KNIGHT KEITH T
Form 4
December 27, 2004

FORM 4

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
KNIGHT KEITH T

(Last) (First) (Middle)

5601 WEST BUCKEYE ROAD

(Street)

PHOENIX, AZ 85043

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
KNIGHT TRANSPORTATION INC [KNGT]

3. Date of Earliest Transaction (Month/Day/Year)
12/23/2004

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value $0.01 per share	12/23/2004		G		1,600	D	$ 25.41	4,693,234	I	Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KNIGHT KEITH T 5601 WEST BUCKEYE ROAD PHOENIX, AZ 85043			Executive Vice President	

Signatures

/s/ Keith T. Knight	12/27/2004
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Plans approved by our stockholders:			
2000 Management and Director Equity Incentive and Compensation Plan	10,944,483	$0.27	25,305,648
Plans not approved by stockholders:			
None	0	n/a	n/a

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A description of each of these plans is contained later in this report under Part III Item 10. Executive Compensation – Stock Option Plan.

ITEM 6. Selected Financial Data

Not applicable for a smaller reporting company.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to the accompanying consolidated statements and footnotes to help provide an understanding of our financial condition, the changes in our financial condition and the results of operations. Our discussion is organized as follows:

- Overview. This section provides a general description of our business, as well as recent significant transactions and events that we believe are important in understanding the results of operations, as well as to anticipate future trends in those operations.

- Results of operations. This section provides an analysis of our results of operations presented in the accompanying consolidated statements of operations by comparing the results for fiscal 2009 to fiscal 2008.

- Financial condition, liquidity and capital resources. This section provides an analysis of our cash flows, working capital and financial commitments, as well as a discussion of our outstanding debt that existed as of September 30, 2009. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund our future commitments, as well as a discussion of other financing arrangements.

- Critical accounting estimates. This section discusses those accounting policies that both are considered important to our financial condition and results, and require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including critical accounting policies, are summarized in Note 2 to the accompanying consolidated financial statements.

- Recent accounting pronouncements. This section discusses new accounting pronouncements, dates of implementation and impact on our accompanying consolidated financial statements, if any.

Results of Operations

FISCAL YEAR 2009 AS COMPARED TO FISCAL YEAR 2008

The following table provides an overview of certain key factors of our results of operations for fiscal year 2009 as compared to fiscal year 2008:

	Fiscal Year Ended September 30, 2009	Fiscal Year Ended September 30, 2008	$ Change	% Change
Sales	$ 3,934,684	$ 16,294,423	$ (12,359,739)	(76)%
Cost of sales	2,674,692	14,067,629	(11,392,937)	(81)%

Operating Expenses:				
Marketing and selling	81,636	192,595	(110,959)	(58)%
Depreciation and amortization	742,636	575,499	167,137	29%
Research and development	336,616	303,526	33,090	11%
General and administrative	4,625,113	6,910,039	(2,284,926)	(33)%
Total operating expenses	5,786,001	7,981,659	(2,195,658)	(27)%
Loss from operations	(4,526,009)	(5,754,865)	1,228,856	21%
Total other income (expense)	1,999,407	(655,928)	2,655,335	405%
Net loss	$ (2,526,602)	$ (6,410,793)	$ (3,884,191)	(61)%

Other Key Indicators:

	Fiscal 2009	Fiscal 2008	% Change
Cost of sales as a percentage of sales	68.0%	86.3%	(18.4)%
Gross profit margin	32.0%	13.7%	18.4%
General and administrative expenses as a percentage of sales	117.6%	42.4%	(75.1)%
Total operating expenses as a percentage of sales	147.0%	49.0%	(98.1)%

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Sales

Our sales decreased approximately 76% in fiscal year 2009 from fiscal year 2008. Of our total net sales for fiscal 2009, approximately $1,692,102 is attributable to third party product sales by our IceWEB Virginia, Inc subsidiary, approximately $1,964,912 is attributable to our sale of storage products, and approximately $277,670 is attributable to sales from our online products and services. Of our total net sales for fiscal 2008, approximately $14,886,699 is attributable to third party product sales by our IceWEB Virginia, Inc. subsidiary, approximately $982,049 is attributable to our sale of storage products, and approximately $425,675 is attributable to sales from our online products and services.

The decrease in fiscal 2009 net sales from fiscal 2008 is primarily due to a decrease in our third party product sales through our IceWEB Virginia, Inc., as we have refocused our efforts on our leading edge storage products. As described elsewhere herein, in March 2009 we sold our IceWEB Virginia, Inc. subsidiary, and, accordingly, our revenues in fiscal year 2010 will be accordingly impacted. We anticipate revenues for fiscal 2010 will increase due to sales of our Unified Network Storage Solutions and other data storage products.

