit	(4,821,953)	(1,331,978)
Total Liabilities and Stockholders' Deficit	$3,078,091	$2,832,161

(1) Derived from audited financial statements

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	2012	2011	2012	2011
Sales	$654,996	$719,727	$2,546,852	$2,514,164
Cost of sales	444,015	380,784	1,669,704	1,317,299
Gross profit	210,981	338,943	877,148	1,196,865
Operating expenses:				
Sales and marketing	308,698	123,955	641,255	898,299
Depreciation and amortization expense	33,797	124,831	149,435	418,625
Research and development expense	289,242	187,810	708,325	547,579
General and administrative	438,795	495,963	1,331,939	1,617,786
Total Operating Expenses	1,070,532	932,559	2,830,954	3,482,289
Loss from operations	(859,551)	(593,616)	(1,953,806)	(2,285,424)
Other income (expenses):				
Gain/(loss) on change in fair value of derivative liability	(2,156,007)	-	(2,773,086)	-
Interest income	-	-	22	-
Interest expense	(984,317)	(104,653)	(1,796,060)	(302,908)
Total other income (expenses):	(3,140,324)	(104,653)	(4,569,124)	(302,908)
Net loss	$(3,999,875)	$(698,269)	$(6,522,930)	$(2,588,332)
Loss per common share basic and diluted	$(0.01)	$(0.00)	$(0.04)	$(0.02)
Weighted average common shares outstanding basic and diluted	170,774,234	143,553,735	162,922,093	140,673,273

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended June 30,	
	2012	2011
NET CASH USED IN OPERATING ACTIVITIES	$(4,375,749)	$(1,827,791)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in marketable securities	(33,000)	-
Purchase of property and equipment	(217,446)	(60,061)
NET CASH USED IN INVESTING ACTIVITIES	(250,446)	(60,061)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible note payable	1,750,000	-
Proceeds from subscription receivable	1,171,520	-
Proceeds from conversion of warrants	102,460	-
Payment of financing costs	(571,270)	-
Proceeds from the sale of restricted common stock	1,834,347	409,464
Proceeds from notes payable	301,896	818,481
Proceeds from exercise of common stock options	180,717	720,148
Proceeds from payments on convertible debenture	884,612	-
Payments on notes payable	(258,195)	(596,213)
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,396,087	1,351,880
NET INCREASE (DECREASE) IN CASH	769,892	(535,972)
CASH - beginning of period	4,120	540,156
CASH - end of period	$774,012	$4,184
Supplemental disclosure of cash flow information:		
Cash paid for :		
Interest	$214,686	$198,225
Income taxes	—	—

See accompanying notes to unaudited consolidated financial statements

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - NATURE OF BUSINESS

Headquartered just outside of Washington, D.C., we manufacture high performance unified data storage appliances with enterprise storage management capabilities. Through thin provisioning, target deduplication and inline compression managed through IceWEB's proprietary IceSTORM™ Operating System, IceWEB's unified storage appliances enable standardization, consolidation and optimized storage utilization for virtual and cloud environments, saving up to 90% of storage costs, while reducing space, power and cooling requirements and simplifying storage management. Our customer base includes mid-sized businesses, large enterprises, and government organizations.

Major shifts in data center environments toward virtual and cloud based infrastructures have significantly increased the need for storage resources that can handle the complex and mixed systems that combine both file and block data. Unified Data Storage from IceWEB reduces this complexity by providing a simplified environment to enable virtualization and cloud computing deployments, protection, and cost savings. Unified Data Storage also provides cost savings through optimized storage utilization, made possible through IceWEB's thin provisioning, storage pooling, compression and deduplication.

We generate revenue from the manufacture and sale of high-performance unified data storage appliances with IceWEB's proprietary IceSTORM™ (STorage Optimization and Resource Management) Operating System.

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

Principles of Consolidation

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

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to 2012 amounts. The reclassifications had no impact on previously reported results of operations or shareholders' deficit.

Going Concern

Our auditors stated in their report on the consolidated financial statements of the Company for the years ended September 30, 2011 and 2010 that we have had losses since inception that raise doubt about our ability to continue as a going concern. In addition and as discussed further in Note 6, we are not in compliance with debt covenants under our Financing Agreements with Sand Hill Finance LLC. For the year ended September 30, 2011 we incurred a net loss of $4,705,291 and for the Nine Months Ended June 30, 2012 we incurred a net loss of $6,522,930. The consolidated financial statements do not include any adjustments related to the recovery and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event we cannot continue in existence.

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

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 in 2012 and 2011 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, derivative liabilities, 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.

Accounts Receivable

Accounts receivable consists of normal trade receivables. We recorded a bad debt allowance of $409,000 as of June 30, 2012. Management performs ongoing evaluations of its accounts receivable. Management believes that all remaining receivables are fully collectable. Bad debt expense amounted to $0 for the three and nine months ended June 30, 2012.

Derivative Liability

The Company issued warrants to purchase the Company’s common stock in connection with the issuance of convertible debt, which contain certain ratchet provisions that reduce the exercise price of the warrants or the conversion price in certain circumstances. Upon the Company’s adoption of the Derivative and Hedging Topic of the FASB Accounting Standards Codification (“ASC 815”) on January 1, 2009, the Company determined that the warrants and/or the conversion features with provisions that reduce the exercise price of the warrants did not qualify for a scope exception under ASC 815 as they were determined not to be indexed to the Company’s stock as prescribed by ASC 815.

Derivatives are required to be recorded on the balance sheet at fair value (see Note 7). These derivatives, including embedded derivatives in the Company’s structured borrowings, are separately valued and accounted for on the Company’s balance sheet. Fair values for exchange traded securities and derivatives are based on quoted market prices. Where market prices are not readily available, fair values are determined using market based pricing models incorporating readily observable market data and requiring judgment and estimates. In addition, additional disclosures is required about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, receivables, accounts payable and accrued liabilities and notes payable are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments.

