

Edgar Filing: ICEWEB INC - Form 10QSB

ICEWEB INC  
Form 10QSB  
February 22, 2005

---

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

FORM 10-QSB

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

FOR THE QUARTER ENDED DECEMBER 31, 2004

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 0-27865

ICEWEB INCORPORATED

DELAWARE  
(STATE OF INCORPORATION)

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

205 VAN BUREN STREET, SUITE 420, HERNDON, VA 20170  
(703) 964-8000

Securities registered pursuant to Section 12(b) of the Act:  
NONE

Securities registered pursuant to Section 12(g) of the Act:  
COMMON STOCK, PAR VALUE \$0.001 PER SHARE

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 465,190,240 issued and outstanding at January 31, 2005.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

Transitional Small Business Disclosure Format: Yes  No

---

Edgar Filing: ICEWEB INC - Form 10QSB

ICEWEB INCORPORATED

FORM 10-QSB

FOR THE QUARTER ENDED DECEMBER 31, 2004

INDEX

PART I Financial Information

Item 1. Financial Statements .....4

    Unaudited Consolidated Balance Sheet at December 31, 2004 .....4

    Unaudited Consolidated Statements of Operations for the  
    three months ended December 31, 2004 and December 31, 2003 .....5

    Unaudited Consolidated Statements of Cash Flows for the  
    three months ended December 31, 2004 and December 31, 2003 .....6

    Notes to Unaudited Consolidated Financial Statements .....7

Item 2. Management's Discussion and Analysis or Plan of Operation .....9

Item 3. Controls and Procedures .....11

    OTHER INFORMATION .....12

PART II Signatures .....13

Page 2

FORWARD-LOOKING STATEMENTS

This Quarterly Report and related documents include "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements involve known and unknown risks, uncertainties, and other factors which could cause the Company's actual results, performance (financial or operating) or achievements expressed or implied by such forward looking statements not to occur or be realized. Such forward looking statements generally are based upon the Company's best estimates of future results, performance or achievement, based upon current conditions and the most recent results of operations. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "will," "expect," "believe," "estimate," "anticipate," "continue," or similar terms, variations of those terms or the negative of those terms. Potential risks and uncertainties include, among other things, such factors as: our high level of indebtedness and ability to satisfy the same, our history of unprofitable operations, the continued availability of financing in the amounts, at the times and on the terms required, to support our future business and capital projects,

## Edgar Filing: ICEWEB INC - Form 10QSB

the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products, changes in economic conditions specific to any one or more of our markets, changes in general economic conditions, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements, and the other factors and information disclosed and discussed in other sections of this report. Investors and shareholders should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Page 3

### PART I

#### ITEM 1. Financial Statements

IceWEB, Inc. and Subsidiaries  
CONSOLIDATED BALANCE SHEET  
December 31, 2004  
(Unaudited)

|                                      |              |
|--------------------------------------|--------------|
| Current assets:                      |              |
| Cash                                 | \$ 118,470   |
| Accounts receivable, net             | 954,849      |
| Prepaid expense                      | 23,181       |
|                                      | -----        |
| Total current assets                 | 1,096,500    |
| Property and equipment, net          | 78,727       |
| Goodwill                             | 1,812,999    |
| Deposits                             | 16,170       |
| Deferred financing costs             | 195,000      |
|                                      | -----        |
| Total assets                         | \$ 3,199,396 |
|                                      | -----        |
| Liabilities and stockholders' equity |              |
| Current liabilities:                 |              |
| Accounts payable                     | 1,309,154    |
| Accrued expenses                     | 340,860      |
| Notes payable - related parties      | 186,361      |
| Line of credit                       | 461,269      |
| Deferred revenue                     | 19,515       |
|                                      | -----        |
| Total Current liabilities            | 2,317,159    |
| Note payable - long term             | 150,000      |
|                                      | -----        |
| Total liabilities                    | 2,467,159    |
|                                      | -----        |
| Stockholders' equity:                |              |

Edgar Filing: ICEWEB INC - Form 10QSB

|  |              |
|--|--------------|
| Preferred stock (par value \$.001; 1,000,000 shares authorized<br>no shares outstanding)                         | -            |
| Common stock (par value \$.001 100,000,000 shares authorized<br>445,199,240 issued, and 432,199,240 outstanding) | 445,199      |
| Treasury Stock, at cost, (13,000,000 shares)   | (13,000)     |
| Subscription receivable  | (20,000)     |
| Additional paid in capital   | 4,355,604    |
| Accumulated deficit  | (4,035,566)  |
| -----  |              |
| Total stockholders' equity   | 732,237      |
| -----  |              |
| Total liabilities and stockholders' equity   | \$ 3,199,396 |
| -----  |              |

