ICEWEB COMMUNICATIONS INC
Form 10QSB
February 18, 2004

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

FORM 10-QSB

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

FOR THE QUARTER ENDED DECEMBER 31, 2003

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

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 0-27865

ICEWEB INCORPORATED

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 38,281,924 issued and outstanding at December 31, 2003.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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

ICEWEB INCORPORATED

FORM 10-QSB

FOR THE QUARTER ENDED DECEMBER 31, 2003

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FORWARD-LOOKING STATEMENTS

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

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PART I

ITEM 1. Financial Statements

ICEWEB INCORPORATED AND SUBSIDIARIES
DECEMBER 31, 2003
CONSOLIDATED BALANCE SHEET (UNAUDITED)

	2003
Current Assets:	
Cash	$ 65,693
Prepaid Expenses	2,052
Accounts receivable, net	666,807
Total current assets	734,552
Property and equipment, net	104,386
Goodwill	718,353
Deposits	12,665
Total assets	$ 1,569,956
Liabilities and stockholders' equity	
Current Liabilities	
Deferred Revenue	$ 47,575
Accounts payable	579,392
Accrued Expenses	59,392
Notes Payable - related parties	459,306
Total Current Liabilities	1,145,665

Stockholders' equity:

Common stock, par value $.001 100,000,000 shares authorized, 38,281,924 issued and outstanding respectively	38,282
Additional paid in capital	2,918,010
Accumulated deficit	(2,532,001)
Total stockholders' equity	424,291
Total liabilities and stockholders' equity	$ 1,569,956

See accompanying notes to consolidated financial statements

ICEWEB INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002
(UNAUDITED)

	2003	2002
Revenue	$ 1,525,358	$ 19,811
Cost of Sales	1,002,782	8,121
Gross Profit	522,576	11,690
Operating Expenses:		
Marketing & Selling	36,860	8,060
Research & Development	56,000	-
General and Administrative	388,809	111,778
Total Operating Expense	481,669	119,838
Operating Income(Loss)	40,907	(108,148)
Interest (Expense) Income	(10,976)	4
Net Income(Loss)	$ 29,931	$ (108,144)
Basic & Diluted Income(Loss) per common share	$ .00	$ (.00)
Weighted average common shares outstanding	38,190,000	30,309,487

See accompanying notes to consolidated financial statements

ICEWEB INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
THREE MONTHS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002
(UNAUDITED)

	2003	2002
NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES:	(121,480)	(62,967)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(66,679)	0
Proceeds from disposal of property and equipment	0	250
NET CASH PROVIDED BY (USED) IN INVESTING ACTIVITIES	(66,679)	250
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party	79,538	20,000
Issuance of Stock	70,000	30,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 149,538	50,000
NET (DECREASE) IN CASH	(38,621)	(12,717)
CASH AND EQUIVALENTS - beginning of year	104,314	9,010
CASH AND EQUIVALENTS - end of year	65,693	(3,707)

See accompanying notes to consolidated financial statements

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ICEWEB INCORPORATED and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

DECEMBER 31, 2003

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

Note 2 - Acquisitions

On October 4th, IceWEB entered into an Asset purchase agreement with Iplicity, Inc. of VA. The Company purchased software licenses, source code, potential patents and trademarks for a combined stock and cash value of approximately $632,000. (These items are reflected in the Financials as $65,500 for software and $566,487 goodwill.)

Goodwill has been increased by $566,487 due to the Asset Purchase of Ipilicity, Inc and a reduction of $23,000 related to the acquisition of The Seven Corporation.

Note 3 - Related Parties

The Company has a note payable to John R. Signorello, the Chairman and CEO, for $180,000 plus accrued interest of approximately $ 32,000 . Other Stockholders/Employees have loans totaling $247,306.

Note 4 - Common Stock & Stock Options

The Company sold 650,000 shares to accredited investors for $70,000 exempt from registration pursuant to Section 4(2). The investors were sophisticated and had access to the consolidated financial statements of the corporation. As part of the acquisition agreement with Iplicity the company issued 1,531,046 shares of common stock. The company issued 3,940,996 stock options to employees under the Company's stock option plan.

Note 5 - Stock Options

Stock option activity during the period is indicated as follows:

	Option Available for Grant	Options	Exercise Price
Balance, September 30, 2003	6,098,000	3,902,000	.08-.40
Granted		3,940,996	.35-.40
Exercised		(160,000)	.20
Forfeited		-	
Balance, December 31, 2003	2,157,004	7,682,996	

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

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

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

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently 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.

Management believes the following critical accounting policies effect the significant judgements and estimates used in the preparation of financial statements.