Our derivative financial instruments, consisting of embedded conversion features in our convertible debt, which are required to be measured at fair value on a recurring basis under FASB ASC 815-15-25 or FASB ASC 815 as of June 30, 2012 are measured at fair value, using a Black-Scholes valuation model which approximates a binomial lattice valuation methodology utilizing Level 3 inputs. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities (see Note 7).

Inventory

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

Property and Equipment

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

Software Development Costs

The costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized in accordance with the accounting guidance for software.

Because our current process for developing software is essentially completed concurrently with the establishment of technological feasibility, which occurs upon the completion of a working model, no costs have been capitalized for any of the periods presented.

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 Company periodically reevaluates the carrying value of its intangible assets for events or changes in circumstances that indicate that the carrying value may not be recoverable. As part of this reevaluation, the Company estimates the future cash flows expected to result from the use of the asset. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized to reduce the carrying value of the intangible asset to the estimated fair value of the asset.

Long-lived Assets

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

Advertising

Advertising costs are expensed as incurred and amounted to $93,975 in fiscal 2012 and $215,428 in fiscal 2011.

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. 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” Under the provisions of ASC Topic 260, basic earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and upon the conversion of convertible preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive. At June 30, 20112, there were options and warrants to purchase 96,961,072 shares of common stock, 626,667 shares issuable upon conversion of Series B preferred stock, and no shares of Series C preferred stock outstanding which could potentially dilute future earnings per share.

Stock-Based Compensation

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

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

Effective October 1, 2005, we adopted the fair value recognition provisions of ASC Topic 718, “Compensation – Stock Compensation, “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.

Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards" ("IFRS"). The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. We do not expect the adoption of ASU 2011-04 will have a material impact on the Company's Condensed Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" (amended further under ASU No. 2011-12 in December 2011). This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives; present items in net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted, but full retrospective application is required under both sets of accounting standards. The Company is currently evaluating which presentation alternative it will utilize.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment", which simplifies how entities test goodwill for impairment. Previous guidance under Topic 350 required an entity to test goodwill for impairment using a two-step process on at least an annual basis. First, the fair value of a reporting unit was calculated and compared to its carrying amount, including goodwill. Second, if the fair value of a reporting unit was less than its carrying amount, the amount of impairment loss, if any, was required to be measured. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process as described in Topic 350 under paragraphs 350-20-35-4 and 350-20-35-9 under Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company is currently evaluating whether early adoption is necessary.

In December 2011, the FASB issued Accounting Standards Update (ASU) No, 2011-11, *Balance Sheet* (Topic 210): *Disclosures about Offsetting Assets and Liabilities*. The amendments in this ASU require an entity to disclose information about offsetting and related arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities and require improved information about financial instruments and derivative instruments that are either (1) offset in accordance with Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with Section 210-20-45 or Section 915-10-45. The amendments are effective for annual reporting periods beginning on or after January 1, 2013 and retrospective disclosure is required for all comparative periods presented. No early adoption is permitted. Currently, the Company does not enter into any right of offset arrangements and expects implementation to have little or no impact.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

	Estimated Life	June 30, 2012	September 30, 2011
Office equipment	5 years	$ 448,831	$ 836,041
Computer software	3 years	29,523	612,379
Furniture and fixtures	5 years	-	261,385
Leasehold improvements	2 - 5 years	1,030,845	1,026,470
		1,509,199	2,736,275
Less: accumulated depreciation		(1,154,556)	(2,483,440)
		$ 354,643	$ 252,835

Depreciation expense for the Nine Months Ended June 30, 2012 and 2011 was $149,435 and $236,306 respectively.

NOTE 4 - INVENTORY

Inventory consisted of the following:

	June 30, 2012	September, 30, 2011
Raw materials	$ 226,082	$ 44,785
Work in progress	42,390	8,397
Finished goods	14,130	2,799
	$ 282,602	$ 55,981

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

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 June 30, 2012, the principal amount due under the Financing Agreement amounted to $2,016,245.

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 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 $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.

In November, 2011, in connection with the Company’s private placement of convertible notes and Securities Purchase Agreement (see Note 9), Sand Hill Finance, LLC executed an amendment to the Financing Agreement in which Sand Hill Finance LLC agreed that they would not pursue any remedies of default under the Financing Agreement until at least the ninety-first day after the obligations under the convertible notes have been fully satisfied.

NOTE 6 - CONCENTRATION OF CREDIT RISK

Bank Balances

The Company maintains cash in financial institutions insured by the Federal Deposit Insurance Corporation (“FDIC”), including non-interest bearing transaction account deposits protected in full in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). At June 30, 2012 all of the Company’s cash balances were fully insured. The Company has not experienced any losses in such accounts.

NOTE 7 - INVESTMENTS

(a) Summary of Investments

Marketable Equity Securities:

As of June 30, 2012, the Company's investments in marketable equity securities are based on the June 30, 2012 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:

June 30, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Publicly traded equity securities	$81,000	$ 83,000	$ —	$164,000
Total	$81,000	$ 83,000	$ —	$164,000

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September 30, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Publicly traded equity securities	$48,000	$ 67,200	$ —	$115,200
Total	$48,000	$ 67,200	$ —	$115,200

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

(b) Unrealized Gains and Losses on Investments

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

	Three Months Ended June 30		Nine months Ended June 30	
	2012	2011	2012	2011
Net gains/(loss) on investments in publicly traded equity securities	$(164,000)	$(32,000)	$15,800	$(384,000)
Net gains/(loss) on investments	$(164,000)	$(32,000)	$15,800	$(384,000)

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

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

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

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

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 - INVESTMENTS (continued)

Investment Measured at Fair Value on a Recurring Basis:

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012			
Marketable Equity Securities, net of discount for effect of restriction	$ —	$ —	$ 164,000
Liabilities:			
Derivative liabilities	$ —	$ —	$ 4,523,086
September 30, 2011			
Marketable Equity Securities, net of discount for effect of restriction	$ —	$ —	$ 115,200
Liabilities:			
Derivative liabilities	$ —	$ —	$ —

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. 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 Nine Months Ended June 30, 2012 or 2011.