See accompanying notes to unaudited consolidated financial statements

Page 4

IceWEB, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three Months Ended |              |
|--|--------------------|--------------|
|  | December 31,       | December 31, |
|  | 2004               | 2003         |
|  | (Unaudited)        | (Unaudited)  |
|  | -----              |              |
| Revenue                                    | \$ 1,432,883       | \$ 1,525,358 |
| Cost of Sales                              | 1,068,200          | 1,002,782    |
| -----                                      |                    |              |
| Gross Profit                               | 364,683            | 522,576      |
| Operating Expenses:                        |                    |              |
| Marketing & Selling                        | 12,703             | 36,860       |
| Research & Development                     | 193,727            | 56,000       |
| General and Administrative                 | 534,347            | 388,809      |
| -----                                      |                    |              |
| Total Operating Expense                    | 740,777            | 481,669      |
| Operating (Loss)/Income                    | (376,094)          | 40,907       |
| Other Income/Expense                       | 9,769              | -            |
| Interest Expense                           | (20,301)           | (10,976)     |
| -----                                      |                    |              |
| Net (Loss) Income                          | \$ (386,626)       | \$ 29,931    |
| -----                                      |                    |              |
| Basic & Diluted Loss per common share      | \$ (0.00)          | \$ 0.00      |
| -----                                      |                    |              |
| Weighted average common shares outstanding | 443,399,240        | 381,900,000  |
| -----                                      |                    |              |

See accompanying notes to unaudited consolidated financial statements

Edgar Filing: ICEWEB INC - Form 10QSB

Page 5

IceWEB, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Three Months Ended |              |
|--|--------------------|--------------|
|  | December 31,       | December 31, |
|  | 2004               | 2003         |
|  | (Unaudited)        | (Unaudited)  |
| NET CASH USED IN OPERATING ACTIVITIES              | \$ (112,671)       | \$ (121,480) |
| CASH FLOWS FROM INVESTING ACTIVITIES:              |                    |              |
| Purchase of property and equipment                 | (8,838)            | (66,679)     |
| NET CASH USED IN INVESTING ACTIVITIES              | (8,838)            | (66,679)     |
| CASH FLOWS FROM FINANCING ACTIVITIES:              |                    |              |
| Payments from related parties                      | 8,198              | 79,538       |
| Payment of subscription receivable                 | 32,000             | 70,000       |
| Proceeds from the exercise of common stock options | 21,000             | -            |
| NET CASH PROVIDED BY FINANCING ACTIVITIES          | 61,198             | 149,538      |
| NET DECREASE IN CASH                               | (60,311)           | (38,621)     |
| CASH - beginning of period                         | 178,781            | 104,314      |
| CASH - end of period                               | \$ 118,470         | \$ 65,693    |

See accompanying notes to the unaudited consolidated financial statements

Page 6

ICEWEB, INC and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

December 31, 2004

Note 1 - Basis of Presentation

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

Edgar Filing: ICEWEB INC - Form 10QSB

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual Report for the year ended September 30, 2004, which is included in the Company's Form 10-KSB for the year ended September 30, 2004. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

Note 2 - Related Parties

The Company has a note payable to John R. Signorello, the Chairman and CEO, for \$109,177 plus accrued interest of approximately \$ 33,000. This note bears interest at a rate of 12.5% per annum and is due on-demand. Other Stockholders/Employees have loans totaling \$227,186 plus accrued interest of approximately \$41,000. Of this amount, \$150,000 bears interest at a rate of 12.5% per annum. The Company has issued the noteholder 10 million shares of common stock in exchange, the individual has extended the maturity date of the note by 10 years. The cost associated with these shares has been accounted for as deferred finance charges, and are being amortized over the life of the deferral period. The shares were valued at \$200,000 the fair value at the date of issuance. Also included in this amount is \$77,000 due to employees payable on demand.

Note 3 - Stockholder's Equity

The Company is authorized to issue 10,000,000 shares of Preferred Stock, par value \$.001, with such designations, rights and preferences as may be determined from time to time by the Board of Directors. There are currently zero shares of Preferred Stock issued and outstanding.

During the period 800,000 common stock options were exercised by employees. The average exercise price of the options was .026. The Company realized proceeds of \$21,000 from the exercise of the options.