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Cost of Sales and Gross Profit

Our cost of sales consists primarily of products purchased to manufacture our storage products and for resale by our IceWEB Virginia, Inc. subsidiary. For fiscal 2009, cost of sales was approximately 68.0% of sales, as compared to approximately 86.3% of sales, for fiscal 2008. The decrease in costs of sales as a percentage of revenue and the corresponding increase in our gross profit margin for fiscal 2009 as compared to fiscal 2008 was the result of an increase in higher margin storage sales in fiscal 2009. We anticipate that our cost of sales as a percentage of revenue will drop to approximately 50% in fiscal 2010, as 95% of our fiscal 2010 revenues are expected to come primarily from our higher margin storage business.

Total Operating Expenses

Our total operating expenses decreased approximately 27% for fiscal 2009 as compared to fiscal 2008. The decrease is primarily due to a corporate initiative to reduce costs across the board, including the consolidation of office locations and the reduction of headcount. This decrease includes:

• Marketing and Selling. For fiscal 2009, marketing and selling costs decreased approximately 58% from fiscal 2008. This decrease was primarily due to a decrease in online web marketing, advertising and print advertising during fiscal 2009We anticipate that our marketing and selling expenses will increase in fiscal 2010 as we execute on our plan to increase our storage sales.

• Depreciation and amortization expense. For fiscal 2009, depreciation and amortization expense increased approximately 29% from fiscal 2008. The increase in depreciation of $172,278 was attributable to the acquisition in December 2007 of Inline Corporation.

Amortization expense is related to the customer relationships and manufacturing GSA schedule which are intangible assets that we generated through our acquisition of Inline Corporation. It also includes the amortization of the value of the GSA schedule which was acquired as part of the True North Solutions Group acquisition up to the date of the sale of Iceweb Virginia, Inc. in March, 2009. These GSA schedules are being amortized on a straight-line basis over three years. For fiscal 2009, amortization expense was $289,003 as compared to $294,144 for fiscal 2008. The decrease in amortization expense of $5,141 is due to the sale of the GSA schedule as part of the sale of our IceWEB Virginia, Inc. subsidiary.

• Research and development expense. For fiscal 2009, research and development expenses increased approximately 11% from fiscal 2008. This increase is related to increased research and development efforts related to our storage products. We anticipate the spending on research and development in fiscal 2010 will be approximately $100,000 per quarter related to developing and enhancing our storage solutions and pursuing intellectual property patents when we believe it is warranted

• General and administrative expense. For fiscal 2009, general and administrative expenses decreased approximately 33% from fiscal 2008. This decrease is primarily attributable to a Company-wide initiative to reduce costs, including reductions in headcount, consolidation and relocation of office space, and reduced travel and entertainment activity. For fiscal 2009 and 2008, general and administrative expenses consisted of the following:

	2009	2008
Salaries/benefits	$ 3,883,647	$ 4,544,682
Occupancy	68,553	301,313
Professional fees	82,929	93,365
Other	149,050	524,935
Consulting	85,738	197,082
Investor Relations	173,686	904,537
Travel/Entertainment	57,105	125,729
Internet/Phone	54,649	93,638
Leased Equipment	4,918	66,424
Insurance	59,072	48,768
Licenses	5,766	9,566
	$ 4,625,113	$ 6,910,039

The principal changes in fiscal 2009 as compared to fiscal 2008 include:

- For fiscal 2009, salaries and related taxes and benefits decreased approximately 14.5% from fiscal 2008. The decrease was primarily attributable cost cutting measures undertaken by us, including the reduction of headcount. In addition, there was an increase in expense in accordance with ASC Topic 718, “Compensation – Stock Compensation (Formerly SFAS No. 123 (R), “Share-Based Payments”), expense for fiscal 2009 of $394,274, or 19.8%, which relates to the granting of stock options in fiscal 2009 to members of the board of directors, executive officers, and employees.

- For fiscal 2009, occupancy expense decreased approximately 77.2% from fiscal 2008. The decrease was due to consolidation and relocation of office locations.

- For fiscal 2009, professional fees decreased approximately 11.2% from fiscal 2008. The decrease was primarily attributable to a decrease in legal fees incurred to litigate and settle lawsuits against us, which occurred in fiscal 2008.

- For fiscal 2009, other expense decreased approximately 71.6% from fiscal 2008. The decrease is primarily due to non-recurring expenses incurred in fiscal 2008, including the accrued costs to settle potential litigation of $165,000, a decrease in hosting fees of $56,687, a decrease in web development expense of $55,475, and property taxes related to the former Inline office space of $18,169. Other expenses were down across the board in fiscal 2009 versus fiscal 2008, driven by cost-cutting measures adopted by us.

- For fiscal 2009, consulting expense decreased by approximately 56.5% from fiscal 2008. The decrease was primarily due to non-recurring consulting fees related to the acquisition of Inline Corporation in fiscal 2008.

- For fiscal 2009, investor relations expense decreased approximately 80.8% from fiscal 2008. The decrease was attributable to a decrease in general investor relations activity versus fiscal 2008. We expect that in fiscal 2010 our investor relations activity and related expense will be substantially flat.

- For fiscal 2009, internet and telephone expense decreased approximately 41.6%. The decrease was attributable to cost cutting measures adopted by us, including reduced headcount.