The Company has evaluated its publicly traded equity securities as of June 30, 2012, and has determined that there were no unrealized losses that indicate an other-than-temporary impairment. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis and the financial condition and near-term prospects of the issuer, and the Company’s intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

NOTE 8 - COMPREHENSIVE INCOME (LOSS)

Comprehensive income is comprised of net income (loss) 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 accumulated other comprehensive income consists of unrealized gains on marketable securities available for sale of $83,000 at June 30, 2012, and $67,200 at September 30, 2011.

NOTE 9 – CONVERTIBLE NOTES

On November 23, 2011, IceWEB, Inc. (the "Company") entered into a Securities Purchase Agreement (the "Purchase Agreement") with three accredited investors pursuant to which the Company sold $2,012,500 in principal amount of Senior Convertible Notes (the "Notes") and issued the investors Series O, Series P and Series Q Warrants (collectively, the "Warrants") to purchase up to an aggregate of 81,588,029 shares, as adjusted, of the Company's common stock for an aggregate purchase price of $1,750,000 in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") in reliance on an exemption from registration pursuant to Section 4(2) and Regulation D of the Securities Act. The Company issued the Notes at an original issue discount of 13%.

	June 30, 2012	September 30, 2011
Principal balance of convertible notes	$1,127,887	$ -
Original issue discount, net	(104,270)	-
Debt discount	(695,139)	-
Convertible notes, net of discount	$328,478	$ -

The convertible notes have a remaining principal balance of $1,127,887, and are carried on the balance sheet at $328,478 net of the remaining unamortized discount, which is being amortized as interest expense over the remaining life of the notes. The convertible notes are convertible into our common stock at a conversion price of $0.074 per share. We can elect to settle any conversion in stock, cash or a combination of stock and cash.

At June 30, 2012, conversion of the outstanding principal amount of the convertible notes would result in the issuance of 15,241,730 shares of common stock.

NOTE 10 - DERIVATIVE LIABILITIES

Derivative warrant liability

The Company has warrants issued in connection with our convertible notes payable outstanding with price protection provisions that allow for the reduction in the exercise price of the warrants in the event the Company subsequently issues stock or securities convertible into stock at a price lower than the exercise price of the warrants. Simultaneously with any reduction to the exercise price, the number of shares of common stock that may be purchased upon exercise of each of these warrants shall be increased or decreased proportionately, so that after such adjustment the aggregate exercise price payable for the adjusted number of warrants shall be the same as the aggregate exercise price in effect immediately prior to such adjustment. The Company accounted for its warrants with price protection in accordance with FASB ASC Topic 815.

Accounting for Derivative Warrant Liability

The Company's derivative warrant instruments have been measured at fair value at June 30, 2012 using the Black-Scholes model. The Company recognizes all of its warrants with price protection in its consolidated balance sheet as liabilities. The liability is revalued at each reporting period and changes in fair value are recognized currently in the consolidated statements of operations. The initial recognition and subsequent changes in fair value of the derivative warrant liability have no effect on the Company's cash flows.

The derivative warrants outstanding at June 30, 2012 are all currently exercisable with a weighted-average remaining life of 4.40 years.

The revaluation of the warrants at each reporting period, as well as the charges associated with issuing additional warrants due to the price protection features, resulted in the recognition of expense of $2,773,086 and $0 within the Company's consolidated statements of operations for the Nine Months Ended June 30, 2012 and 2011, respectively, under the caption "Change in fair value of derivative warrant liability". The fair value of the warrants at June 30, 2012 is $4,523,086 which is reported on the consolidated balance sheet under the caption "Derivative Liability". The following summarizes the changes in the value of the derivative warrant liability from the date of the Company's issuance of derivative warrant instruments on November 23, 2011 until June 30, 2012:

	Value	No. of Warrants
Warrants Issued on November 23, 2011– Derivative warrant liability	$1,750,000	81,588,029
Increase in fair value of derivative warrant liability	2,773,086	n/a
Additional warrants from price protection features of existing warrants		
Balance at June 30, 2012 – Derivative warrant liability	$4,523,086	81,588,029

Fair Value Assumptions Used in Accounting for Derivative Warrant Liability

The Company has determined its derivative warrant liability to be a Level 3 fair value measurement and has used the Black-Scholes pricing model to calculate the fair value as of June 30, 2012. The Black-Scholes model requires six basic data inputs: the exercise or strike price, time to expiration, the risk free interest rate, the current stock price, the estimated volatility of the stock price in the future, and the dividend rate. Because the warrants contain the price protection feature, the probability that the exercise price of the warrants would decrease as the stock price decreased was incorporated into the valuation calculations. The key inputs used in the June 30, 2012 fair value calculations were as follows:

	June 30, 2012
Exercise price	$0.074
Time to expiration	0.4 – 4.40 years
Risk-free interest rate	0.21% – 0.67%
Estimated volatility	274%
Dividend	-0-
Stock price on June 30, 2012	$0.135
Expected forfeiture rate	50%

NOTE 11 - COMMITMENTS

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

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

Note 12 – Stockholders' Deficit

Common Stock Warrants

The outstanding warrants at June 30, 2012 have a weighted average exercise price of $0.084 per share and have a weighted average remaining life of 3.59 years.

