ICEWEB INC
Form 10QSB
February 15, 2006

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

FORM 10-QSB

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

FOR THE QUARTER ENDED December 31, 2005

[ ] 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
(Exact name of small business issuer as specified in its charter)

DELAWARE	13-2640971
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

205 VAN BUREN STREET, SUITE 150, HERNDON, VA 20170
(Address of principal executive offices)

(703) 964-8000
(Issuer's telephone number)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [ ]

Check whether the issuer is a shell company as defined by paragraph 12b-2 of the Exchange Act. Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 6,329,787 shares of common stock issued and outstanding at January 31, 2006.

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

ICEWEB INCORPORATED

FORM 10-QSB

FOR THE QUARTER ENDED DECEMBER 31, 2005

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

All per share information contained in this quarterly report gives effect to the ten for one (10:1) forward stock split of the Company's common stock effective October 13, 2004 and a one for eighty (1:80) reverse stock split of its common stock effective April 27, 2005.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10QSB for the three months ended December 31, 2005 includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange

Act of 1934, as amended. 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 ability to grow our revenues and establish our brand, our history of unprofitable operations, the continued availability of financing in the amounts, at the times and on the terms required, to support our future business and capital projects, the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products, changes in economic conditions specific to any one or more of our markets, changes in general economic conditions, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements, and the other factors and information disclosed and discussed in other sections of this report. Investors and shareholders should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements. Except as required by federal securities law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I -FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IceWEB, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEET
December 31, 2005
(Unaudited)

Current assets:	
Cash	$ 181,847
Accounts receivable, net of allowance of $4,756	1,902,795
Prepaid expense	76,250
Employee advances	62,277
Total current assets	2,223,169
Property, equipment, and software net of accumulated depreciation of $366,069	329,699
Goodwill	41,800
Intangibles, net	229,298
Deposits	33,025
Deferred financing costs	175,000
Total non-current assets	808,822
Total assets	$ 3,031,991

Liabilities and stockholders' equity

Current liabilities:	
Accounts payable	$ 1,143,644
Accrued expenses	90,929
Advances from related party	92,522
Line of credit	800,745
Deferred revenue	3,200
Total Current liabilities	2,131,040
Notes payable - related parties	220,312
Total liabilities	$ 2,351,352
Stockholders' equity:	
Preferred stock (par value $.001; 10,000,000 shares authorized; Series A Convertible Preferred Stock, par value .001, 1,666,667 shares issued and 1,666,667 shares outstanding) Series B Convertible Preferred Stock, par value .001, 1,833,333 shares issued and 1,833,333 shares outstanding)	3,500
Common stock (par value $.001 1,000,000,000 shares authorized 6,492,287 issued, and 6,329,787 outstanding)	6,493
Treasury stock, at cost, (162,500 shares)	(13,000)
Subscription receivable	(143,477)
Additional paid in capital	8,179,436
Accumulated deficit	(7,352,313)
Total stockholders' equity	680,639
Total liabilities and stockholders' equity	$ 3,031,991

See accompanying notes to unaudited consolidated financial statements

IceWEB, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	December 31, 2005 (Unaudited)	December 31, 2004 (Unaudited)
Revenue	$ 1,491,216	$ 1,432,883
Cost of Sales	1,241,409	1,068,200
Gross Profit	249,807	364,683
Operating Expenses:		
Marketing and Selling	47,189	12,703
Research & Development	-	193,727

General and Administrative	513,987	489,091
Depreciation	9,371	40,256
Amortization Expense	10,000	195,691
Total Operating Expenses	580,547	931,468
Operating (Loss)	(330,740)	(566,785)
Interest Expense	(20,918)	(20,301)
Other Income	-	9,769
Net (Loss)	$ (351,658)	$ (577,317)
Preferred Stock Dividend	(500,000)	-
Loss Available to Shareholders	$ (851,658)	$ (577,317)
Basic and Diluted Loss per common share	$ (0.13)	$ (0.10)
Weighted average common shares outstanding Basic and Diluted	6,329,787	5,542,491