Note 4 - Stock Options

Stock option activity during the period is indicated as follows:

Page 7

|                             | OPTIONS AVAILABLE<br>FOR GRANT | OPTIONS    | EXERCISE<br>PRICE |
|-----------------------------|--------------------------------|------------|-------------------|
|                             | -----                          | -----      | -----             |
| Balance, September 30, 2004 | 40,856,040                     | 47,063,960 | .01 - .04         |
| Granted                     |                                | 0          |                   |
| Exercised                   |                                | (800,000)  | .01 - .04         |
| Forfeited                   |                                | 0          |                   |
| Balance, December 31, 2004  | 40,856,040                     | 46,263,960 | .01 - .04         |

SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS 123") and SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") requires the Company to disclose pro forma information regarding option grants made to its employees. SFAS 123 specifies certain valuation techniques that produce estimated compensation charges that are included in the pro forma results below. These amounts have not been reflected in the Company's Statement

## Edgar Filing: ICEWEB INC - Form 10QSB

of Operations, because Accounting Principles Board Opinion 25, "Accounting for Stock issued to Employees" specifies that no compensation charge arises when the price of the employees' stock options equal the market value of the underlying stock at the grant date, as in the case of options granted to the Company's employees.

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

|  |           |
|--|-----------|
| Actual net loss                                | (386,626) |
| SFAS 123 Compensation Cost                     | 4,620     |
|  | -----     |
| Pro forma net loss                             | (391,246) |
|  | -----     |
| Pro forma basic and diluted net loss per share | (0.00)    |

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

|                         |     |
|-------------------------|-----|
| Risk free interest rate | 4%  |
| Expected dividends      | 0   |
| Volatility factor       | 52% |

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

### Note 5 - Accounts Receivable

Accounts receivable consist of normal trade receivables. The Company assesses the collectibility of its accounts receivable regularly. Based on the most recent assessment, we recorded bad debt expense of \$0 for the period ending December 31, 2004.

### Note 6 - Subsequent Events

On January 4th the Company issued a Private Placement Memorandum. The Company has received \$500,000. The pricing of the placement is .025 cents per unit. The units consist of one common share at par value .001 and two warrants priced at .05 and .10 respectively expiring in 2009 and 2010 respectively.

Page 8

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

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

### OVERVIEW

We are a diversified technology Company headquartered in Herndon, VA, Since our formation in 2001, our business plan has evolved as our revenues have grown. Our products and services offering include skilled technical consulting services, a

## Edgar Filing: ICEWEB INC - Form 10QSB

full catalog of third party hardware and software and a branded suite of online training, content management (CMS), collaboration, portal and integration products.

Our future growth and the continued support of a comprehensive product line is dependent upon a significant growth in revenues from software licenses and the availability of additional working capital to fund the next version of software. While we continue to explore acquisition opportunities, our short-term focus is development and launch of the new version of IceWEB software know as "Smart Enterprise Suite 3.0." This version of the IceWEB product line will include new features, including wireless and PDA connectivity, more robust reporting tools and a tightly integrated technology platform. The product will be offered as an application service over the internet. It will include functionality that allows the customer to click and choose what service is needed and the length of which time the software is to be used. Over the last two quarters we have ported our platform to dot net nuke, an open systems architecture.

Our client base continues to broaden. The Company is signing new customers on a daily basis. The Company uses it's website as the predominant marketing tool.

### RESULTS OF OPERATIONS

#### Revenues

We generate revenues from software, application development and network management services and integrated technology, infrastructure solutions and third party hardware sales. For the three months ended December 31, 2004, we generated revenues of \$1,432,883 compared to \$1,525,358 in the comparative period in 2003, a decrease of approximately 6%. The primary reason for the decrease in revenue is that the Company continues to incur cash flow deficits. The cash flow issues have inhibited the Company's relationship with it's suppliers and hindered it's ability to generate additional revenue.

#### Cost of Sales

For the three months ended December 31, 2004, cost of sales was \$1,068,200, or approximately 75% of revenues, compared to \$1,002,782 or approximately 66% of revenues, for the three months ended December 31, 2003. The Company attributes the increase in the cost of sales to increase costs associated with programmers and other technical human resources.

#### Total Operating Expenses

Our total operating expenses increased approximately 53% for the three months ended December 31, 2004 as compared to the same period in fiscal 2003. These increases include: approximately \$194,000 in research and development costs.

Marketing and Selling - our marketing and selling expense consists of personnel costs, including commissions, public relations, advertising, marketing programs, lead generation, travel and trade shows. For the three months ended December 31, 2004, marketing and selling costs were \$12,703 as compared to \$36,860 for comparative period in 2003, a decrease of \$24,157 or approximately 65%. These increases were the result of additional marketing personnel, trade show events, online web marketing, advertising and print advertising during fiscal 2004.

