

ICEWEB INC
Form 10-Q
November 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

Commission file number: 0-27865

ICEWEB, INC.

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

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

4126 Leonard
Drive, Fairfax,
VA 22030
(Address of (Zip
principal Code)
executive
offices)

816-979-1893

(Issuer's telephone number)

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 by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

Edgar Filing: ICEWEB INC - Form 10-Q

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

The number of shares of the registrant’s Common Stock, \$.001 par value, outstanding at October 28, 2014 was: 3,457,255,625.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

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

OTHER PERTINENT INFORMATION

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

ICEWEB, INC. AND SUBSIDIARIES
 FORM 10-Q
 QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

INDEX

	Page
PART I - FINANCIAL INFORMATION	
<u>Item 1 - Consolidated Financial Statements</u>	4
<u>Consolidated Balance Sheets - September 30, 2014 (unaudited) and June 30, 2014</u>	4
<u>Consolidated Statements of Operations – Three Months ended September 30, 2014 and 2013 (unaudited)</u>	5
<u>Consolidated Statements of Comprehensive loss – Three Months ended September 30, 2014 and 2013 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows - Three months Ended September 30, 2014 and 2013 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8-27
<u>Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operation</u>	28-32
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4 - Controls and Procedures</u>	32
PART II - OTHER INFORMATION	
<u>Item 1 - Legal Proceedings</u>	33
<u>Item 1A - Risk Factors</u>	33
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>Item 3 - Default upon Senior Securities</u>	34
<u>Item 4 - Mine Safety Disclosures</u>	34
<u>Item 5 - Other Information</u>	34
<u>Item 6 - Exhibits</u>	34

3

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ICEWEB, Inc.
Consolidated Balance Sheets

	September 30, 2014 (unaudited)	June 30, 2014
Assets		
Current Assets:		
Cash	\$ 13,930	\$ 56,827
Accounts receivable, net	91,339	84,091
Inventory	-	19,069
Prepaid expenses	120,417	136,927
Marketable securities	11	3
Other current assets	29,667	51,708
Total Current Assets	255,364	348,625
Property and equipment, net of accumulated depreciation of \$891,754 and \$939,408 respectively	293,895	451,843
Deposits	5,923	5,923
Other assets	1,545	1,545
Total Assets	\$ 556,727	\$ 807,936
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 749,042	\$ 840,009
Notes payable	1,017,984	947,475
Note payable, related party	1,152,318	664,578
Deferred revenue	67,110	74,824
Convertible notes payable, net of discount	46,925	197,645
Derivative liability - warrants	255,060	302,065
Derivative liability - convertible debt	107,047	469,632
Total Current Liabilities	3,395,486	3,496,228
Note payable, long term portion	936,846	1,143,501
Stockholders' Deficit:		
Series B convertible preferred stock (\$.001 par value; 10,000,000 shares authorized; 626,667 shares issued and outstanding)	626	626
Series AA convertible preferred stock (\$.001 par value; 10,000,000 shares authorized; 400,000 shares issued and outstanding)	400	400
Common stock (\$.001 par value; 5,000,000,000 shares authorized; 3,329,014,292 and 695,941,098 shares outstanding, respectively)	3,329,014	695,941
Additional paid in capital	46,042,482	48,381,461
Accumulated deficit	(53,054,138)	(52,816,224)
Accumulated other comprehensive loss	(80,989)	(80,997)

Edgar Filing: ICEWEB INC - Form 10-Q

Treasury stock, at cost, (162,500 shares)	(13,000)	(13,000)
Total Stockholders' Deficit	(3,775,605)	(3,831,793)
Total Liabilities and Stockholders' Deficit	\$556,727	\$807,936

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.
Consolidated Statement of Operations
(Unaudited)

	Three Months Ended September 30,	
	2014	2013
Sales	\$237,889	\$103,922
Cost of sales	131,510	63,748
Gross profit	106,379	40,174
Operating expenses:		
Sales and marketing	35,785	106,630
Depreciation	156,061	94,301
Research and development	108,597	589,568
General and administrative	261,631	1,420,388
Total Operating Expenses	562,074	2,210,887
Loss from Operations	(455,695)	(2,170,713)
Other income (expenses):		
Gain/(loss) on sale of assets	3,625	-
Gain/(loss) in change of fair value of derivative liability	409,590	(549)
Loss on extinguishment of debt	-	(768,463)
Interest expense	(195,434)	(58,732)
Total other income (expenses)	217,781	(827,744)
Net loss	\$(237,914)	\$(2,998,457)
Loss per common share basic and diluted	\$(0.00)	\$(0.01)
Weighted average common shares outstanding - basic and diluted	1,551,839,132	290,864,883

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.
 Consolidated Statements of Comprehensive Loss
 (Unaudited)

Three Months Ended
 September 30,
 2014 2013

Net loss	\$(237,914)	\$(2,998,457)
Other comprehensive income/(loss), net of tax:		
Unrealized gain (loss) on securities	8	(2,870)
Other comprehensive income/(loss)	8	(2,870)
Comprehensive loss	\$(237,906)	\$(3,001,327)

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended September 30,	
	2014	2013
NET CASH USED IN OPERATING ACTIVITIES	\$(392,408)	\$(1,493,087)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,643)	(23,319)
NET CASH USED IN INVESTING ACTIVITIES	(1,643)	(23,319)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(136,586)	-
Proceeds from convertible note payable	-	58,796
Proceeds from notes payable, related party	487,740	75,000
Proceeds from sale of common stock	-	112,134
Proceeds from exercise of common stock options	-	1,201,585
NET CASH PROVIDED BY FINANCING ACTIVITIES	351,154	1,447,515
NET INCREASE (DECREASE) IN CASH	(42,897)	(68,891)
CASH - beginning of period	56,827	78,543
CASH - end of period	\$13,930	\$9,652
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$17,495	\$3,769
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Payment on convertible note with common stock	\$281,679	\$1,642,739

See accompanying notes to unaudited consolidated financial statements

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

NOTE 1 - NATURE OF BUSINESS

IceWEB, Inc. (the “Company”) began trading publicly in April 2002. During the three months ended September 30, 2014 we had three wholly owned operating subsidiaries, Computers & Telecom, Inc. and KCNAP, LLC, (collectively “CTC) and IceWEB Storage Corporation (formerly known as Inline Corporation). During the three months ended September 30, 2013 we had one wholly owned operating subsidiary, IceWEB Storage Corporation. With our acquisition of CTC in October 2013, IceWEB provides wireless and fiber broadband service, co-location space and related services and operates a Network Access Point (“NAP”) where customers directly interconnect with a network ecosystem of partners and customers. This access to Internet routes provides CTC customers improved reliability and streamlined connectivity while significantly reducing costs by reaching a critical mass of networks within a centralized physical location. In addition, through our IceWEB Storage Corporation subsidiary we deliver on-line cloud computing application services, other managed services such as Disaster Recovery, Archive Storage, Redundant File Storage, Redundant Broadband Services and Business Continuity Services.

CTC operates a wireless internet service business, providing WIMAX broadband to small and medium size businesses in the metro Kansas-City, Missouri area. In addition CTC offers the following solutions: (i) premium data center co-location, (ii) interconnection and (iii) exchange and outsourced IT infrastructure services.

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

Principles of Consolidation

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

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to 2015 amounts. The reclassifications had no impact on previously reported results of operations or stockholders’ deficit.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company had net losses and net cash used in operating activities of \$237,914 and \$392,408, respectively, for the three months ended September 30, 2014. The Company also had an accumulated deficit of \$53,054,138 at September 30, 2014. These matters raise substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

Marketable Securities

IceWEB accounts for the purchase of marketable equity securities in accordance with FASB Accounting Standards Codification (ASC) 320, “Investment – Debt and Equity Securities” with any unrealized gains and losses included as a net amount as a separate component of stockholders’ equity. However, those securities may not have the trading

volume to support the stock price if the Company were to sell all their shares in the open market at once, so the Company may have a loss on the sale of marketable securities even though they record marketable equity securities at the current market value.

Cash and Cash Equivalents

We consider all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheets and the reported amounts of sales and expenses during the reporting periods. Actual results could differ from those estimates.

Significant estimates include the valuation of stock-based compensation, the allowance for doubtful accounts, the useful life of property and equipment, derivative liabilities, and litigation reserves.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

Accounts Receivable

Accounts receivable consists of normal trade receivables. We recorded a bad debt allowance of \$28,850 as of September 30, 2014. Management performs ongoing evaluations of its accounts receivable, and believes that all remaining receivables are fully collectable. Bad debt expense amounted to \$0 and \$114,918 for the three months ended September 30, 2014 and 2013, respectively.