Certain of these warrants contain provisions which cause them to be classified as derivative liabilities pursuant to Accounting Standards Codification subtopic 815-40, *"Derivatives and hedging—Contracts in Entity's Own Equity"* (ASC 815-40). Accordingly, upon issuance the warrants were recorded as a derivative liability and valued at a fair market value of $1,750,000 which also reduced the carrying value of the convertible notes payable. As a result of the sale of restricted stock units in June, 2012, the price protection provisions of these certain warrants were triggered and resulted in an adjustment to the conversion price of the warrants from $0.17/share to $0.074/share, and simultaneously a commensurate adjustment to the number of shares covered by the warrants was made. A total of 46,679,584 additional shares were issued as a result of the ratchet provisions. The fair value of these warrants was increased to $4,523,086 as of June 30, 2012. The non-cash expense adjustment recorded in the Statement of Operations for the Nine Months Ended June 30, 2012 was approximately $2,773,086. We are required to continue to adjust the warrants to fair value through current period operations for each reporting period.

The Company's issuance of the following securities will not trigger the price protection provisions of the warrants described above that were issued in connection with the November 2011 private placement: (a) shares of common stock or standard options to the Company's directors, officers, employees or consultants pursuant to a board-approved equity compensation program or other contract or arrangement; (b) shares of common stock issued upon the conversion or exercise of any security, right or other instrument convertible or exchangeable into common stock (or securities exchangeable into common stock) issued prior to November 23, 2011; and (c) shares of common stock and warrants in connection with strategic alliances, acquisitions, mergers, and strategic partnerships, the primary purpose of which is not to raise capital, and which are approved in good faith by the Company's board of directors.

A summary of the status of the Company's outstanding common stock warrants as of June 30, 2012 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	11,528,934	$	0.170
Granted	84,106,138		0.074
Exercised	(838,000)		0.122
Forfeited	0		—
Balance at end of period	94,797,072		0.84
Warrants exercisable at end of period	94,797,072	$	0.084
Weighted average fair value of warrants granted or re-priced during the period		$	.074

The following table summarizes information about common stock warrants outstanding at June 30, 2012:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Price	Number Outstanding at June 30, 2012	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at June 30, 2012	Weighted Average Exercise Price
$ 0.074	83,768,138	3.19 Years	$ 0.074	83,768,138	$ 0.074
$ 0.15	10,738,934	4.25 Years	$ 0.150	10,738,934	$ 0.150
$ 0.50	290,000	1.28 Years	$ 0.500	290,000	$ 0.500
	94,797,072		$ 0.084	94,797,072	$ 0.084

NOTE 13 - STOCK OPTION PLAN

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

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

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2010, the Plan permits the grant of options and shares for up to 60,000,000 shares of the Company's common stock. The Plan terminates 10 years from the date of the Plan's adoption by the Company's stockholders.

The term of each Plan option and the manner in which it may be exercised is determined by the Board of Directors, provided that no Plan option may be exercisable more than three years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of the Company's common stock, no more than five years after the date of the grant. The exercise price of the stock options may be paid in either cash, or delivery of unrestricted shares of common stock having a fair market value on the date of delivery equal to the exercise price, or surrender of shares of common stock subject to the stock option which has a fair market value equal to the total exercise price at the time of exercise, or a combination of the foregoing methods.

The fair value of stock options granted was estimated at the date of grant using the Black-Scholes options pricing model. The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option pricing model:

	June 30,	
	2012	2011
Expected volatility	N/A	323% - 325 %
Expected term	N/A	1 - 5 Years

Risk-free interest rate	N/A	0.03	%
Forfeiture Rate	N/A	0% - 45	%
Expected dividend yield	N/A	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 Nine Months Ended June 30, 2012, total stock-based compensation charged to operations for option-based arrangements amounted to $29,615. At June 30, 2012, there was approximately $23,138 of total unrecognized compensation expense related to non-vested option-based compensation arrangements under the Plan.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

A summary of the status of the Company’s outstanding stock options as of June 30, 2012 and changes during the period ending on that date is as follows:

	Number of Options	Weighted Average Exercise Price
Stock options		
Balance at beginning of year	4,104,487	$ 0.37
Granted	—	—
Exercised	(532,325)	0.34
Forfeited	(1,448,162)	0.53
Balance at end of period	2,124,000	$ 0.38
Options exercisable at end of period	2,086,500	$ 0.29
Weighted average fair value of options granted during the year		$ —

The following table summarizes information about employee stock options outstanding at June 30, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	**Number Outstanding at June 30, 2012**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at June 30, 2012**	**Weighted Average Exercise Price**
$ 0.001-0.15	1,249,000	1.34 Years	$ 0.06	1,211,500	$ 0.06
0.17-0.41	25,000	0.72 Years	0.27	25,000	0.37
0.55-0.70	850,000	0.19 Years	0.61	850,000	0.60
	2,124,000		$ 0.38	2,086,500	$ 0.29

NOTE 14 - 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 June 30, 2012 and 2011 all material assets and revenues of the Company were in the United States.

NOTE 15 - SUBSEQUENT EVENTS

During the month of July, 2012 our convertible noteholders converted $609, 606 of their notes balance into 8,560,944 of our common stock. In addition we sold 2,860,125 common stock units as part of a PIPE transaction that closed in July, 2012, and we had warrants exercised into 675,000 of our common stock in July, 2012. Other than the disclosures shown, management 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 nine months ended June 30, 2012 and 2011 should be read in conjunction with the consolidated financial statements, including footnotes, appearing elsewhere in this quarterly report.