See accompanying notes to unaudited consolidated financial statements

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IceWEB, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	December 31, 2005 (Unaudited)	December 31, 2004 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	$ (843,773)	$ (112,671)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	(79,218)	(8,838)
Capitalized software	(160,773)	-
NET CASH USED IN INVESTING ACTIVITIES	(239,991)	(8,838)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments from related parties	6,522	8,198
Payment of subscription receivable	-	32,000
Preferred stock issued for cash net of $137,562 issuance costs	362,438	-
Proceeds from the exercise of common stock options	-	21,000
Proceeds from bank financing	339,476	-

NET CASH PROVIDED BY FINANCING ACTIVITIES	708,436	61,198
NET DECREASE IN CASH	(375,328)	(60,311)
CASH - beginning of year	557,175	178,781
CASH - end of period	$ 181,847	$ 118,470

See accompanying notes to the unaudited consolidated financial statements

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ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
DECEMBER 31, 2005

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 adjustments) that are, in the opinion of management, necessary for a fair presentation. These financial statements have not been audited.

Certain amounts in the 2004 consolidated financial statements have been reclassified to conform to the 2005 consolidated financial statement presentation. These reclassifications had no impact on previously reported net results of operations or stockholders' equity.

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, 2005, which is included in the Company's Form 10-KSB for the year ended September 30, 2005. 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

Stockholders have loans totaling $150,000 plus accrued interest of $70,312. Of this amount, $150,000 bears interest at a rate of 2.5% per annum. The Company has issued the note holder 125,000 shares of common stock in exchange for the individual to extend 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. An employee has a loan totaling $60,000 payable on demand. This item is shown separately on the balance sheet as employee advances. This employee is not an officer of the company.

The Chief Executive Officer of the Company, from time to time, provides advances to the Company for operating expenses. These advances are short-term in nature and non-interest bearing. The amount due to the Chief Executive Officer of

$92,522, at December 31, 2005 is shown separately on the balance sheet as advances from related party.

NOTE 3 - STOCKHOLDERS' 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. During the year ended September 30, 2005, the Company sold 1,666,667 shares of preferred stock for $845,836. There are currently 1,666,667 shares of Series A Preferred Stock issued and outstanding.

On December 28, 2005, the Company consummated the sale of 1,833,333 shares of Series B Convertible Preferred Stock to Barron Partners, L.P. and issued the purchaser common stock purchase warrants to purchase an aggregate of 2,250,000 shares of the Company's common stock for an aggregate purchase price of $500,000. The purchase price was paid through the satisfaction of a liability to Barron Partners, L.P. for funds advanced to the Company in September 2005. The Company incurred a "beneficial conversion feature" dividend related to the above transaction in the amount of $500,000.

In the event the Company sells, grants or issues any shares, options, warrants, or any instrument convertible into shares or equity in any form below $2.00 per share the warrant exercise price shall be reduced proportionately. For example, if the Company sells, grants or issues any shares, options, warrants, or any instrument convertible into shares or equity in any form at $1.60 per share, or 20% below $2.00 per share, then the warrant exercise price shall be reduced by 20%. Such reduction shall be made at the time such transaction is made, and shall be cumulative upon any other changes to the exercise of the warrants that may already have been made.

No exercise of any warrant can occur if the exercise would result in the holder, Barron Partners LP, and any of its affiliates beneficially owning more than 4.9% of our outstanding common shares following such conversion. Barron Partners LP may waive this provision only with the consent of all of the Series B Preferred Stock Holders and the consent of the holders of a majority of the shares of outstanding Common Stock of the Company who are not affiliates.

All of these five-year warrants are exercisable on a cashless basis which means that the holders, rather than paying the exercise price in cash, may surrender a number of warrants equal to the exercise price of the warrants being exercised. The utilization of this cashless exercise feature will deprive us of additional capital which might otherwise be obtained if the warrants did not contain a cashless feature.

On April 27, 2005, the Company effected a 1 for 80 reverse split of its issued and outstanding common stock. All amounts have been retroactively adjusted to reflect this split.