Inventory

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

Derivative Liability

The Company issued warrants to purchase the Company's common stock in connection with the issuance of convertible debt, which contain certain ratchet provisions that reduce the exercise price of the warrants or the conversion price in certain circumstances. In accordance with ASC 815 the Company determined that the warrants and/or the conversion features with provisions that reduce the exercise price of the warrants did not qualify for a scope exception under ASC 815 as they were determined not to be indexed to the Company's stock.

Derivatives are required to be recorded on the balance sheet at fair value (see Note 13). These derivatives, including embedded derivatives in the Company's structured borrowings, are separately valued and accounted for on the Company's balance sheet. Fair values for exchange traded securities and derivatives are based on quoted market prices. Where market prices are not readily available, fair values are determined using market based pricing models incorporating readily observable market data and requiring judgment and estimates.

Fair Value Measurements

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

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

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

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

Fair Value of Financial Instruments

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

Our derivative financial instruments, consisting of embedded conversion features in our convertible debt, which are required to be measured at fair value on a recurring basis under FASB ASC 815. As of September 30, 2014 our derivatives are measured at fair value, using a Black-Scholes valuation model which approximates a binomial lattice valuation methodology utilizing Level 3 inputs. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities (see Note 12).

Property and Equipment

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

Product Warranties

The Company's products typically carry a warranty for periods of up to three years. We have not had any significant warranty claims on our products.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

Software Development Costs

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

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

Long-lived Assets

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

Revenue Recognition

We follow the guidance of ASC Topic 605, "Revenue Recognition" for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

It is our practice to obtain a signed master sales agreement for recurring revenue sales, and/or a sales order for events and one-time services. Taxes collected from customers and remitted to government authorities are reported on a net basis and are excluded from revenue.

We derive the majority of our revenues from recurring revenue streams, consisting of:

1. Wireless and fiber broadband service;
2. Co-location, which includes the licensing of cabinet and power;
3. Interconnection services, such as cross connects;
4. Managed infrastructure services.

Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for data center space customers. We generally recognize revenue beginning on the date the customer commences use of our services

Implementation and set-up fees are recognized at the time those services are completed, unless prior agreement was made for interim billings for work completed.

For services that are billed according to customer usage, revenue is recognized in the month in which the usage is provided.

Professional services are recognized in the period services are provided.
Amounts that have been invoiced are recorded in accounts receivable and revenue

Our customers generally have the right to cancel their contracts by providing prior written notice to us of their intent to cancel the remainder of the contract term. The customer would be required to pay any charge for early cancellation that their contract specifies. In the event that a customer cancels their contract, they are not entitled to a refund for services already rendered. A customer can continue service on a month-to-month basis after their contract expires.

Barter Transactions

Barter activity is accounted for in accordance with ASC 845, Nonmonetary Transactions. Barter revenue relates to the exchange of wireless bandwidth and internet connectivity provided by CTC to business customers in exchange primarily for roof rights for antennae, advertising and other products and services that CTC would otherwise be required to buy for cash. Barter expenses reflect the expense offset to barter revenue. The amount of barter revenue and expense is recorded at the estimated fair value of the services received or the services provided, whichever is more objectively determinable, in the month the services are exchanged. For the three months ended September 30, 2014, the Company recorded barter revenue of \$7,714 and barter expense of \$0.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

Prepaid expenses

Prepaid expenses are comprised primarily of prepaid costs related to the installation of new customers, prepaid advertising costs which are expensed when used, and deferred financing costs which are amortized over the life of the related financing.

Deferred Revenue

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

Deferred Financing Costs

Debt issuance costs incurred in connection with the issuance of debt are capitalized and amortized to interest expense based on the related debt agreements on a straight-line basis, which approximates the effective interest method. Unamortized amounts are included in prepaid expenses in the accompanying unaudited consolidated balance sheets.

Earnings per Share

We compute earnings per share in accordance with ASC Topic 260, "Earnings Per Share" Under the provisions of ASC Topic 260, basic earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and upon the conversion of convertible notes and preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive. At September 30, 2014, there were options and warrants to purchase 25,777,592,334 shares of common stock, and 626,667 shares issuable upon conversion of Series B preferred stock outstanding which could potentially dilute future earnings per share. Additionally, on or after May 15, 2014, to the extent sufficient shares of Common Stock are authorized, the shares of Series AA Preferred Stock shall be convertible into shares of the Company's fully diluted Common Stock to provide the holders ninety percent of all shares of Common Stock of the Company.

Stock-Based Compensation

As more fully described in Note 16, we have two stock option plans that provide for non-qualified options to be issued to directors, officers, employees and consultants (the 2012 Equity Compensation Plan and the 2013 Equity Plan (the "Plans")).

Cost of Sales

Cost of sales consists primarily of the costs of providing wireless and fiber bandwidth and colocation services.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Recently Adopted and Recently Issued Accounting Standards

In the first quarter of Fiscal 2013, the Company adopted Accounting Standards Update No. 2011-05, "Comprehensive Income (Topic 200) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". The adoption of these amended standards impacted the presentation of other comprehensive income, as the Company elected to

present two separate but consecutive statements, but did not impact our financial position or results of operation.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This standard requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit be presented on a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss, or a tax credit carryforward with certain exceptions to this rule. If certain exception conditions exists, an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. This standard is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Company does not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

Various accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

	Estimated Life	September 30, 2014	June 30, 2014
Equipment	3 years	\$ 1,119,242	\$ 1,324,844
Computer Software	3 years	59,694	59,694
Vehicle	3 years	1,979	1,979
Leasehold Improvements	3 years	4,734	4,734
		1,185,649	1,391,251
Less: Accumulated Depreciation		(891,754)	(939,408)
Net, Property and Equipment		\$ 293,895	\$ 451,843

Capitalized equipment under lease agreements totaled \$1,983,854 capitalized on acquisition date net of \$1,317,072 of accumulated depreciation of which \$168,822 is left net of accumulated depreciation as of September 30, 2014 and \$279,981 is left net of accumulated depreciation as of June 30, 2014. The lease term of each capital equipment lease is 36 months.

Depreciation expense for the three months ended September 30, 2014 and 2013 was \$157,138 and \$94,301, respectively.

NOTE 4 – INVENTORY

Inventory consisted of the following:

	September 30, 2014	June 30, 2014
Raw Materials	\$-	\$19,069
Work in Progress	-	-
Finished Goods	-	-
	\$-	\$19,069

The decrease in inventory is due to a shift in the business' focus to wireless and fiber broadband service, co-location space and data center operations related to our acquisition of CTC in October 2013.

NOTE 5 - NOTES PAYABLE

Sand Hill Finance, LLC

On December 19, 2005, the Company entered into a Financing Agreement with Sand Hill Finance, LLC (“SHF”) pursuant to which, together with related amendments, the Company may borrow up to 80% on the Company’s accounts receivable balances up to a maximum of \$1,800,000. In conjunction with the acquisition of Inline

Corporation in December, 2008, the lending limit on the credit facility was increased to \$2,750,000. In addition, the Company and SHF entered into a 36 month term note agreement in the amount of \$1,000,000. Amounts borrowed under the Financing Agreement are secured by a first security interest in substantially all of the Company's assets.

On April 12, 2013 the Company entered into an agreement with SHF to amend the existing Financing Agreement by issuing a convertible debenture to replace IceWEB's existing note payable, in the amount of \$2,139,235. The debenture was convertible into common stock at a fixed price of \$0.075 per share, bore interest at 12% annually and had a two year term. In addition, the terms of the note call for monthly payments of \$15,000, which increases to \$25,000 in the event that IceWEB raises \$3,000,000 or more in an equity financing. In April, 2013 Sand Hill Finance, LLC converted \$506,250 of the debenture balance into 6,750,000 shares of IceWEB, Inc. \$0.001 par value common stock.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

On August 20, 2013 IceWEB, Inc. entered into an Agreement for the Cancellation of Secured Convertible Debenture with SHF pursuant to which SHF converted \$1,642,739 of principal and accrued but unpaid interest due it under the Secured Convertible Debenture dated April 15, 2013 into 37,000,000 shares of our common stock. The conversion price per share was \$0.0444 when the market price per share was \$0.0319 per share and the contractual conversion price per the convertible debenture was \$0.075 per share. The Company recognized a loss on the extinguishment of debt of \$768,463 in the three months ended September 30, 2013 as a result of this transaction.

As part of the agreement, within five days SHF was required to file UCC-3 financing statements to release its security interest in our assets which were pledged as collateral under the debenture. The agreement also contains mutual general releases. As a result of this transaction, at September 30, 2013, the principal amount due under the Financing Agreement amounted to \$0.