Research and development - our research and development expense consists primarily of personnel costs related to the development of the software products. For the three months ended December 31, 2004, research and development expenses were 193,727 as compared to \$56,000 in the comparative



## Edgar Filing: ICEWEB INC - Form 10QSB

period in 2003. The research and development expenses in fiscal 2004 are related to efforts to further develop and enhance certain software products acquired by us during this fiscal year. General and administrative expense - our general and administrative expense consists primarily of personnel costs, rent, legal, accounting, human resources, telecommunications, office supplies and corporate governance and compliance. For the three months ended December 31, 2004, general and administrative expenses were \$534,347 as compared to \$388,809 for the comparative period in 2003, an increase of \$145,538 or approximately 37%. These increased general and administrative expenses reflect increases in personnel costs and other fixed expenses resulting from acquisitions made by us during fiscal 2004. We expect general and administrative expenses to stabilize and potentially decrease as a percentage of sales due to the process efficiencies we have been developing. At this time, we do not anticipate any significant changes in the number of employees through hiring or firing practices; however, any additional acquisitions could result in increased general and administrative expenses.

### Other Income/Expense

For the three months ended December 31, 2004, The Company recognized other income of \$9,769 which represents rental revenue generated from a sublet of office space.

### Interest Expense

Interest expense consists primarily of the amounts accrued on the notes payable to John R. Signorello and an unaffiliated third party as described in Note 2 of the notes to unaudited consolidated Financial Statements appearing elsewhere herein. For the three months ended December 31, 2004 interest expense was \$20,301 as compared to \$10,976 the comparative period in 2003.

### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, we had a cash balance of \$118,470 and a working capital deficit of \$1,220,659. The report of our independent auditors on our financial statements for the year ended September 30, 2004 contains an explanatory paragraph regarding our ability to continue as a going concern. Net cash used in operations was (\$112,671) for the three months ended December 31, 2004, as compared to net cash used in operations of (\$121,480) for the three months ended December 31, 2003. For the three months ended December 31, 2004, we used cash to fund our net loss of (\$386,626) offset by non-cash items such as depreciation expense of \$16,362.

Net cash used in investing activities for the three months ended December 31, 2004 was \$8,838 as compared to \$66,679 for the comparative period in 2003. Net cash provided by financing activities for the three months ended December 31, 2004 was \$61,198 as compared to \$149,538 for the comparative period in 2003.

Our operations continue to use more cash than they currently generate. We have expended funds not only for our continuing operations but to fund research and development costs associated with our software. Because of the continued need for substantial amounts of working capital to fund the growth of the business and to pay our operating expenses, we expect to continue to experience negative operating and investing cash flows for the foreseeable future. While we presently expect an increase in software sales during the balance of fiscal 2004 and into fiscal 2005, would have a positive effect on the operating cash flow, as a result of the current uncertainty of the software revenues it is likely that our existing working capital will not be sufficient to fund the continued implementation of our plan of operation during the next 12 months and to meet

## Edgar Filing: ICEWEB INC - Form 10QSB

our capital commitments and general operating expenses. We are unable to predict at this time the exact amount of additional working capital we will require, however, in order to provide any additional working capital which we may require, we will in all likelihood be required to raise additional capital through the sale of equity or debt securities. Subsequent to this document we have raised \$500,000 through the sale of equity. We will still need to raise a minimum of \$1,000,000 to sustain our current growth rate and operations.

### CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was released by the U.S. Securities and Exchange Commission encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our consolidated financial statements include a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the financial statements.

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

Use of Estimates - Management's discussion and analysis of financial condition and results 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 financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates, including those related to allowances for doubtful accounts receivable and the carrying value of inventories and long-lived assets. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### Item 3. Controls and Procedures

#### Evaluation of disclosure controls and procedures

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

#### Changes in internal controls

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

Edgar Filing: ICEWEB INC - Form 10QSB

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not involved in any material legal proceedings.

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

None

Item 3. Defaults upon Senior Securities

The Company is currently out of compliance with the Tangible Net Worth covenant as stated in our Loan Agreement with Comerica.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

|              |  |
|--------------|--|
| Exhibit 10.1 | Comerica Bank Loan and Security Agreement                            |
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Section 302     |
| Exhibit 31.2 | Certification of Principal Financial Officer pursuant to Section 302 |
| Exhibit 32.1 | Certification of Chief Executive Officer pursuant to Section 906     |

b) Reports on Form 8-K

8K filed on 10/08/04 pursuant to items 8.01 and 9.01  
8K filed on 10/18/04 pursuant to items 8.01 and 9.01  
8K/A filed on 10/29/2004 pursuant to item 9.01

Page 12

SIGNATURES

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

ICEWEB Inc.

Dated: February 18, 2005  
-----

By: /s/ John R. Signorello  
-----

John R. Signorello,  
Chairman and CEO