OVERVIEW

Headquartered just outside of Washington, D.C., we manufacture high performance unified data storage appliances with enterprise storage management capabilities. Through thin provisioning, target deduplication and inline compression managed through IceWEB's proprietary IceSTORM™ Operating System, IceWEB's unified storage appliances enable standardization, consolidation and optimized storage utilization for virtual and cloud environments, saving up to 90% of storage costs, while reducing space, power and cooling requirements and simplifying storage management. Our customer base includes mid-sized businesses, large enterprises, and government organizations.

Major shifts in data center environments toward virtual and cloud based infrastructures have compounded the need for storage resources that can handle the complex and mixed systems that combine both file and block data. Unified Data Storage from IceWEB addresses this complexity by providing a unified environment to enable virtualization and cloud computing deployments, protection, and cost savings. Unified Data Storage also provides cost savings through optimized storage utilization, made possible through IceWEB's IceSTORM™ Operating Systems.

We generate revenue from the manufacture and sale of high-performance unified data storage appliances with IceWEB's proprietary IceSTORM (STorage Optimization and Resource Management) Operating System.

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, 2011 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.   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" for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for our various revenues streams:

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

- Revenue from services is recorded as it is earned. Commissions earned on third party sales are recorded in the month in which contracts are awarded. Customers are generally billed every two weeks based on the units of production for the project. Each project has an estimated total which is based on the estimated units of production and agreed upon billing rates.

- Amounts billed in advance of services being provided are recorded as deferred revenues and recognized in the consolidated statement of operations as services are provided.

THREE AND NINE MONTHS ENDED JUNE 30, 2012 COMPARED TO THE THREE AND NINE MONTHS ENDED MARCH 31, 2011

The following table provides an overview of certain key factors of our results of operations for the three months ended June 30, 2012 as compared to the three months ended March 31, 2011:

	Three months ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Net Revenues	$ 654,996	$ 719,727	$ 2,546,852	$ 2,514,164
Cost of sales	444,015	380,784	1,669,704	1,317,299
Operating Expenses:				
Sales and marketing expense	308,698	123,955	641,255	898,299
Depreciation and amortization	33,797	124,831	149,435	418,625
Research and development	289,242	187,810	708,325	547,579
General and administrative	438,795	495,963	1,331,939	1,617,786
Total operating expenses	1,070,532	932,559	2,830,954	3,482,289
Loss from operation	(859,551)	(593,616)	(1,953,806)	(2,285,424)
Total other income (expense)	(3,140,324)	(104,653)	(4,569,124)	(302,908)
Net income (loss)	$ (3,999,875)	$ (698,269)	$ (6,522,930)	$ (2,588,332)

Other Key Indicators:

	Three months ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Cost of sales as a percentage of revenues	67.8 %	52.9 %	65.6 %	52.4 %
Gross profit margin	32.2 %	47.1 %	34.4 %	47.6 %
General and administrative expenses as a percentage of revenues	67.0 %	68.9 %	52.3 %	64.3 %
Total operating expenses as a percentage of revenues	163.4 %	129.6 %	111.2 %	138.5 %

Nine Months ended June 30, 2012

Revenues

For the Nine Months Ended June 30, 2012, we reported revenues of $2,546,852 as compared to revenues of $2,514,164 for the Nine Months Ended June 30, 2011, an increase of $32,688 or approximately 1%.

Cost of Sales

Our cost of sales consists primarily of component parts for the manufacture of our storage products. For the Nine Months Ended June 30, 2012, cost of sales was $1,669,704, or approximately 65.6% of revenues, compared to $1,317,299, or approximately 52.4% of revenues for the Nine Months Ended June 30, 2011. The increase in costs of sales as a percentage of revenue and the corresponding decrease in our gross profit margin for the Nine Months Ended June 30, 2012 as compared to the Nine Months Ended June 30, 2011 was the result of pricing pressure to win sales opportunities during the Nine Months Ended June 30, 2012 as a percentage of total revenue, as well as increased component costs which resulted from the disruption in the world wide supply of hard drives stemming from the flooding in Thailand in October, 2011. We anticipate that our gross profit margins will remain in the range of 30% to 45% through the balance of fiscal 2012.

Total Operating Expenses

Our total operating expenses decreased approximately 19% to $2,830,954 for the Nine Months Ended June 30, 2012 as compared to $3,482,289 for the Nine Months Ended June 30, 2011. These changes include:

- Sales and marketing expense. Sales and marketing expense includes salaries, commission, occupancy, telephone, travel, and entertainment expenses for direct sales personnel. For the Nine Months Ended June 30, 2012, sales and marketing costs were $641,255 as compared to $898,299 for the Nine Months Ended June 30, 2011, a decrease of $257,044 or approximately 29%. The decrease is primarily due to lower sales and marketing headcount.

- Depreciation and amortization expense. For the Nine Months Ended June 30, 2012, depreciation and amortization expense amounted to $149,435 as compared to $418,625 for the Nine Months Ended June 30, 2011, a decrease of $269,190 or 64%.

- Research and development. For the Nine Months Ended June 30, 2012, research and development costs were $708,325 as compared to $547,579 for the Nine Months Ended June 30, 2011, an increase of $160,745 or approximately 29%. Research and development expense is higher due to higher headcount and consulting costs to support our efforts in product development.