IWEB Growth Fund, LLC

On November 2, 2012 IceWEB, Inc. entered into a Loan Agreement with IWEB Growth Fund, LLC, a Virginia limited liability company ("IWEB Growth Fund") established by Messrs. Compton, Bush, Carosi, Pirtle and Stavish and General Soyster, our former independent directors. Ms. My Le Phuong, an employee of our company, serves as manager of the IWEB Growth Fund. Under the terms of the Loan Agreement, IWEB Growth Fund agreed to make one or more loans to us up to the total principal amount of \$1.5 million. The lending of any amounts under the Loan Agreement is conditioned upon the negotiation of notes and related loan documents which contain terms and conditions that are acceptable to the lender to be determined at the time of the loans. We agreed to grant IWEB Growth Fund a security interest in our assets as collateral for these loans. In the event we should default under the terms of the Loan Agreement, IWEB Growth Fund is entitled to declare all amounts advanced under the various notes immediately due and payable. An event of default includes a breach by us of any covenant, representation or warranty in the Loan Agreement or a default under any note entered into with the lender.

Between November 9, 2012 and July 11, 2013, IWEB Growth Fund lent us an aggregate of \$186,000 under the terms of 9 separate Confession of Judgment Promissory Notes. These notes, which are identical in their terms other than the dates and principal amounts, are for a one year term and bear interest at 12% per annum payable at maturity. Embodied in each of the notes is a confession of judgment which means that should we default upon the payment of the note, we have agreed to permit IWEB Growth Fund to enter a judgment against us in the appropriate court in Virginia before filing suit against us for collection of the amounts. Pursuant to the terms of the Loan Agreement, we paid IWEB Growth Fund's expenses of \$1,500 for the preparation of the Loan Agreement and related documents. We used the net proceeds from these initial loans for general working capital. The Company is currently in default on these loans. There is no guarantee that IWEB Growth Fund will not enter a judgment against the Company.

Agility Ventures, LLC and UO! IP of NC, LLC

On October 1, 2013, in conjunction with the acquisition of CTC, we entered into an equipment lease agreement with Agility Ventures, LLC in the principal amount of \$1,678,531 which is secured by all of the assets of IceWEB, Inc. The lease agreement has a term of 36 months and bears interest at 15% per annum. We also issued Agility Ventures 1,000,000 shares of IceWEB, Inc. restricted common stock, and a Series T common stock warrant covering a total of 3,675,000 shares with a term of two years and a conversion price of \$0.055 per share.

On February 27, 2014, Agility Ventures LLC sold and assigned the Master Lease and Equipment Schedule to a third party, UO! IP of NC, LLC. UO! IP of NC, LLC is a related party to the holder of the Series AA Preferred Stock, Unified Online! LLC. The agreement changed the interest rate to 3.75% on the outstanding principal balance of the note at February 27, 2014.

The Company applied the 10% cash flow test pursuant to Topic ASC 470-50-40-10 "Debt Modification and Extinguishment" to calculate the difference between the present value of the new loan's cash flows and the present value of the old loan's remaining cash flow and concluded that the results exceeded the 10% factor, the debt modification is considered substantially different and applied extinguishment accounting. Accordingly, the gain or loss on extinguishment should be measured by the difference between the carrying amount of the old debt and the fair value of the new debt. Additionally, Topic ASC 470-50-40-17 states if the exchange or modification is to be accounted for in the same manner as a debt extinguishment and the new debt instrument is initially recorded at fair value, then the fees paid or received shall be associated with the extinguishment of the old debt instrument and included in determining the debt extinguishment gain or loss to be recognized. The fair value of the new debt was determined to be \$1,983,164 and the carrying amount of the old debt of principal and accrued interest totaling \$1,717,853 resulted in a total loss on the extinguishment of debt of \$265,311 at June 30, 2014.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

A summary of our Notes Payable is as follows:

	September 30, 2014	June 30, 2014
IWEB Growth Fund	\$ 186,000	\$ 186,000
UO! IP of NC, LLC - Current Portion	733,609	660,458
Other Notes Payable	98,375	101,017
	\$ 1,017,984	\$ 947,475
UO! IP of NC, LLC - Long Term Portion	936,846	1,143,501
	\$ 1,954,830	\$ 2,090,976

NOTE 6 – OTHER CURRENT ASSETS

Other current assets totaled \$29,667 and \$51,708 at September 30, 2014 and June 30, 2014, respectively. The balance at September 30, 2014 and June 30, 2014 consists primarily of deferred loan fees related to the capitalized lease obligation to Agility Ventures, LLC.

NOTE 7 - CONCENTRATION OF CREDIT RISK

Bank Balances

The Company maintains cash in financial institutions insured by the Federal Deposit Insurance Corporation (“FDIC”), including non-interest bearing transaction account deposits protected in full in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). At September 30, 2014 all of the Company’s cash balances were fully insured. The Company has not experienced any losses in such accounts.

Major Customers

Sales to 1 customer for the three months ended September 30, 2014 represented 13% of total sales and sales to 2 major customers represented 39% of total sales for the three months ended September 30, 2013.

	Three Months Ended September 30,			
	2014		2013	
Customer A	13	%	26	%
Customer B	0	%	13	%
All others	87	%	61	%
	100	%	100	%

As of September 30, 2014 and June 30, 2014, respectively, approximately 54% and 95% of our accounts receivable was due from two customers.

September 30,	June 30,
------------------	----------

Edgar Filing: ICEWEB INC - Form 10-Q

	2014		2014	
Customer A	42	%	68	%
Customer B	12	%	27	%
All others	46	%	5	%
	100	%	100	%

14

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

NOTE 8 - INVESTMENTS

(a) Summary of Investments

Marketable Equity Securities:

As of September 30, 2014 and June 30, 2014, the Company's investments in marketable equity securities are based on the September 30, 2014 and June 30, 2014 stock price as reflected on the OTCBB stock, respectively. These marketable equity securities are summarized as follows:

September 30, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Publicly traded equity securities	\$81,000	\$-	\$(80,989)	\$11
Total	\$81,000	\$-	\$(80,989)	\$11

June 30, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Publicly traded equity securities	\$81,000	\$-	\$(80,997)	\$3
Total	\$81,000	\$-	\$(80,997)	\$3

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

(b) Unrealized Gains and Losses on Investments

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

	Three Months Ended September 30, 2014	2013
Net gains/(loss) on investments in publicly traded equity securities	\$8	\$(2,870)
Net gains/(loss) on investments	\$8	\$(2,870)

NOTE 9 – FAIR VALUE MEASUREMENTS

The Company follows ASC 820, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on

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

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

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

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

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

Investments Measured at Fair Value on a Recurring Basis:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2014			
Marketable Equity Securities	\$11	\$ -	\$ -
Derivative liabilities, warrants	\$ -	\$ -	\$255,060
Derivative liabilities, convertible debt	\$ -	\$ -	\$107,047
June 30, 2014			
Marketable Equity Securities	\$3	\$ -	\$ -
Derivative liabilities, warrants	\$-	\$ -	\$302,065
Derivative liabilities, convertible debt	\$-	\$ -	\$469,632

Under the guidance of ASC 320, "Investments", we periodically evaluate other-than-temporary impairment (OTTI) of securities to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other-than-temporary" is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized. In the assessment of OTTI for various securities at September 30, 2014 the guidance in ASC 320, "the Investment-Debt and Equity Securities," is carefully followed.

There were no impairment charges on investments in publicly traded equity securities for the three months ended September 30, 2014 or the three months ended September 30, 2013.

The Company has evaluated its publicly traded equity securities as of September 30, 2014, and has determined that there were no unrealized losses that indicate an other-than-temporary impairment. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis and the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

NOTE 10 - COMPREHENSIVE LOSS

Comprehensive loss is comprised of net income (loss) and other comprehensive income or loss. Other comprehensive income or loss refers to revenue, expenses, gains and losses that under accounting principles generally accepted in the United States are included in comprehensive income but excluded from net income as these amounts are recorded

directly as an adjustment to stockholders' equity.

The Company's accumulated other comprehensive loss consists of unrealized loss on marketable securities available for sale of \$80,989 at September 30, 2014 and \$80,997 at June 30, 2014.

NOTE 11 – ACQUISITION

On October 1, 2013 (the "Closing Date"), IceWEB, Inc. (the "Company") entered into a share exchange agreement (the "Exchange Agreement") by and among the Company, Computers and Tele-Comm., Inc., a Missouri corporation ("CTCI"), KC NAP, LLC ("KC NAP"), the stockholders of CTCI, and Streamside Partners, LLC, pursuant to which the Company purchased all of the outstanding common stock of CTCI and the outstanding membership interests in KC NAP, in exchange for 9,568,400 shares of our \$0.001 par value common stock. Concurrently, and as part of the share exchange agreement, the Company issued shares to retire an outstanding debt owing by CTCI to Streamside Partners, LLC, which totaled \$155,000, and other debts of CTCI totaling \$267,823, in exchange for 13,485,798 shares of our \$0.001 par value common stock (such transactions taken together are sometimes referred to herein as the "Share Exchange"). As a result of the Share Exchange, we are now the holding company of CTCI and we now operate a company in the business of operating data centers and providing Information Technology ("IT") services.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

On the Closing Date, pursuant to the Exchange Agreement, the shareholders of CTCI exchanged 250,000 shares of common stock of CTCI, representing 100% of the issued and outstanding stock of CTCI, for 9,568,400 newly issued shares of \$0.001 par value common stock, which represents 2.2% of the Company's issued and outstanding common stock, immediately following the Share Exchange. In addition, we issued 13,485,798 shares of IceWEB common stock to pay a debt owing by CTCI to Streamside Partners, LLC, and other liabilities of CTCI which together totaled \$422,823, at an effective exchange rate of \$0.0314 per share.