NOTE 4 - STOCK OPTIONS AND COMMON STOCK PURCHASE WARRANTS

During March 2002, the Company adopted the "Management and Director Equity Incentive and Compensation Plan." The maximum number of shares authorized and available under the plan is 1,250,000 shares. Under the terms of the plan, the options expire after 5 years, as long as the employees remain employed with the

Company. A summary of the status of the Company's outstanding stock options as of September 30, 2005 and changes during the period ending December 31, 2005 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at September 30, 2005	882,479	$1.55
Granted	261,250	0.84
Exercised	0	(2.25)
Forfeited	6000	(2.72)
Outstanding at December 31, 2005.	1,137,729	$1.38
Options exercisable at end of period	739,235	$1.36
Weighted-average fair value of options granted during the period	261,250	$0.84

Common stock warrants

A summary of the status of the Company's outstanding stock warrants granted as of September 30, 2005 and changes during the period ending December 31, 2005 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at September 30, 2005	5,490,000	$5.00
Granted	2,275,000	$4.85
Exercised	-	-
Forfeited	-	-
Outstanding at December 31,, 2005	7,765,000	$5.00
Warrants exercisable at end of period	7,765,000	$5.00

The following information applies to all warrants outstanding at December 31, 2005:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 0.70	175,000	4.25	$ 0.70	175,000	$ 0.70
$ 2.00	2,000,000	4.25	$ 2.00	2,000,000	$ 2.00
$ 4.80	1,250,000	4.25	$ 4.80	1,250,000	$ 4.80
$ 9.60	1,250,000	4.25	$ 9.60	1,250,000	$ 9.60
$ 4.00	250,000	2	$ 4.00	250,000	$ 4.00

$ 8.00	250,000	4	$ 8.00	250,000	$ 8.00
$ 2.40	58,750	4 months	$ 2.40	58,750	$ 2.40
$ 4.80	58,750	4 months	$ 4.80	58,750	$ 4.80
$ 8.00	58,750	4 months	$ 8.00	58,750	$ 8.00
$16.00	58,750	4 months	$16.00	58,750	$16.00
$ 2.00	5,000	5.5	$ 2.00	5,000	$ 2.00
$ 4.00	37,500	2	$ 4.00	37,500	$ 4.00
$ 8.00	37,500	4	$ 8.00	37,500	$ 8.00
$ 2.00	1,000,000	5	$ 2.00	1,000,000	$ 2.00
$ 4.80	625,000	5	$ 4.80	625,000	$ 4.80
$ 9.60	625,000	5	$ 9.60	625,000	$ 9.60
$ 1.00	25,000	5	$ 1.00	25,000	$ 1.00

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ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
DECEMBER 31, 2005

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

Pro forma results are as follows for the three months ended December 31, 2005:

Actual net (loss)	(351,658)
SFAS 123 Compensation Cost	0
Pro forma net (loss)	(351,658)

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	111%

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 collectability of its accounts receivable regularly. During December 2005, the Company entered into a financing agreement with Sand Hill Finance. This agreement gives Sand Hill a security interest in all accounts receivable. The agreement allows the Company to finance 80% of receivables under 90 days old.

NOTE 6 - SOFTWARE DEVELOPMENT AND SYSTEM DEVELOPMENT COSTS

Under the criteria set forth in SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," capitalization of software development costs begins upon the establishment of technological feasibility of the software. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenues, estimated economic life, and changes in software and hardware technology. Capitalized software development costs are amortized utilizing the straight-line method over the estimated economic life of the software not to exceed three years.

As of December 31, 2005, such capitalizable software development costs were approximately $364,220. These costs will be amortized over a period of three years beginning January 1, 2006. The Company regularly reviews the carrying value of software development assets and a loss is recognized when the unamortized costs are deemed unrecoverable based on the estimated cash flows to be generated from the applicable software.

NOTE 7 - SIGNIFICANT CUMSTOMER INFORMATION AND SEGMENT REPORTING

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, establishes standards for the reporting by business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method for determining what information to report is based on the way that management organizes the operating segments with IceWEB for making operational decisions and assessments of financial performance.

Iceweb's chief operating decision-maker is considered to be the 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, IceWEB has determined that it operates in a single operating segment, specifically, web communications services. For the period ended December 31, 2005 all material assets and revenues of IceWEB were in the United States.

NOTE 8 - GOING CONCERN

The Company's auditors stated in their reports on the financial statements of the Company for the years ended September 30, 2005 and 2004 that the Company is dependent on outside financing and has had losses since inception that raise substantial doubt about our ability to continue as a going concern.