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

Use of Estimates - Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates, including those related to allowances for doubtful accounts receivable and the carrying value of inventories and long-lived assets. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

(a) Recent Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Account Standards No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This Statement amends Statement No. 133 to clarify the financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement is effective for contracts entered into or modified after June 30, 2003.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Account Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability. The requirements of this Statement apply to issuers' classification and measurement of freestanding financial instruments. This

Statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. For nonpublic entities, mandatorily redeemable financial instruments are subject to the provisions of this Statement for the first fiscal period beginning after December 15, 2003.

On January 17, 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, An Interpretation of Accounting Research Bulletin No. 51. The primary objectives of FIN 46 are to provide guidance on how to identify entities for which control is achieved through means other than through voting rights (variable interest entities "VIE" and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity in which either (1) the equity investors do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. FIN 46 will be fully adopted in the third quarter of 2003. The Company does not believe the adoption of this standard will have a material impact on its financial reporting.

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

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PLAN OF OPERATION

For the remaining fiscal year 2004, IceWEB will continue to grow internally and through acquisitions. The company continues to focus marketing efforts on the Federal Government and Corporate customers. The Iplicity Asset acquisition was finalized in October. The engineering resources from Learningstream and Iplicity are now merged. The company plans to continue to invest in Research and Development to deliver several new products over the next three quarters. IceWEB's integration service continues to grow through contract awards and maintenance customers. The New product lines; IceMAIL and IceWEB NOC should begin to ship in the next 3 to 6 months. Additional investment will be needed to market and develop upgrades to the product lines.

PRIMARY RISK FACTOR

IceWEB Incorporated's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets. IceWEB will encounter various risks in implementing and executing its business strategy and we can provide no assurance that it will be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business. Our current cash forecast indicates that there will be negative cash flow from our operations for the foreseeable future.

RESULTS OF OPERATIONS

Net revenues - for the three months ended December 31, 2003, we generated revenues of $1,525,358 compared to $19,811 the comparative period in 2002, An increase of 7,699%. Sales for the three months ending December 31, 2003 were higher than the previous quarter and higher than the same quarter for the previous fiscal year. The primary reason for this was an increase in contract sales as well as successfully integrated acquisitions.

Marketing and Selling - our selling and marketing expense consists of personnel costs, including commissions, public relations, advertising, marketing programs, lead generation, travel and trade shows. Marketing and selling costs increased from $8,060 for the three months ended December 31, 2002 to $36,860 for the three months ended December 31, 2003, an increase of $28,800 or 357%. This increase was the result of additional marketing personnel, trade show events, online web marketing, advertising and print advertising.

General and administrative expense - our general and administrative expense consists primarily of personnel costs, rent, legal, accounting, human resources, telecommunications, office supplies and corporate governance and compliance. General and administrative expense increased from $111,778 for the three months ended December 31, 2002 to $388,809 for the three months ended December 31, 2003 an increase of $ 277,031 or 248%. The primary reason for this increase was do to acquisitions relating to increases in personnel costs and other fixed expenses.

Overall, our income per share was $.001 for the three months ended December 31, 2003.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Since inception, our operating and investing activities have used more cash than they have generated. Because of the continued need for substantial amounts of working capital to fund the growth of the business and to pay our operating expenses, we expect to continue to experience significant negative operating and investing cash flows for the foreseeable future. Our existing working capital will not be sufficient to fund the continued implementation of our plan of operation during the next 12 months and to meet our capital commitments and general operating expenses. We are unable to predict at this time the exact amount of additional working capital we will require, however, in order to provide any additional working capital which we may require, we will in all likelihood be required to raise additional capital through the sale of equity or debt securities. We currently have no commitments to provide us with any additional working capital. If we do not have sufficient working capital to implement our plan of operation described above, it is likely that we will cease operations

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

This report and other written reports and oral statements made from time to time by the Company may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. One can identify these forward-looking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects" and other works of similar meaning. One can identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results, and product and development programs. One must carefully consider any such statement and should understand that many factors could cause actual results to differ from the Company's forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially.

The Company does not assume the obligation to update any forward-looking statement. One should carefully evaluate such statements in light of factors described in the Company's filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q and 8-K. In various filing the Company has identified important factors that could cause actual results to differ from expected or historic results. The Company notes these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. One should understand that it is not possible to predict or identify all such factors. Consequently, the reader should not consider any such list to be a complete list of all potential risks or uncertainties.

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Item 3. Controls and Procedures

Evaluation of disclosure controls and procedures

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

Changes in internal controls

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

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

During the first quarter of the Fiscal Year, the company made isolated sales to accredited investors of shares of our common stock. The company raised a total of $70,000 pursuant to individually negotiated agreements with accredited investors who were sophisticated, had access to relevant information about IceWEB and acquired these shares for investment.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit 31 Certification pursuant to Section 302
Exhibit 32 Certification pursuant to Section 906

b) Reports on Form 8-K

Form 8-K filed 2-17-04 regarding change in accountants.

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 INCORPORATED

Dated: February 18, 2004

By: /s/ John R. Signorello

John R. Signorello,
Chairman and CEO