On October 1, 2013, in conjunction with the acquisition, we entered into a lease agreement with Agility Ventures, LLC in the principal amount of \$1,417,672 which is secured by all of the assets of IceWEB, Inc. The note has a term of 36 months and bears interest at 15% per annum. We also issued Agility Ventures 1,000,000 shares of IceWEB, Inc. restricted common stock, and a Series T common stock warrant covering a total of 3,675,000 shares with a term of two years and a conversion price of \$0.055 per share.

The purchase of Computers and Tele-Comm, Inc. and Subsidiary ("CTCI") included the acquisition of assets of \$1,386,066, and liabilities of \$1,469,269. The aggregate purchase price consisted of the following:

Fair Value of common stock issued to seller valued at quoted market price	\$234,426
Fair Value of common stock issued in exchange for debt valued at quoted market price	330,402
	\$564,828

The following table summarizes the estimated fair values of CTCI's assets acquired and liabilities assumed at the date of the acquisition:

Cash	\$3,609
Accounts Receivable	67,160
Prepaid Expenses	93,802
Property and equipment	678,443
Goodwill	2,084,710
Accounts payable and accrued expenses	(538,716)
Deferred revenue	(59,396)
Notes payable	(1,764,784)
	\$564,828

In conjunction with the acquisition of CTCI, we recorded goodwill in the amount of \$2,084,710. We subsequently performed an impairment test on goodwill which requires an analysis based on estimates of future cash flows and an impairment loss is recognized for the difference between the carrying amount and the implied fair value of the asset. Based on this analysis we recorded an impairment expense of \$2,084,710 for the nine months ended June 30, 2014.

The following table summarizes the required disclosures of the pro forma combined entity, as if the acquisition of CTCI occurred at July 1, 2013.

Three Months
Ended

	September 30, 2013
Revenues, net	\$(142,996)
Net loss	(4,083,621)
Net loss per common share - basic and diluted	\$(0.01)
Weighted average common shares outstanding - basic and diluted	282,215,733

The above unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of results of operations that actually would have resulted had the acquisition occurred at July 1, 2013, nor is it necessarily indicative of future operating results.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

NOTE 12 – CONVERTIBLE NOTES

As of September 30, 2014 and June 30, 2014 the Company had the following convertible notes outstanding:

	September 30, 2014	June 30, 2014	
December, 2013 \$62,222 Convertible Note, 12% interest, due July 2014, with a 10% original issue discount	\$-	\$43,862	(1)
November 2013 \$132,000 Convertible Note, 10% interest, due November 2014, with a 10% original issue discount	-	102,000	(2)
December 2013 \$43,821 Convertible Note, 10% interest, due December 2014	4,228	43,821	(3)
December 2013 \$60,000 Convertible Note, 10% interest, due December 2014	60,000	60,000	(4)
January 2014 \$53,000 Convertible Note, 8% interest, due October 2014	-	53,000	(5)
February 2014 \$32,500 Convertible Note, due November 2014	-	32,500	(6)
	64,228	335,183	
Less: Debt Discount	(17,303)	(137,538)	
	\$46,925	\$197,645	

(1) The Company borrowed \$62,222 in December 2013, due July 2014, with a one-time interest charge of 12%. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 60% (representing a discount rate of 40%) of the lowest trade price of the Company's common stock in the twenty-five days prior to the date of Conversion Notice, with a floor of \$0.001 per share. The Company recorded a debt discount of \$5,556 related to the conversion feature of the note, along with a derivative liability of \$50,000 in December, 2013. Interest expense for the amortization of the debt discounts is calculated on a straight-line basis over the seven month term of the note. Also, see Note 13.

During July and August 2014, the holder of the Convertible Note exercised their conversion rights and converted \$43,862 of the outstanding principal and accrued interest balance.

(2) The Company borrowed \$132,000 in November 2013, due November 2014, with interest at 10%. The holder of the note has the right to convert the note and accrued interest into common stock at a price per share equal to 60% of the lowest trade price in the 15 trading days previous to the conversion, with a floor of \$0.001 per share. The note has an original issue discount of \$12,000 which has been added to the principal balance of the note and is being recognized in interest expense over the life of the note. The Company recorded a derivative liability at inception of \$114,000. Interest expense for the amortization of the debt discount is calculated on a straight-line basis over the twelve month life of the note. During the three months ending September 30, 2014 total amortization was recorded in the amount of \$51,500 resulting in a debt discount of \$0 at September 30, 2014. Interest expense of \$45 was recorded at September 30, 2014. Also, see Note 13.

During the period July through September 2014, the holder of the Convertible Note exercised their conversion rights and converted \$109,745 of the outstanding principal and accrued interest balance, at the contractual terms per the note agreement.

(3)

The Company borrowed \$43,821 in December 2013, due December 2014, with interest at 10%. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 60% (representing a discount rate of 40%) of the lowest trading price for the Common Stock during the fifteen trading day period ending one trading day prior to the date of Conversion Notice, with a floor of \$0.001 per share. The Company recorded a derivative liability at inception of the note of \$43,821. During the three months ending September 30, 2014 total amortization was recorded in the amount of \$10,955 resulting in a debt discount of \$7,303 at September 30, 2014. Interest expense of \$767 was recorded at September 30, 2014. Also, see Note 13.

During September 2014, the holder of the Convertible Note exercised their conversion rights and converted \$39,593 of the outstanding principal and accrued interest balance, at the contractual terms per the note agreement.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

- (4) The Company borrowed \$60,000 in December 2013, due December 2014, with interest at 10%. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 60% (representing a discount rate of 40%) of the lowest trading price for the Common Stock during the fifteen trading day period ending one trading day prior to the date of Conversion Notice, with a floor of \$0.001 per share. The Company recorded a derivative liability at inception of the note of \$60,000. During the three months ending September 30, 2014 total amortization was recorded in the amount of \$15,000 resulting in a debt discount of \$10,000 at September 30, 2014. Interest expense of \$1,050 was recorded at September 30, 2014. Also, see Note 13.
- (5) The Company borrowed \$53,000 in January 2014 due October 2014. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 60% of the average of the lowest three trading prices during the 10 trading days previous to the conversion, with a floor of \$0.001 per share. The Company recorded a derivative liability at inception of the note of \$44,040, and during the three months ended September 30, 2014 recorded amortization of debt discount of \$24,724 resulting in a debt discount of \$0 at September 30, 2014. Interest expense of \$353 was recorded at September 30, 2014. Also, see Note 13.

During July and August 2014, the holder of the Convertible Note exercised their conversion rights and converted \$55,120 of the outstanding principal and accrued interest balance, at the contractual terms per the note agreement, at the contractual terms per the note agreement.

- (6) The Company borrowed \$32,500 in February 2014 due November 2014. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 60% of the average of the lowest three trading prices during the 10 trading days previous to the conversion, with a floor of \$0.001 per share. The Company recorded a derivative liability at inception of the note of \$32,500, and during the three months ended September 30, 2014 recorded amortization of debt discount of \$18,055 resulting in a debt discount of \$0 at September 30, 2014. Interest expense of \$433 was recorded at September 30, 2014. Also, see Note 13.

During September 2014, the holder of the Convertible Note exercised their conversion rights and converted \$33,360 of the outstanding principal and accrued interest balance, at the contractual terms per the note agreement.

NOTE 13 - DERIVATIVE LIABILITIES

Derivative liability - warrants

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

Accounting for Derivative Warrant Liability

The Company's derivative warrant instruments have been measured at fair value at September 30, 2014 using the Black-Scholes model. The Company recognizes all of its warrants with price protection in its consolidated balance sheet as liabilities. The liability is revalued at each reporting period and changes in fair value are recognized currently in the consolidated statements of operations. The initial recognition and subsequent changes in fair value of the derivative warrant liability have no effect on the Company's cash flows.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

The derivative warrants outstanding at September 30, 2014 are all currently exercisable with a weighted-average remaining life of 2.25 years.

Derivative liability – convertible notes

From November, 2013 through March 31, 2014 the Company issued convertible notes in the total principal amount of \$467,043 and amended conversion terms of the previously existing convertible notes in the amount of \$186,667. Upon the issuance of these convertible notes and as a consequence of their conversion features, the convertible notes give rise to derivative liabilities. The Company's derivative liabilities related to its convertible notes payable have been measured at fair value at September 30, 2014 and June 30, 2014 using the Black-Scholes model.