For the year ended September 30, 2005, the Company incurred net annual losses of ($903,508) and used cash in operations of $920,515. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

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

NOTE 9 - CONTINGENCIES

From time to time the Company faces litigation in the ordinary course of business. Currently, we are involved in litigation with two prior employees, which in our opinion will not have a material adverse effect on our financial condition. The two related lawsuits have been filed against the Company in the Circuit Court of Fairfax County, Virginia, captioned Bonnie Edenfield vs. IceWEB, Inc., et al., Chancery No. CH 2005 4303; and Christopher MacDonald vs. IceWEB, Inc., et al., Chancery No. CH 2005 4304. Both suits are brought by former shareholders of DevElements, Inc., the assets of which were purchased by a Company subsidiary. Edenfield and MacDonald were parties to the asset purchase agreement between DevElements and the Company subsidiary. The plaintiffs seek money damages from the Company for alleged breach of the asset purchase agreement, and damages related to stock options. The Company intends to vigorously defend this litigation. The Company believes the litigation is without merit.

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

OVERVIEW

The Company provides hosted web-based collaboration solutions that enable organizations to establish Internet, Intranet, and email/collaboration services immediately and with little or no up-front capital investment. Our Vista portal and IceMAIL collaboration software services are available on a monthly or annual subscription basis to small and medium-sized businesses and non-profit and government organizations. The Company also provide consulting services to our larger enterprise and government customers including network infrastructure, enterprise email/collaboration, and Internet/Intranet portal implementation and support services. The Company also offer pre-packaged and custom services, using proven best practices to help organizations define their online business objectives and quickly deploy their Internet, Intranet, and email/collaboration systems. Although most of our small to medium-sized business customers purchase and activate our solutions online, our professional services teams work closely with our government, non-profit and larger customers to deploy customized solutions. Iceweb also market an array of information technology services and third party computer hardware and software.

Our history and acquisition strategy has been key in our growth as a company. Iceweb began as a full service provider of computer systems and professional services to private sector corporations and to the federal government under a General Services Administration (GSA) schedule contract for computer systems and peripherals. Beginning in 2001, we began a series of strategic acquisitions which have resulted in our current business and operations, including:

- in June 2001, IceWEB acquired the assets of Learning Stream, Inc., a provider of digital content streaming services, which coincided with the transition of our business model to a focus on e-learning. LearningStream had developed custom streaming solutions which we believed were more efficient and effective than the solutions we had implemented at that time. We considered the software we acquired to be competitive because it helped remove the complexity and unnecessary cost from the implementation of the streaming technology,

- in June 2003, IceWEB acquired all of the outstanding stock of Interlan Communications, Inc., a provider of data communications and networking solutions for business, government, and education. Interlan provided technical services including presales design and consulting, installation, troubleshooting, and long term maintenance and support contracts,
- in June 2003, IceWEB acquired all of the outstanding stock of The Seven Corporation, a provider of network engineering services to commercial and government customers throughout the United States,
- in October 2003, IceWEB acquired the software ownership rights and customers of Iplicity, Inc. of Virginia. Iplicity had developed a complete content management software platform based on open source architecture to run in any operating environment. In this transaction we acquired software licenses, source code, potential patents and trademarks, and
- in May 2004 IceWEB acquired substantially all of the assets of DevElements, Inc. of Virginia, a professional IT consultancy firm that designs, develops and implements web-based productivity solutions for the customers. In this transaction we acquired software licenses, source code, potential patents and trademarks, as well as some cash and tangible assets.

The Company generates revenues from sales of software licenses and provision of software application services, application development and network management services and integrated technology, infrastructure solutions and third party hardware sales. As a result of the growth of our company both through acquisitions and organically, we have significantly increased both our revenues and expenses during fiscal 2004. During fiscal 2005 we have capitalized on our growth through these acquisitions to organically grow our company and introduce new products. As a result of this growth, and as described elsewhere herein, we anticipate that both revenues and expenses will continue to increase in future periods.