- General and administrative expense. For the Nine Months Ended June 30, 2012, general and administrative expenses were $1,331,939 as compared to $1,617,786 for the Nine Months Ended June 30, 2011, a decrease of $285,847 or approximately 18%. For the Nine Months Ended June 30, 2012 and 2011 general and administrative expenses consisted of the following:

	Fiscal Q3 2012	Fiscal Q3 2011
Occupancy	$28,747	$24,227
Consulting	7,480	77,874
Employee compensation	570,691	896,012
Professional fees	133,531	57,895
Internet/Phone	4,988	16,744
Travel/Entertainment	27,492	29,787
Investor Relations	430,271	251,568
Insurance	11,771	31,073
Other	116,968	232,606
	$1,331,939	$1,617,786

- For the Nine Months Ended June 30, 2012, Occupancy expense increased to $28,747 as compared to $24,227, primarily due to an increased allocation of rent expense to administration.

- For the Nine Months Ended June 30, 2012, Consulting expense decreased to $7,480 as compared to $77,874. 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 Nine Months Ended June 30, 2012, salaries and related expenses decreased to $570,691 as compared to $896,012, a decrease of $325,321. The decrease is due primarily to lower non-cash compensation expense of $39,302 as compared to $304,039.

- For the Nine Months Ended June 30, 2012, Professional fees expense increased to $133,531 as compared to $57,895. Professional fees expense increased due to increased costs related to intellectual property patent applications and other legal fees.

- For the Nine Months Ended June 30, 2012, internet and telephone expense decreased to $4,988 as compared to $16,744. The decrease was primarily due to cost-cutting measures implemented by the Company.

- For the Nine Months Ended June 30, 2012, travel and entertainment expense decreased to $27,492 as compared to $29,787. The decrease was primarily due to less travel related to investor relations and analyst meetings.

- For the Nine Months Ended June 30, 2012 Other expense amounted to $116,968 as compared to $232,606 for the Nine Months Ended June 30, 2011, a decrease of $115,638. The decrease is primarily related to increased bad debt expense of $100,000 during the three months ended June 30, 2011, which do not recur in the current year quarter.

- For the Nine Months Ended June 30, 2012 Investor relations expense increased to $430,271 as compared to $251,568 for the Nine Months Ended June 30, 2011. The increase is due to increased investor relations activity.

- For the Nine Months Ended June 30, 2012, insurance expense decreased to $11,771 as compared to $31,073. The decrease was primarily due to cost cutting measures.

We anticipate that general and administrative expenses will remain stable for the balance of fiscal 2012.

LOSS FROM OPERATIONS

We reported a loss from operations of $1,953,806 for the Nine Months Ended June 30, 2012 as compared to a loss from operations of $2,285,424 for the Nine Months Ended June 30, 2011, a decreased loss of of $331,618 or approximately 15%.

OTHER INCOME (EXPENSES)

Interest Expense . For the Nine Months Ended June 30, 2012, interest expense amounted to $1,796,060 as compared to $302,908 for the Nine Months Ended June 30, 2011, an increase of $1,493,152 or 493%. The increase in interest expense is primarily attributable to the amortization of the discount on our outstanding convertible debentures.

Loss on change of fair value of derivative liability. For the Nine Months Ended June 30, 2012 we incurred an increase in the value of the derivative liability of $2,773,086. We had no derivative liabilities during the nine months ended June 30, 2011.

NET INCOME/ LOSS

Our net loss was $6,522,930 for the Nine Months Ended June 30, 2012 compared to a net loss of $2,588,332 for the Nine Months Ended June 30, 2011.

Three Month Period ended June 30, 2012

Revenues

For the three months ended June 30, 2012, we reported revenues of $654,996 as compared to revenues of $719,727 for the three months ended June 30, 2011, a decrease of $64,731 or approximately 9%.

Cost of Sales

Our cost of sales consists of component parts for the manufacture of our storage products. For the three months ended June 30, 2012, cost of sales was $444,045, or approximately 67.8% of revenues, compared to $380,784, or approximately 52.9% of revenues, for the three months ended June 30, 2011. 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 June 30, 2012 as compared to the three months ended June 30, 2011 was the result of lower margins on competitive opportunities in order to win deals.

Total Operating Expenses

Our total operating expenses increased approximately 15% to $1,070,532 for the three months ended June 30, 2012 as compared to $932,559 for the three months ended June 30, 2011. These changes include:

• Sales and marketing expense . For the three months ended June 30, 2012, sales and marketing expenses were $308,698 as compared to $123,955 for the three months ended June 30, 2011, an increase of $184,743 or approximately 149%. The increase was due to increased headcount and the rollout of our inside sales efforts during the three months ended June 30, 2012.

• Depreciation and amortization expense . For the three months ended June 30, 2012, depreciation and amortization expense amounted to $33,797 as compared to $124,831 for the three months ended June 30, 2011, a decrease of $91,034 or 73%.

• Research and development . For the three months ended June 30, 2012, research and development costs were $289,242 as compared to $187,810 for the three months ended June 30, 2011, an increase of $101,432 or approximately 54%. Research and development expense is higher due to higher headcount and consulting costs as we continue to invest in product development.

• General and administrative expense . For the three months ended June 30, 2012, general and administrative expenses were $438,795 as compared to $495,963 for the three months ended June 30, 2011, a decrease of $57,169 approximately 12%. For the three months ended June 30, 2012 and 2011 general and administrative expenses consisted of the following:

	Fiscal Q3 2012	Fiscal Q3 2011
Occupancy	$9,292	$7,769
Consulting	3,015	2,950
Employee compensation	168,857	338,649
Professional fees	28,017	25,436
Internet/Phone	1,578	4,108
Travel/Entertainment	10,333	13,667
Investor Relations	169,040	45,332
Insurance	6,053	8,610
Other	42,609	49,442
	$438,795	$495,963

- For the three months ended June 30, 2012, Occupancy expense increased to $9,292 as compared to $7,769.
- For the three months ended June 30, 2012, Consulting expense increased to $3,015 as compared to $2,950, an increase of $65.
- For the three months ended June 30, 2012, salaries and related expenses decreased to $168,857 as compared to $338,649, a decrease of $169,792, or 50%. The decrease is due primarily to a decrease in non-cash stock and option

based compensation expense.