The revaluation of the warrants and convertible debt at each reporting period, as well as the charges associated with issuing additional warrants due to the price protection features, resulted in the recognition of income of \$409,590 for the three months ended September 30, 2014 and loss of \$549 for the three months ended September 30, 2013 with the Company's consolidated statements of operations, under the caption "Gain (loss) in change of fair value of derivative liability". The fair value of the warrants at September 30, 2014 and June 30, 2014 is \$255,060 and \$302,065, respectively, which is reported on the consolidated balance sheet under the caption "Derivative liability - warrants". The fair value of the derivative liability related to the convertible debt at September 30, 2014 and June 30, 2014 is \$107,047 and \$469,632, respectively, which is reported on the consolidated balance sheet under the caption "Derivative liability – convertible debt".

The following summarizes the changes in the value of the derivative warrant liability and the derivative current debt liability from June 30, 2014 until September 30, 2014:

	Value	No. of Warrants
Balance at June 30, 2014 - Derivative liability - warrants	\$302,065	2,338,703,090
Decrease in fair value of derivative warrant liability	(47,005)	
Balance at September 30, 2014 - Derivative liability - warrants	\$255,060	25,774,699,264

	Value
Balance at June 30, 2014 - Derivative liability - convertible debt	\$469,632
Decrease in derivative liability related to conversion of convertible debt	(373,290)
Increase in fair value of derivative liability	10,705
Balance at September 30, 2014 - Derivative liability - convertible debt	\$107,047

Fair Value Assumptions Used in Accounting for Derivative Liability

The Company has determined its derivative liability to be a Level 3 fair value measurement and has used the Black-Scholes pricing model to calculate the fair value as of September 30, 2014. The Black-Scholes model requires six basic data inputs: the exercise or strike price, time to expiration, the risk free interest rate, the current stock price, the estimated volatility of the stock price in the future, and the dividend rate. The key inputs used in the September 30, 2014 fair value calculations were as follows:

September 30,
2014

Edgar Filing: ICEWEB INC - Form 10-Q

Current exercise price	\$0.00006 - \$0.0055
Time to expiration	1 to 2.75 years
Risk-free interest rate	1.07%
Estimated volatility	349.64%
Dividend	\$0
Stock price on September 30, 2014	\$0.00010
Expected forfeiture rate	0% to 90%

20

ICEWEB, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 SEPTEMBER 30, 2014

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Company leased office space in Sterling, Virginia under a two-year operating lease that expired on March 31, 2011. The Company occupied the office space on a month-to-month basis until October 31, 2013, when the Company relocated their operations to Kansas City, Missouri in conjunction with our acquisition of CTC. In Kansas City we currently have real estate leases at two locations, totaling 6,875 square feet. These operating leases are standard commercial leases.

As of September 30, 2014, future minimum lease payments under these operating leases are as follows:

For the Year Ending, June 30,	Amount
2015	\$ 76,375
2016	63,275
2017	15,385
2018	-
	\$ 155,035

Rent expense was \$22,102 and \$18,793 for the three months ended September 30, 2014 and 2013.

At September 30, 2014 the Company is the subject of, or party to, six known, pending or threatened, legal actions. Following is a discussion of each:

1. The Company was named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) on May 28, 2010 in the Circuit Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff obtained a judgment for \$16,322 plus interest and costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$19,000 as of September 30, 2014.
2. The Company was named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) on September 15, 2010 in the General District Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff obtained a Consent Judgment for \$12,900 in compensatory damages plus \$58 in costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$18,500 as of September 30, 2014.
3. The Company was named as the defendant in a legal proceeding brought by i-Cubed Information LLC (the plaintiff) on August 10, 2012 in the General District Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay for delivery of services provided by plaintiff. The plaintiff was granted a judgment by consent in the amount of \$12,920. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$13,600 as of September 30, 2014.

4.

The Company was named as the defendant in a legal proceeding brought by Pelligrino and Associates (the plaintiff) on August 14, 2014 in the Marion County Superior Court, Marion County, Indiana. The plaintiff asserts that IceWEB failed to pay the full amount owed for services. The plaintiff is seeking \$17,250 plus attorney's fees, interest and costs. The Company is vigorously contesting this case. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$20,500 as of September 30, 2014.

5. The Company initiated a suit against WANsecurity on November 13, 2013 in the Jackson County Circuit Court of Kansas City, Missouri to prevent WANsecurity from taking action that could cause significant disruptions to the Company's customers. The matter is set for trial on June 1, 2015. The matter is currently in active settlement negotiation. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$27,000 as of September 30, 2014.
6. The Company was named as the defendant in a legal proceeding brought by Robert Half International (the plaintiff) on June 23, 2014 in the Jackson County Associate Circuit Court of Kansas City, Missouri. The plaintiff asserts that the Company failed to pay the full amount owed for services. The Company settled and paid \$3,500 on September 18, 2014.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

NOTE 15 – STOCKHOLDERS’ DEFICIT

The Company has issued and outstanding Series N warrants for 25,725,733,990 common shares, as adjusted, with a current exercise price of \$0.00006, as adjusted, which have price protection provisions that allow for the reduction in the current exercise price upon the occurrence of certain events, including the Company’s issuance of common stock or securities convertible into or exercisable for common stock, such as options and warrants, at a price per share less than the exercise price then in effect. Simultaneously with any reduction to the exercise price of the Series N warrants, the number of shares of common stock that may be purchased upon exercise of each of these warrants shall be increased proportionately, so that after such adjustment the aggregate exercise price payable for the adjusted number of warrants shall be the same as the aggregate exercise price in effect immediately prior to such adjustment.

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

The Company has issued and outstanding Series O and Series Q warrants for 30,488,720 common shares, as adjusted, with a current exercise price of \$0.028, expiring November 23, 2016.

In conjunction with our acquisition of Computers & Telecom, Inc. and subsidiary in October, 2013, we issued a warrant to Agility Ventures, LLC covering a total of 3,675,000 shares with a term of two years and a conversion price of \$0.055 per share.

Preferred Stock

Our authorized capital includes 10,000,000 shares of blank check preferred stock, par value \$0.001 per share. Our Board of Directors, without further stockholder approval, may issue our preferred stock in one or more series from time to time and fix or alter the designations, relative rights, priorities, preferences, qualifications, limitations and restrictions of the shares of each series. In March 2005, our Board of Directors authorized a series of 1,666,667 shares of blank check preferred stock be designated as Series A Convertible Preferred Stock and on April 1, 2005 we filed a Certificate of Designations of Preferences, Rights and Limitations of Series A Convertible Preferred Stock with the Secretary of State of Delaware. In September 2005, our Board of Directors authorized a series of 833,334 shares of blank check preferred stock be designated as Series B Convertible Preferred Stock and on September 28, 2005, we filed a Certificate of Designations of Preferences, Rights and Limitations of Series B Preferred with the Secretary of State of Delaware. On December 29, 2005, we filed an Amended and Restated Certificate of Designations of Preferences, Rights and Limitations of Series B Convertible Preferred Stock increasing the number of shares authorized under this series to 1,833,334 shares.

A) Series B Convertible Preferred Stock

The designations, rights and preferences of the Series B Convertible Preferred Stock provide:

No dividends are payable on the Series B Convertible Preferred Stock. So long as these shares are outstanding, we cannot pay dividends on our common stock nor can it redeem any shares of its common stock, the shares of Series B Convertible Preferred Stock do not have any voting rights, except as may be provided under Delaware law,

So long as the shares are outstanding, we cannot change the designations of the Series B Convertible Preferred Stock, create a class of securities that in the instance of payment of dividends or distribution of assets upon our liquidation ranks senior to or pari passu with the Series B Convertible Preferred Stock or increase the number of authorized shares of Series B Convertible Preferred Stock,

Each share of Series B Convertible Preferred Stock is convertible at the option of the holder into one share of our common stock based upon an initial conversion value of \$0.2727 per share. The conversion ratio is subject to adjustment in the event of stock dividends, stock splits or reclassification of our common stock. No conversion of the Series B Convertible Preferred Stock may occur if a conversion would result in the holder, and any of its affiliates beneficially owning more than 4.9% of our outstanding common shares following such conversion. This provision may be waived or amended only with the consent of the holders of all of the Series B Convertible Preferred Stock and the consent of the holders of a majority of our outstanding shares of common stock who are not affiliates, and

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

the shares of Series B Convertible Preferred Stock automatically convert into shares of our common stock in the event of change of control of the Company.

At September 30, 2014, there were 626,667 shares of Series B Convertible Preferred Stock outstanding.