We believe that the key factors to our continued growth and profitability include the following:

- the introduction of our IceWEB Vista portal software which was released to general availability during June 2005. IceWEB Vista is a powerful tool for efficient website portal development and management, built upon open source architecture, (.Net) that allows users to quickly, easily and affordably update their Web content and site structure,

- the launch of IceMAIL, a packaged service that provides a network-hosted groupware, email, calendaring, and collaboration solution utilizing Microsoft Exchange 2003, the most widely used enterprise system available. Customers will be able to leverage the full capabilities of Microsoft Exchange 2003 and Outlook without the initial implementation and maintenance costs associated with such an advanced system. The Company launched IceMAIL in December 2005.,
- raising approximately $4 million of additional working capital to expand our marketing, support our growth and for an acquisition of an additional company in the software services group,

o hiring additional qualified, technical employees, and

IceWEB launched IceWEB Vista in June 2005 and launched IceMAIL in December 2005. The sale of these products are the focus of our business. The company has numerous challenges in other areas which we believe are key to our growth, many of which are beyond our control.

While we believe that we will be able to identify and recruit a Chief Financial Officer prior to the end of fiscal 2005 and to implement upgrades to our internal systems, we face continuing difficulties in locating sufficient qualified technical personnel. Our company is located in the "Tech Corridor" of Northern Virginia and we compete with a number of companies for employees, many of which have been in business longer than we have and which are more attractive to prospective employees. Our inability to accomplish one or more of these key goals may limit our growth in future periods.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2005 AS COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2004

The following table provides an overview of certain key factors of our results of operations for the three months ended December 31, 2005 as compared to the three months ended December 31, 2004:

	Three Months Ended			
	December 31, 2005	December 31, 2004	$ Change	% Change
Revenues	$1,491,216	$1,432,883	$ 58,333	4.1%
Marketing and selling	47,189	12,703	34,486	271.0%
General and administrative expenses	513,987	489,091	24,896	5.1%
Total operating expenses .	580,547	931,468	(350,921)	-37.7%
Operating (loss)	(330,740)	(566,785)	(236,045)	-41.6%
Net (loss)	$ (351,658)	$ (577,317)	$ 225,659	-39.1%

Other key indicators:

	Three Months Ended December 31,		
	2005	2004	% of change
Cost of sales as a percentage of revenues ..	83.3%	74.5%	+ 7.8%
Gross profit margin	16.8%	25.5%	-8.7%
General and administrative expenses as a percentage of revenues	34.5%	34.1%	0.04%
Total operating expenses as a percentage of revenues	37.6%	65.0%	-27.4%

Revenues

For the three months ended December 31, 2005, we reported revenues of $1,491,216 as compared to revenues of $1,432,883 for the comparative three month period in 2004, an increase of approximately 4.1%. Revenues for the three months ended increased $54,103, or approximately 4.1%, from the comparable three month period in fiscal 2004.

Cost of Sales

Our cost of sales consists of products purchased for resale, salaries of technical personnel, third party contractors, hosting and sales commissions. For the three months ended December 31, 2005, cost of sales were $1,241,409 or approximately 83% of revenues, compared to $1,068,200 or approximately 75% of revenues, for the three months ended December 31, 2004. The Company attributes the increase in the cost of sales to an increase in the ratio of hardware sales to software sales which have a higher gross margin compared to hardware sales.

Total Operating Expenses

Our total operating expenses decreased $350,921, or approximately 38% to $580,547 for the three months ended December 31, 2005 as compared to $931,468 in the same period in fiscal 2004. These decreases are attributable to the following:

o 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, 2005, marketing and selling costs were $47,189 as compared to $12,703 for comparative period in 2004, an increase of $34,486 or approximately 271.5%. These increases were the result of new marketing efforts for IceWeb Vista software and continued marketing relating to our Integrated Power System division.

o General and administrative expenses. General and administrative expense consists primarily of personnel costs, rent, legal, accounting, human resources, telecommunications, office supplies and other costs related to our corporate governance and compliance with the reporting requirements of publicly held companies. For the three months ended December 31, 2005, general and administrative expenses were $513,987 as compared to $489,091 for the comparative period in 2004, a increase of $24,896 or approximately 0.04%. This increase in general and administrative expenses reflects increases in personnel costs. We anticipate that general and administrative expenses will continue to remain flat during the balance of fiscal 2005.