- For the three months ended June 30, 2012, Professional fees expense increased to $28,017 as compared to $25,436. Professional fees expense increased primarily as a result of an increase in legal fees incurred related to business development activities.

- For the three months ended June 30, 2012, Internet/Phone expense decreased to $1,578 as compared to $4,108. Phone expense decreased primarily due to cost-cutting measures implemented by the Company.

- For the three months ended June 30, 2012, travel and entertainment expense decreased to $10,333 as compared to $13,667. Travel and entertainment expense decreased due to decreased travel for investor relations and general corporate travel activity.

- For the three months ended June 30, 2012, Insurance expense decreased to $6,053 as compared to $8,610, as a result of cost-cutting measures.

- For the three months ended June 30, 2012 Other expense amounted to $42,609 as compared to $49,442 for the three months ended June 30, 2011.

- For the three months ended June 30, 2012 Investor relations expense increased to $169,040 as compared to $45,332 for the three months ended June 30, 2011. The increase is due to increased investor relations activity.

LOSS FROM OPERATIONS

We reported a loss from operations of $859,551 for the three months ended June 30, 2012 as compared to a loss from operations of $593,616 for the three months ended June 30, 2011, an increase in loss of $265,935 or approximately 45%.

OTHER INCOME (EXPENSES)

Interest Expense . For the three months ended June 30, 2012, interest expense amounted to $984,317 as compared to $104,653 for the three months ended June 30, 2011, an increase of $672,566 or 643%. The increase in interest expense is primarily attributable to the amortization of the discount on our outstanding convertible debentures.

Loss on change of fair value of derivative liability. For the three months ended June 30, 2012 we incurred an increase in the value of the derivative liability of $2,156,007.

NET INCOME/ LOSS

Our net loss was $3,999,875 for the three months ended June 30, 2012 compared to a net loss of $698,269 for the three months ended June 30, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. The following table provides an overview of certain selected balance sheet comparisons between June 30, 2012 and September 30, 2011:

	June 30, 2012	September 30, 2011	$ Change	% Change
Working Capital	$(5,462,640)	$(1,713,333)	$(3,749,307)	218.8 %
Cash	774,012	4,120	769,892	18,687.0%
Accounts receivable, net	1,336,591	1,182,060	154,531	13.1 %
Inventory	282,602	55,981	226,621	404.8 %
Total current assets	2,437,404	2,450,806	(13,402)	(0.5 %)
Property and equipment, net	354,643	252,835	101,808	40.3 %
Marketable Securities	164,000	115,200	48,800	42.3 %
Deferred financing costs, net	107,180	-	107,180	N/A
Total assets	3,078,091	2,832,161	245,930	8.7 %
Accounts payable and accrued liabilities	1,032,235	2,186,691	(1,154,456)	(52.8 %)

Notes payable	2,016,245	1,972,544	(43,701)	(2.2 %)
Convertible notes payable, net of discount	328,478	-	328,478	0.0 %
Derivative liability	4,523,086	-	4,523,086	0.0 %
Total current liabilities	7,900,044	4,164,139	3,735,905	89.7 %
Accumulated deficit	(40,851,010)	(34,328,080)	(6,522,930)	19.0 %
Stockholders’ deficit	(4,821,953)	(1,331,978)	(3,489,973)	262.0 %

Net cash used in operating activities was $4,375,749 for the Nine Months Ended June 30, 2012 as compared to net cash used in operating activities of $1,827,791 for the Nine Months Ended March 31, 2011, an increase in loss of $2,547,958. For the Nine Months Ended June 30, 2012, we had a loss of $6,522,930 offset by non-cash items such as depreciation and amortization expense of $115,639, share-based compensation expense of $56,615, amortization of deferred finance costs of $371,737, and decreases from changes in assets and liabilities of $1,376,994. During the Nine Months Ended June 30, 2012 we experienced an increase in accounts receivable of $154,531, and a decrease in accounts payable during the period of $989,192. For the nine months ended June 30, 2011, we had a loss of $2,588,332 offset by non-cash items such as depreciation and amortization expense of $418,625, share-based compensation expense of $585,000, and decreases from changes in assets and liabilities of $356,452. During the nine months ended June 30, 2011 we experienced an increase in accounts receivable of $310,677, and a decrease in accounts payable during the period of $61,035

Net cash used in investing activities for the Nine Months Ended June 30, 2012 was $250,446 as compared to net cash used in investing activities of $60,061 for the Nine Months Ended June 30, 2011. During the Nine Months Ended June 30, 2012, we used cash of $217,446 for property and equipment purchases, and $33,000 for the purchase of 3,300,000 of VOIS Inc. common stock. During the Nine Months Ended June 30, 2011, we used cash of $60,061 for property and equipment purchases.

Net cash provided by financing activities for the Nine Months Ended June 30, 2012 was $5,396,087 as compared to net cash provided of $1,351,880 for the Nine Months Ended June 30, 2011. For the Nine Months Ended June 30, 2012, net cash provided by financing activities related to proceeds received from subscriptions receivable of $1,171,520, proceeds from notes payable of $301,896 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the issuance of convertible notes of $1,750,000, proceeds from the exercise of common stock options of $180,717, proceeds from the conversion of common stock warrants of $102,460, payments on the convertible debenture with common stock of $884,612, proceeds from the sale of restricted stock of $1,834,347, offset by repayments on notes payable of $258,195 which were to pay down the balance on the Sand Hill Finance LLC factoring line, and payment of deferred financing costs of $571,270. For the nine months ended June 30, 2011, net cash provided by financing activities related to proceeds received from notes payable of $818,481 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of $720,148, and proceeds from the sale or restricted stock of $409,464, offset by repayments on notes payable of $596,213 which were to pay down the balance on the Sand Hill Finance LLC factoring line.