B) Series AA Preferred Stock

On April 23, 2014, the Company authorized the creation of the Corporation's Series AA Preferred Stock pursuant to the terms and conditions of that certain Certificate of Designations, Preferences and Rights and Limitations of Series AA Preferred Stock (the "Certificate of Designations"). The Corporation is authorized to issue 10,000,000 shares of preferred stock, of which 626,667 shares of Series B Convertible Preferred Stock have been previously issued and remain outstanding. Out of the remaining 9,373,333 authorized but unissued shares of preferred stock, the Certificate of Designations creates four hundred thousand (400,000) shares of Series AA Preferred Stock, \$0.001 par value per share (the "Series AA Preferred Stock"), with the following powers and rights:

the holders of the Series AA Preferred Stock have five thousand (5,000) times that number of votes on all matters submitted to the shareholders of the Corporation that is equal to the number of shares of Common Stock of the Corporation,

the holders of the Series AA Preferred Stock shall vote together with the holders of Common Stock as a single class upon all matters submitted to the holders of Common Stock of the Corporation,

the holders of the Series AA Preferred Stock are not entitled to receive dividends paid on the Common Stock of the Corporation,

the holders of the Series AA Preferred Stock are not entitled to receive any preference over the holders of Common Stock of the Corporation following a liquidation, dissolution and winding up of the Corporation, and

on or after May 15, 2014, to the extent sufficient shares of Common Stock are authorized, the Series AA Preferred Stock is convertible into the shares of the Corporation's fully diluted Common Stock, taking into account the exercise of all warrants, options or any other rights of issuance, of such number sufficient to provide the holders thereof, in the aggregate, ninety percent (90%) of all shares of Common Stock of the Corporation on a fully diluted basis.

At September 30, 2014, there were 400,000 shares of Series AA Preferred Stock outstanding.

Common Stock

On July 1, 2014, the Company obtained written consent from UnifiedOnline! LLC approving an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock from One Billion (1,000,000,000) shares of Common Stock, par value \$0.001 per share, to Five Billion (5,000,000,000) authorized shares of Common Stock, par value \$0.001 per share; and to retain the class of its authorized stock known as Preferred Stock, comprised of Ten Million (10,000,000) shares, par value \$0.001 per share. Series of the Preferred Stock may be created and issued from time to time, with such designations, preferences, conversion rights, cumulative, relative, participating, optional or other rights, including voting rights, qualifications, limitations or

restrictions thereof as shall be stated and expressed in the resolution or resolutions providing for the creation and issuance of such series of Preferred Stock as adopted by the Board of Directors. The Preferred Stock continues to maintain the same designations, preferences, conversion and other rights that existed prior to the amendment to the Certificate of Incorporation.

UnifiedOnline! LLC is the Company shareholder holding sufficient votes to approve this amendment. The amendment was previously approved by the Company's Board of Directors, subject to shareholder approval.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

On July 1, 2014, the Company filed a Certificate of Amendment of Certificate of Incorporation with the State of Delaware Secretary of State Division of Corporations to reflect the foregoing increase in authorized shares of Common Stock (the "Increase in Authorized"). The Increase in Authorized has an effective date with the State of Delaware Secretary of State Division of Corporations of July 1, 2014, the date the Certificate of Amendment of Certificate of Incorporation was filed.

Following the Certificate of Amendment of Certificate of Incorporation, the total number of shares of all classes of capital stock which the Company shall have the authority to issue is Five Billion Ten Million (5,010,000,000) shares of which Five Billion (5,000,000,000) shares shall be Common Stock, par value \$0.001 per share and Ten Million (10,000,000) shares shall be Preferred Stock, par value \$0.001 per share. Prior to the Certificate of Amendment of Certificate of Incorporation, the total number of shares of all classes of capital stock which the Company had the authority to issue was One Billion Ten Million (1,010,000,000) shares of which One Billion (1,000,000,000) shares were Common Stock, par value \$0.001 per share, and Ten Million (10,000,000) shares were Preferred Stock, par value \$0.001 per share.

Three months ended September 30, 2014 Transactions

In July, 2014, the Company issued 97,500,000 shares of common stock, at the original conversion terms, at a per share price ranging from \$0.0006 to \$0.00024 valued at \$35,250 as a partial conversion of principal and interest due under a convertible note.

In July, 2014, the Company issued 52,958,333 shares of common stock, at the original conversion terms, at a per share price of \$0.00024 valued at \$12,710 as a partial conversion of principal and interest due under a convertible note.

In July, 2014, the Company issued 142,872,361 shares of common stock, at the original conversion terms, at a per share price ranging from \$0.00048 to \$0.00024 valued at \$48,400 as a partial conversion of principal and interest due under a convertible note.

In August, 2014, the Company issued 47,845,667 shares of common stock, at the original conversion terms, at a per share price of \$0.00018 valued at \$8,612, in full satisfaction of \$62,222 of principal and interest due under a convertible note.

In August, 2014, the Company issued 347,130,555 shares of common stock, at the original conversion terms, at a per share price ranging from \$0.00018 to \$0.00010 valued at \$42,410 in full satisfaction of principal and interest due under a convertible note.

In August, 2014, the Company issued 376,802,778 shares of common stock, at the original conversion terms, at a per share price ranging from \$0.00018 to \$0.00006 valued at \$38,714 as a partial conversion of principal and interest due under a convertible note.

In September, 2014, the Company issued 530,895,833 shares of common stock, at the original conversion terms, at a per share price ranging from \$0.00008 to \$0.00006 valued at \$33,360 as a partial conversion of principal and interest due under a convertible note.

Edgar Filing: ICEWEB INC - Form 10-Q

In September, 2014, the Company issued 377,184,334 shares of common stock, at the original conversion terms, at a per share price of \$0.00006 valued at \$22,631 in full satisfaction of principal and interest due under a convertible note.

In September, 2014, the Company issued 659,883,333 shares of common stock, at the original conversion terms, at a per share price of \$0.00006 valued at \$39,593 as a partial conversion of principal and interest due under a convertible note.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

Common Stock Warrants

A summary of the status of the Company's outstanding common stock warrants as of September 30, 2014 and changes during the three month period ending on that date is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at June 30, 2014	2,387,668,364	\$0.02800
Granted (due to ratchet provisions)	23,387,030,900	0.00006
Exercised	-	-
Forfeited	-	-
Balance at September 30, 2014	25,774,699,264	\$0.00019

The ratchet provision was triggered by the conversion of convertible debt.

The following table summarizes information about common stock warrants outstanding at September 30, 2014:

Warrants Outstanding			Warrants Exercisable	
Number Outstanding at September 30, 2014	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable at September 30, 2014	Weighted Average Exercise Price
25,725,733,990	2.00 Years	\$ 0.00006	25,725,733,990	\$ 0.00066
30,488,720	2.15 Years	0.02800	30,488,720	0.02800
14,801,554	2.75 Years	0.15000	14,801,554	0.15000
3,675,000	1.00 Year	0.05500	3,675,000	0.05500
25,774,699,264	2.25 Years	\$ 0.00019	25,774,699,264	\$ 0.00019

NOTE 16 - STOCK OPTION PLAN

In August 2012, the Board of Directors adopted the 2012 Equity Compensation Plan (the "Plan") for directors, officers and employees that provides for non-qualified and incentive stock options to be issued enabling holders thereof to purchase common shares of the Company at exercise prices determined by the Company's Board of Directors.

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

Awards may be made under the Plan in the form of Plan options, shares of the Company's common stock subject to a vesting schedule based upon certain performance objectives ("Performance Shares") and shares subject to a vesting

schedule based on the recipient's continued employment ("restricted shares"). Plan options may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended or options that do not so qualify. Any incentive stock option granted under the Plan must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our common stock must be at least 110% of such fair market value as determined on the date of the grant. Only persons who are officers or other key employees are eligible to receive incentive stock options and performance share grants. Any non-qualified stock option granted under the Plan must provide for an exercise price of not less than 50% of the fair market value of the underlying shares on the date of such grant.

The Plan, as amended permits the grant of options and shares for up to 80,000,000 shares of our common stock. The Plan terminates 10 years from the date of the Plan's adoption by our stockholders.

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

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

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

	Three Months Ended September 30,	
	2014	2013
Expected volatility	13% - 278%	13% - 278%
Expected term	1 -3 Years	1 -3 Years
Risk-free interest rate	0.01% - 0.34%	0.01% - 0.34%
Forfeiture rate	0% - 45%	0% - 45%
Expected dividend yield	0.00%	0.00%

The expected volatility was determined with reference to the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate in effect at the time of grant.

For the three months ended September 30, 2014 and 2013, total stock-based compensation charged to operations for option-based arrangements amounted to \$12,415 and \$195,995, respectively. At September 30, 2014, there was approximately \$45,573 of total unrecognized compensation expense related to non-vested option-based compensation arrangements under the Plan.