Interest Expense

Interest expense consists primarily of the amounts accrued on our revolving credit line with Comerica Bank and notes payable to related parties. For the three months ended December 31, 2005 interest expense was $20,918 as compared to $20,301 for the comparative period in 2004. We anticipate that interest expense will increase in the second quarter of fiscal 2006 as a result of the conversion of our loan with Comerica Bank to Sand Hill Finance do to an increase in the borrowing base and an increase in interest rates.

Amortization Expense

Amortization expense for intangibles will continue to be substantially lower do to the expensing of approximately all of the $1,800,000 in the prior periods. Amortization expense is provided by use of the straight-line method over five years for IceMail start up costs and the remaining $55,000 of customer relationships capitalized during acquisitions.

Preferred stock Dividend

The Company issued preferred stock with a conversion to common stock below the fair market value of the common stock on the date of closing. This resulted in a book entry for a preferred dividend of $500,000 causing an increased loss per share of $(.08). This is a one time charge and the Company does not expect a comparable charge in future periods as the designations, rights and preferences of the preferred stock do not provide for the payment of dividends.

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 certain selected balance sheet comparisons between December 31, 2005 (unaudited) and September 30, 2005:

	December 31, 2005	September 30, 2005	$ of Change	% of Change
Working capital	$ 92,129	$ 319,137	$ (227,008)	- 71.1%
Cash	$ 181,847	$ 557,175	$ (375,328)	-67.3%
Accounts receivable, net	$ 1,902,795	$ 1,577,460	$ 325,335	+ 20.1%
Total current assets	$ 2,223,169	$ 2,221,916	$ 1,253	+ 0.0%
Property and equipment, net .	$ 329,699	$ 259,852	$ (69,847)	+ 26.9%
Total assets	$ 3,031,991	$ 2,788,263	$ 243,728	+ 8.7%
Accounts payable	$ 1,143,644	$ 904,910	$ 238,734	+ 26.4%
Accrued expenses	$ 90,929	$ 37,488	$ 53,451	+142.6%
Deferred revenue	$ 3,200	$ 4,275	$ (1,075)	- 25.2%
Total current liabilities ...	$ 2,131,040	$ 1,902,779	$ 228,261	+12.0%
Total liabilities	$ 2,351,352	$ 2,118,404	$ 232,948	+ 11.0%
Accumulated (deficit)	$(7,352,313)	$(6,500,655)	$ 851,658	+ 18.9%
Stockholders' equity	$ 680,639	$ 669,859	$ 10,780	+ 1.6%

Net cash used in operating activities was $(843,773) for the three months ended December 31, 2005 as compared to net cash used in operating activities of $(112,671) for the three months ended December 31, 2004. The decrease in cash from operations is primarily due to increase in current assets excluding cash of $ 369,790 and an operating loss excluding non-cash items of $318,185.

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Net cash used in investing activities for the three months ended December 31, 2005 was $239,991 as compared to net cash used in investing activities of $8,838 for the comparative period in 2004.

At December 31, 2005 we had an accumulated deficit of $(7,352,313) and the report from our independent registered public accounting firm on our audited financial statements at September 30, 2005 contained an explanatory paragraph regarding doubt as to our ability to continue as a going concern as a result of our net losses and cash used in operations. We reported a net loss of $(851,658) for the three months ended December 31, 2005 and there are no assurances that we will report net income 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, a bank line of credit and loans from related parties. At December 31, 2005 we had cash on hand of $181,847 and working capital of $92,129. At December 31, 2005 we owed $800,745 under our line of credit with Sand Hill Finance, which is reflected as a current liability. While we do not have any working capital commitments, we do not presently have any external sources of working capital. Our working capital needs in future periods depend 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. In March 2005 we sold shares of our Series A Convertible Preferred Stock and in December 2005 we sold shares of our Series B Convertible Preferred Stock to the same purchaser. The designations of these shares included a restriction that so long as the shares are outstanding, we cannot sell or issue any common stock, rights to subscribe for shares of common stock or securities which are convertible or exercisable into shares of common stock at an effective purchase price of less than the then conversion value which is presently $0.60 per share for the Series A Convertible Preferred Stock and $0.2727 for the Series B Convertible Preferred Stock. Under the terms of the Series B Convertible Preferred Stock transaction we also agreed not to issue and convertible debt or preferred stock. Finally, 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.