At June 30, 2012 we had a working capital deficit of $5,462,640 and an accumulated deficit of $40,851,010. The report from our independent registered public accounting firm on our audited financial statements for the fiscal year ended September 30, 2011 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 Nine Months Ended June 30, 2012, our gross profit margin was approximately 34.4% and our sales were not sufficient to pay our operating expenses. We reported a net loss of $6,522,930 for the Nine Months Ended June 30, 2012. There are no assurances that we will report income from operations in any future periods.

Historically, our revenues have not been sufficient to fund our operations and we have relied on capital provided through the sale of equity securities, and various financing arrangements and loans from related parties. At June 30, 2012 we had cash on hand of $774,012. In fiscal 2006, we entered into a receivable factoring agreement with Sand Hill Finance, LLC under which we can sell certain accounts receivable to the lender on a full recourse basis at 80% of the face amount of the receivable up to an aggregate of $3.0 million. At June 30, 2012 we owed Sand Hill Finance, LLC $2,016,245 under this accounts receivable line.

We do not have any commitments for capital expenditures. 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

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards" ("IFRS"). The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. We do not expect the adoption of ASU 2011-04 will have a material impact on the Company's Condensed Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" (amended further under ASU No. 2011-12 in December 2011). This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives; present items in net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted, but full retrospective application is required under both sets of accounting standards. The Company is currently evaluating which presentation alternative it will utilize.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment", which simplifies how entities test goodwill for impairment. Previous guidance under Topic 350 required an entity to test goodwill for impairment using a two-step process on at least an annual basis. First, the fair value of a reporting unit was calculated and compared to its carrying amount, including goodwill. Second, if the fair value of a reporting unit was less than its carrying amount, the amount of impairment loss, if any, was required to be measured. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process as described in Topic 350 under paragraphs 350-20-35-4 and 350-20-35-9 under Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company is currently evaluating whether early adoption is necessary.

In December 2011, the FASB issued Accounting Standards Update (ASU) No, 2011-11, *Balance Sheet* (Topic 210): *Disclosures about Offsetting Assets and Liabilities*. The amendments in this ASU require an entity to disclose information about offsetting and related arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities and require improved information about financial instruments and derivative instruments that are either (1) offset in accordance with Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with Section 210-20-45 or Section 915-10-45. The amendments are effective for annual reporting periods beginning on or after January 1, 2013 and retrospective disclosure is required for all comparative periods presented. No early adoption is permitted. Currently, the Company does not enter into any right of offset arrangements and expects implementation to have little or no impact.

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 June 30, 2012, that have materially affected, or are reasonably likely to materially impact, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

At June 30, 2012 there are no known, pending or threatened, legal actions.

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, 2011, 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 June, 2012 we sold approximately 10,595,833 restricted stock units at $0.12/unit. Each unit consists of one share of common stock and a warrant exercisable for one share of common stock. The warrants have a five year life, an exercise price of $0.15/share, and are callable if the Company's common stock trades over $0.25/share for ten consecutive trading days.

Meyers Associates, LP acted as the placement agent in connection with the sale the securities and as compensation received a cash fee of approximately $127,150, and warrants to purchase approximately 1,059,584 shares of the Company's common stock at a price per share of $0.15.

The sale of the Shares and the Warrants was made pursuant to Section 4(2) of the Securities Act for transactions not involving a public offering and/or Regulation D, as promulgated by the SEC under the Securities Act, and in reliance upon exemptions from registration under applicable state securities laws.

On November 23, 2011 IceWEB, Inc. (the "Company") entered into a Securities Purchase Agreement (the "Purchase Agreement") with three accredited investors pursuant to which the Company sold $2,012,500 in principal amount of Senior Convertible Notes (the "Notes") and issued the investors Series O, Series P and Series Q Warrants (collectively, the "Warrants") to purchase up to an aggregate of 35,514,708 shares of the Company's common stock for an aggregate purchase price of $1,750,000 in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") in reliance on an exemption from registration pursuant to Section 4(2) and Regulation D of the Securities Act. The Company issued the Notes at an original issue discount of 13%.

The Purchase Agreement contains customary covenants on our part that are typical for transactions of this type, as well as the following additional covenants:

- we agreed not to file any registration statement, other than the registration statement we are required to file under the Registration Rights Agreement described below or a registration statement on Form S-4 or S-8, until the first date on which the resale by the investors of all shares of common stock underlying the securities sold in the offering is either covered by one or more effective registration statements or may be resold pursuant to Rule 144 under the Securities Act without the need for current public information required by Rule 144 (the "Applicable Date");

- we agreed not conduct any other securities offerings until 30th trading day after the Applicable Date, except for certain excluded securities, and while the Notes and Warrants are outstanding, we agreed not to enter into any variable rate transactions;

- we agreed to offer to the investors, until the first anniversary of the closing date, the opportunity to participate in any subsequent securities offerings by our company;

- so long as the Notes or Warrants are outstanding, we agreed not to issue any securities other than for cash or in connection with options which may be granted to our officers, directors and employees; and

- we are required to enter into an amendment with Sand Hill Finance, LLC for our factoring agreement to extend the maturity date of the agreement to at least 91 days after all obligations under the Notes have been satisfied, among other modifications,

among other covenants.

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/ Rob Howe
August 14, 2012	Rob Howe, Chief Executive Officer, principal executive officer
	By: /s/ Mark B. Lucky
August 14, 2012	Mark B. Lucky Chief Financial Officer, principal financial and accounting officer