A summary of the status of the Company's outstanding stock options as of September 30, 2014 and changes during the period ending on that date is as follows:

	Number of Options	Weighted Average Exercise Price
Balance at June 30, 2014	2,892,970	\$0.08366
Granted	-	-
Exercised	-	-
Forfeited	-	-
Balance at September 30, 2014	2,892,970	\$0.08366

Edgar Filing: ICEWEB INC - Form 10-Q

The following table summarizes information about employee stock options outstanding at June 30, 2014:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number Outstanding at September 30, 2014	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable at September 30, 2014	Weighted Average Exercise Price	
\$ 0.07700 - 0.0847	250,000	2.96 Years	\$ 0.07700	166,667	\$ 0.07700	
\$ 0.081 -	2,642,970	2.96 Years	0.08430	2,642,970	0.08430	
	2,892,970	2.96 Years	\$ 0.08367	2,809,637	\$ 0.08367	

ICEWEB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

NOTE 17 - RELATED PARTY TRANSACTIONS

On April 23, 2014, we entered into a Subscription Agreement with UnifiedOnline! LLC (the “Subscriber”), a Delaware limited liability company, pursuant to which the Subscriber purchased 400,000 shares of Series AA Preferred Stock. In consideration for the Shares, Subscriber paid \$116,087 to various vendors and obtained the agreement of a certain related party lessor to temporarily forbear exercising non-payment default remedies. Since entering into the Subscription Agreement, the Subscriber has advanced \$1,152,318 bearing interest at 10% per annum to fund general working capital.

NOTE 18 - SEGMENT REPORTING

Although the Company has a number of operating divisions, separate segment data has not been presented as they meet the criteria for aggregation as permitted by ASC Topic 280, “Segment Reporting” (formerly Statement of Financial Accounting Standards (SFAS) No. 131, “Disclosures About Segments of an Enterprise and Related Information”).

Our chief operating decision-maker is considered to be our Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The financial information reviewed by the CEO is identical to the information presented in the accompanying consolidated statements of operations. Therefore, the Company has determined that it operates in a single operating segment, specifically, web communications services. For the three months ended September 30, 2014 and 2013 all material assets and revenues of the Company were in the United States.

NOTE 19 – SUBSEQUENT EVENTS

Stock transactions after September 30, 2014:

In October, 2014, the Company issued 128,241,333 shares of common stock, at the original conversion terms, at a per share price of \$0.00006 valued at \$7,694 in full satisfaction of principal and interest due under a convertible note.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following analysis of our unaudited consolidated financial condition and results of operations for the three months ended September 30, 2014 and 2013 should be read in conjunction with the consolidated financial statements, including footnotes, appearing elsewhere in this quarterly report. MD&A is organized as follows:

Overview. Discussion of our business and overall analysis of financial and other highlights affecting the company in order to provide context for the remainder of MD&A.

Critical Accounting Policies.

Results of Operations. An analysis of our financial results comparing the three months ended September 30, 2014 to the three months ended September 20, 2013.

Liquidity and Capital Resources. An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition and potential sources of liquidity.

Off Balance-Sheet Arrangements.

Recent Accounting Pronouncements.

OVERVIEW

Through our acquisition of Computers & Telecom, Inc. and KCNAP, LLC, (collectively "CTC") in October 2013, IceWEB now provides these wireless and fiber broadband service, co-location space and related services and operates a Network Access Point ("NAP") where customers directly interconnect with a network ecosystem of partners and customers. This access to highly efficient Internet routes provides customers improved reliability and streamlined connectivity while significantly reducing costs by reaching a critical mass of networks within a centralized physical location.

CTC operates a wireless internet service business, providing wireless broadband to small and medium size businesses in the metro Kansas-City, Missouri area. In addition CTC offers the following solutions: (i) premium data center co-location, (ii) interconnection and (iii) exchange and outsourced IT infrastructure services.

We leverage our NAP which allows our customers to increase information and application delivery performance. Our platform enables scalable, reliable and cost-effective co-location, interconnection and traffic exchange.

Our customer base includes U.S. government agencies, enterprise companies, and small to medium sized businesses in hospitality, healthcare, retail and other market spaces ("SMB").

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of significant accounting policies is included in Note 1 to the audited consolidated financial statements included for the nine months ended June 30, 2014 and notes thereto contained on Form 10-KT of the Company as

filed with the Securities and Exchange Commission. Management believes that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about the company's operating results and financial condition.

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

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

We account for stock based compensation under ASC Topic 718, “Compensation – Stock Compensation. ASC Topic 718 establishes the financial accounting and reporting standards for stock-based compensation plans. As required by ASC Topic 718, we recognize the cost resulting from all stock-based payment transactions including shares issued under our stock option plans in the financial statements.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2014 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2013

The following table provides an overview of certain key factors of our results of operations for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013:

	Three Months Ended		\$	%	
	September 30, 2014	September 30, 2013			
Net Revenues	\$237,889	\$103,922	\$133,967	128.9	%
Cost of sales	131,510	63,748	67,762	106.3	%
Operating Expenses					
Sales and marketing	35,785	106,630	(70,845)	(66.4	%)
Depreciation	156,061	94,301	61,760	65.5	%
Research and development	108,597	589,568	(480,971)	(81.6	%)
General and administrative	261,631	1,420,388	(1,158,757)	(81.6	%)
Total Operating Expenses	562,074	2,210,887	(1,648,813)	(74.6	%)
Loss from operations	(455,695)	(2,170,713)	1,715,018	(79.0	%)
Total other income (expense)	217,781	(827,744)	1,045,525	(126.3	%)
Net loss	\$(237,914)	\$(2,998,457)	\$2,760,543	(92.1	%)

Other Key Indicators:

	Three Months Ended		%	%	
	September 30, 2014	September 30, 2013			
Cost of sales as a percentage of revenue	55.3	61.3	%	%	
Gross profit margin	44.7	38.7	%	%	
Sales and marketing expense as a percentage of sales	15.0	102.6	%	%	
General and administrative expenses as a percentage of sales	110.0	1366.8	%	%	
Total operating expenses as a percentage of sales	236.3	2127.4	%	%	

Three Month Period ended September 30, 2014

Revenues

For the three months ended September 30, 2014, we reported revenues of \$237,889 as compared to revenues of \$103,922 for the three months ended September 30, 2013, an increase of \$133,967 or approximately 129%. The increase in sales is primarily due to a shift in the business’ focus to the data center operations related to our acquisition of CTC in October 2013

Cost of Sales

Our cost of sales consists primarily of the costs of providing wireless and fiber bandwidth and colocation services. For the three months ended September 30, 2014 cost of sales was \$131,510 or approximately 55% of revenues, compared to \$63,748, or approximately 61% of revenues, for the three months ended September 30, 2013. The decrease in costs of sales as a percentage of revenue and the corresponding increase in our gross profit margin for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 was due to the change in focus of the business. We anticipate that our gross profit margins will remain between 35% and 50% through the balance of fiscal 2015.

Total Operating Expenses

Our total operating expenses decreased approximately 75% to \$562,074 for the three months ended September 30, 2014 as compared to \$2,210,887 for the three months ended September 30, 2013. These changes include:

Sales and marketing. For the three months ended September 30, 2014, sales and marketing costs were \$35,785 as compared to \$106,630 for the three months ended September 30, 2013, a decrease of \$70,845 or approximately 66%. The decrease was due to a decrease in sales and marketing related headcount and stock-based consulting expense during the three months ended September 30, 2014 versus the three months ended September 30, 2013.

Depreciation expense. For the three months ended September 30, 2014, depreciation expense in operating expenses amounted to \$156,061 as compared to \$94,301 for the three months ended September 30, 2013. The increase was primarily due to the acquisition of CTC in October, 2013.

Research and development. For the three months ended September 30, 2014 research and development costs were \$108,597 as compared to \$589,568 for the three months ended September 30, 2013, a decrease of \$480,971 or approximately 82%. The decrease was due to a decrease in research and development related headcount and stock-based consulting expense during the three months ended September 30, 2014 versus the three months ended September 30, 2013.

General and administrative expense. For the three months ended September 30, 2014, general and administrative expenses were \$261,631 as compared to \$1,420,388 for the three months ended September 30, 2013, a decrease of \$1,158,757 or approximately 82%. For the three months ended September 30, 2014 and 2013 general and administrative expenses consisted of the following:

	Three Months Ended September 30,	
	2014	2013
Occupancy	\$22,102	\$5,676
Consulting	56,923	666,675
Employee compensation	76,311	434,368
Professional fees	15,378	60,205
Travel and entertainment	17,546	7,185
Insurance	20,537	6,879
Other	52,834	239,400
	\$261,631	\$1,420,388

The principal changes between the two periods include:

For the three months ended September 30, 2014, occupancy expense increased approximately 289% from the three months ended September 30,

2013 due to the acquisition of CTC in October 2013.

For the three months ended September 30, 2014, consulting expense decreased approximately 91% due to a reduced use of consultants for business development efforts as well as reduced non-recurring stock-based consulting fees related to merger and acquisition activity in the three months ended September 30, 2013.