On December 28, 2005, we consummated a Preferred Stock Purchase Agreement and related agreements with Barron Partners LP. Under the terms of these agreements we issued Barron Partners LP, an accredited investor, 1,833,334 shares of our Series B Convertible Preferred Stock and Common Stock Purchase Warrants "D", "E" and "F" to purchase an aggregate of 2,250,000 shares of our common stock at exercise prices ranging from $2.00 to $9.60 per share, for an aggregate purchase price of $ 500,000. We are using these proceeds for general working capital. Barron Partners LP had previously purchased shares of our Series A Convertible Preferred Stock in a transaction which closed in March 2005

We received net proceeds of approximately $408,000 after payment of commissions of $25,000 and other expenses of the offering. The proceeds were paid to us through the satisfaction of a liability to Barron Partners LP for funds advanced to us in September 2005. We also issued Liberty Company LLC, a broker-dealer, a Common Stock Purchase Warrant "G" exercisable into 25,000 shares of our common stock with an exercise price of $1.00 per share as additional compensation for its services. The proceeds are being used for general working capital. The transaction was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

Under the terms of the Preferred Stock Purchase Agreement, we agreed:

o that all convertible debt in our company would be cancelled and that for a period of three years from the closing date we will not issue any convertible debt or preferred stock. In addition, we agreed to cause all reset features related to any shares of our outstanding common stock to be cancelled and for a period of three years from the closing date to refrain from entering into any transactions that have reset features,

o to maintain a majority of independent directors on our Board of Directors, and that these independent directors will make up a majority of the audit and compensation committees of our Board. If at any time we should fail to maintain these independent majority requirements, we are required to pay Barron Partners LP liquidated damages of 24% of the purchase price of the securities ($120,000) per annum, payable monthly in kind,

o that if within 24 months from the closing date we consummate the sale of debt or equity securities with a conversion price less than the then effective conversion price of the Series B Convertible Preferred Stock we will make a post-closing adjustment in the conversion price of the Series B Convertible Preferred Stock to such lower conversion price,

o that for a period of three years all employment and consulting agreements must have the unanimous consent of the compensation committee of our Board, and any awards other than salary are usual and appropriate for other officers, directors, employees or consultants holding similar positions in similar publicly held-companies,

o that for a period of two years from the closing we will not enter into any new borrowings of more than twice as much as the sum of EBITDA from recurring operations over the past four quarters, subject to certain exceptions,

o that for long as Barron Partners LP holds any of the securities we will not enter into any subsequent financing in which we issue or sell any debt or equity securities with a floating conversion price or containing a reset feature, and

o that we will submit a proposal at our next annual meeting of stockholders to amend our Certificate of Incorporation to require the consent of the holders of a designated percentage of a designated class of our securities to waive or amend the terms of any rights, options and warrants approved by our Board.

Mr. John R. Signorello, our CEO, agreed not to sell any shares of our common stock that he many own in excess of 1% per quarter or at a price of less than $3.00 per share for a period ending August 30, 2007, and that the earliest any other insiders could sell their shares would be beginning two years from the closing date.

We granted Barron Partners LP a right of first to participate in any subsequent funding we may undertake on a pro rata basis at 94% of the offering price.

We have agreed to file a registration statement with the Securities and Exchange Commission within 30 days to register for resale the shares of common stock issuable upon the possible conversion of the Series B Convertible Preferred Stock and the exercise of the warrants, and to use our best efforts to cause such registration statement to be declared effective within 120 days from the closing date. We have also granted Barron Partners LP demand registration rights covering these securities, as well as piggy-back registration rights for a period of two years from the closing date. We will pay all costs associated with these registration statements and have indemnified Barron Partners LP with respect thereto for any losses or claims related to material misstatements or material omissions by us in the registration statement(s).

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

Our management, which includes our Chief Executive Officer have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) promulgated under the Securities and Exchange Act of 1934, as amended) as of a date (the "Evaluation Date") as of the end of the period covered by this report. Based upon that evaluation, our management has concluded that our disclosure controls and procedures are effective for timely gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended. There have been no significant changes made in our internal controls or in other factors that could significantly affect our internal controls subsequent to the end of the period covered by this report based on such evaluation.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit No.	Description
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

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 15, 2006

By: /s/ John R. Signorello

John R. Signorello,
Chairman and CEO,
principal executive officer

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