For the three months ended September 30, 2014 employee compensation which includes related taxes and benefits decreased approximately 82% due to reduced headcount and lower stock-based compensation expense as compared to the three months ended September 30, 2013.

For the three months ended September 30, 2014, professional fees decreased approximately 75% due to lower litigation and legal fees incurred in the normal course of business as compared to the three months ended September 30, 2013.

For the three months ended September 30, 2014, insurance expense increased approximately 199% from the three months ended September 30, 2013 due to higher premiums paid for directors and officer's insurance.

For the three months ended September 30, 2014, other expense decreased approximately 78% from the three months ended September 30, 2013 primarily due to a decrease in bad debt expense, decrease in write-off of assets and other cost control measures.

We anticipate that general and administrative expenses will continue to remain flat during the balance of Fiscal 2015.

LOSS FROM OPERATIONS

The Company reported a loss from operations of \$455,695 for the three months ended September 30, 2014 as compared to a loss from operations of \$2,170,713 for the three months ended September 30, 2013, a decrease of \$1.7 million or approximately 79%.

OTHER INCOME (EXPENSES)

Loss in change of fair value of derivative liability. For the three months ended September 30, 2014 we had a gain on the change in derivative liability of \$409,590 as compared to a loss on the change in derivative liability of \$549 for the three months ended September 30, 2013. This represents the change in the value of the derivative liability based on the Black-Scholes value of our outstanding variably-priced warrants. The variance is primarily attributable to the change in the Company's stock price and the conversion of convertible notes to equity.

Loss on extinguishment of debt. For the three months ended September 30, 2013 we had a loss on extinguishment of debt related to the payoff of our outstanding convertible debenture payable to Sand Hill Finance, LLC of \$768,463. We did not incur a similar expense in the three months ended September 30, 2014.

Interest Expense. For the three month period ended September 30, 2014, interest expense increased approximately 232%. The increase in interest expense is primarily attributable to the interest expense on an equipment lease entered into on October 1, 2013 and due to interest expense on a related party note.

NET LOSS

The Company's net loss was \$237,914 for the three months ended September 30, 2014 compared to a loss of \$2,998,457 for the three months ended September 30, 2013, an improvement of \$2.7 million or 92%.

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.

In summary, our cash flows are as follows:

	Three Months Ended September 30,	
	2014	2013
Net cash used in operating activities	\$(392,408)	\$(1,493,087)
Net cash used in investing activities	(1,643)	(23,319)
Net cash provided by financing activities	351,154	1,447,515
Net decrease in cash	\$(42,897)	\$(68,891)

Net cash used by operating activities was \$392,408 for the three months ended September 30, 2014 as compared to net cash used by operating activities of \$1,493,087 for the three months ended September 30, 2013, a decrease of \$1.1 million. For the three month period ended September 30, 2014, our cash used in operations of \$392,408 consisted of a net loss of \$237,914 offset by non-cash items totaling \$93,738 including items such as depreciation of \$157,138, amortization of debt discount of \$120,235, change in fair value of derivative liability of \$409,590 and other non-cash items of \$38,479. Additionally, during the three month period ended September 30, 2014, we had a decrease in operating liabilities offset by a decrease in operating assets which increased our net loss.

For the three months ended September 30, 2013, our cash used in operations of \$1.5 million consisted of a net loss of \$3.0 million offset by non-cash items totaling \$1.6 million including items such as depreciation of \$94,301, stock based compensation of \$291,443, the amortization of deferred compensation of \$195,995, the loss on extinguishment of debt of \$768,463, and the issuance of common stock for services of \$101,522 and other non-cash items of \$148,502. Additionally, during the three months ended September 30, 2013 we had a decrease in operating liabilities offset by a decrease in operating assets which increased our net loss

Net cash used in investing activities for the three months ended September 30, 2014 was \$1,643 as compared to net cash used in investing activities for the three months ended September 30, 2013 of \$23,319 for property and equipment purchases.

Net cash provided by financing activities for the three months ended September 30, 2014 was \$351,154 as compared to net cash provided of \$1.4 million for the three months ended September 30, 2013. For the three months ended September 30, 2014, net cash provided by financing activities related to proceeds from a related party note of \$487,740 offset by repayments on notes payable of \$136,586. For the three months ended September 30, 2013, net cash provided by financing activities related to proceeds from notes payable of \$58,796 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of \$1.2 million, proceeds from the sale of restricted stock of \$112,134 and proceeds from a note payable with related parties of \$75,000.

At September 30, 2014 we had a working capital deficit of \$3.1 million and an accumulated deficit of \$53.0 million. The report from our independent registered public accounting firm on our audited financial statements for the nine month transition period ended June 30, 2014 contained an explanatory paragraph regarding doubt as to our ability to continue as a going concern as a result of our net losses in operations. Our sales were not sufficient to pay our operating expenses. We reported a net loss of \$237,914 for the three months ended September 30, 2014. There are no assurances that we will report income from operations in any future periods.

Historically, our revenues have not been sufficient to fund our operations and we have relied on capital provided through the sale of equity securities, and various financing arrangements and loans from related parties. At September 30, 2014 we had cash on hand of \$13,930.

We do not have any commitments for capital expenditures. Our working capital needs in future periods are dependent primarily on the rate at which we can increase our revenues while controlling our expenses and decreasing the use of cash to fund operations. Additional capital may be needed to fund acquisitions of additional companies or assets, although we are not a party to any pending agreements at this time and, accordingly, cannot estimate the amount of capital which may be necessary, if any, for acquisitions.

As long as our cash flow from operations remains insufficient to completely fund operations, we will continue depleting our financial resources and seeking additional capital through equity and/or debt financing.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to a smaller reporting company.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by the Quarterly Report (the “evaluation date”). They have concluded that, as of the evaluation date, these disclosure controls and procedures were effective to provide

reasonable assurance that material information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the Registrant's last fiscal quarter, except as noted below, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The Company has addressed the deficiencies that existed in the design or operation of our internal control over the calculation of share-based expenses that adversely affected our internal controls and that may be considered to be a material weakness. Management believes that the correction of the material weaknesses of our disclosure controls and procedures did not have an effect on our company's financial results.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

At September 30, 2014 the Company is the subject of, or party to, six known, pending or threatened, legal actions. Following is a discussion of each:

1. The Company was named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) on May 28, 2010 in the Circuit Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff obtained a judgment for \$16,322 plus interest and costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$19,000 as of September 30, 2014.
2. The Company was named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) on September 15, 2010 in the General District Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff obtained a Consent Judgment for \$12,900 in compensatory damages plus \$58 in costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$18,500 as of September 30, 2014.
3. The Company was named as the defendant in a legal proceeding brought by i-Cubed Information LLC (the plaintiff) on August 10, 2012 in the General District Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay for delivery of services provided by plaintiff. The plaintiff was granted a judgment by consent in the amount of \$12,920. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$13,600 as of September 30, 2014.
4. The Company was named as the defendant in a legal proceeding brought by Pelligrino and Associates (the plaintiff) on August 14, 2014 in the Marion County Superior Court, Marion County, Indiana. The plaintiff asserts that IceWEB failed to pay the full amount owed for services. The plaintiff is seeking \$17,250 plus attorney's fees, interest and cots. The Company is vigorously contesting this case. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$20,500 as of September 30, 2014.
5. The Company initiated a suit against WANsecurity on November 13, 2013 in the Jackson County Circuit Court of Kansas City, Missouri to prevent WANsecurity from taking action that could cause significant disruptions to the Company's customers. The matter is set for trial on June 1, 2015. The matter is currently in active settlement negotiation. There have been no updates on the status of this case since June 30, 2014. The Company has accrued \$27,000 as of September 30, 2014.
6. The Company was named as the defendant in a legal proceeding brought by Robert Half International (the plaintiff) on June 23, 2014 in the Jackson County Associate Circuit Court of Kansas City, Missouri. The plaintiff asserts that the Company failed to pay the full amount owed for services. The Company settled and paid \$3,500 on September 18, 2014.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed under the heading “Risk Factors” in our Annual Report on Form 10-KT filed on October 14, 2014, which could materially affect our business operations, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business operations and/or financial condition. There have been no material changes to our risk factors since the filing of our Form 10-KT.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In October, 2014, the Company issued 128,241,333 shares of common stock, at the original conversion terms, at a per share price of \$0.00006 valued at \$7,694 in full satisfaction of \$47,287 of principal and interest due under a convertible note. The recipient was an accredited investor and the issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable to our operations.

Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit

Number Description

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

* Filed herein

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ICEWEB, INC.

November 14, 2014

By: /s/ Robert M. Howe III
Robert M. Howe III
Chairman of the Board and CEO,
principal executive officer

November 14, 2014

By: /s/ Ellen Sondee
Ellen Sondee
Chief Financial Officer, principal
financial and accounting officer