- For fiscal 2009, travel and entertainment expense decreased approximately 54.6%. The decrease was attributable to cost cutting measures adopted by us, and a decrease in general business, sales, and travel-related investor relations activity.

- For fiscal 2009, insurance expense increased approximately 21.1% from fiscal 2008. The increase was attributable to higher premiums paid for general business and directors and officer’s insurance.

LOSS FROM OPERATIONS

Our loss from operations decreased approximately 21.4% in fiscal year 2009 as compared to fiscal year 2008. This decrease is primarily the result of significant reductions in operating expenses, offset by a significant decrease in sales.

TOTAL OTHER INCOME (EXPENSES)

Gain (loss) from sale of assets. During fiscal 2009 we recorded a gain of $2,666,236 on the sale of our IceWEB Virginia, Inc. subsidiary. We did not have a comparable transaction in fiscal 2008.

Interest Expense. For fiscal 2009, interest expense increased approximately 1%. The increase in interest expense is primarily attributable to higher average outstanding note balances during fiscal 2009, and higher deferred loan fee amortization in fiscal 2009 of $30,248 as compared to deferred loan fee amortization of $16,196 in fiscal 2008.

NET LOSS

Our net loss was $2,526,602 for fiscal 2009 compared to $6,410,793 for fiscal 2008, an improvement of $3,884,191 or approximately 61%.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of a company to generate adequate amounts of cash to meet its needs for cash.

At September 30, 2009, we had a working capital deficit of $(3,158,232) compared to a working capital deficit of $(5,572,672) at September 30, 2008, a decrease of $2,414,440. The decrease in the deficit is primarily attributable to the sale of IceWEB Virginia, Inc. in March, 2009, which resulted in a decrease in accounts payable of $2,865,801. In addition, the changes are primarily attributable to the decreases in accounts payable and accrued expenses of $3,017,502, offset by the decrease in accounts receivable of $2,669,191. Also contributing was the decrease in prepaid expenses of $29,975, the decrease in net inventory of $248,951, and the decrease in deposits of $33,032, offset by the decrease in deferred revenue of $2,902.

Net cash used in operating activities was $2,145,514 for fiscal 2009 as compared to net cash provided by operating activities of $862,691 for fiscal 2008, an increase of $3,008,205. For fiscal 2009, our cash used in operations of $2,145,514 consisted of a net loss of $2,526,602, offset by non-cash items totaling $3,086,579 including items such as depreciation and amortization of $739,973, stock based compensation of $1,167,724, the amortization of deferred compensation of $1,016,134, and other non-cash items of $162,748. Additionally, during fiscal 2009 we had a decrease in operating liabilities and a decrease in operating assets which offset our net loss. This change in operating assets and liabilities primarily consisted of a decrease in accounts receivable of $2,669,191 attributable to a decrease in annual sales, and a decrease in prepaid expenses of $29,975, a decrease in deposits of $33,032, and a decrease in net inventory of $248,951, offset by a decrease in accounts payable and accrued liabilities of $3,017,502 and an increase in deferred revenue of $2,903.

For fiscal 2008, our cash provided by operations of $862,691 consisted of a net loss of $6,410,793, offset by non-cash items totaling $7,058,551 including items such as depreciation and amortization of $575,499, stock based compensation of $1,573,363, the amortization of deferred compensation of $910,930, and other non-cash items of $16,196. Additionally, during fiscal 2008 we had an increase in operating liabilities and a decrease in operating assets which offset our net loss. This change in operating assets and liabilities primarily consisted of a decrease in accounts receivable of $2,887,773 attributable to a decrease in fourth quarter sales, an increase in accounts payable and accrued liabilities of $1,342,947, offset by an increase in inventory of $2,647.

Net cash used in investing activities for fiscal 2009 was $99,762 as compared to net cash used in investing activities of $2,111,749 for fiscal 2008. During fiscal 2009 we used cash of $99,762 for property and equipment purchases. During fiscal 2008, net cash used in investing activities was $2,111,749. During fiscal 2008, we acquired Inline Corporation and in connection therewith used net cash of $1,925,128. Additionally, we used cash of $186,621 for property and equipment purchases.

Net cash provided by financing activities for fiscal 2009 was $2,303,806 as compared to $161,368 for fiscal 2008, an increase of $2,142,438. The primary reason for the increase was due to the proceeds from the exercise of common stock options of $979,300, the sale of common stock of $207,000 and the net increase in borrowings from Sand Hill Finance of $545,233.

At September 30, 2009 we had an accumulated deficit of $22,658,558 and the report from our independent registered public accounting firm on our audited financial statements at September 30, 2009 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. In spite of our sales, there is no assurance that we will be able to maintain or increase our sales in fiscal 2009 or that we will report net income in any future periods.

We do not have any working capital commitments nor do we not presently have any external sources of working capital. Historically, our sales 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, 2009 we had cash on hand of $63,310. In addition to the cash necessary to fund our operating losses, research and development, marketing and general growth, we will need cash to satisfy certain obligations. In fiscal 2006, we entered into a receivable factoring agreement with Sand Hill Finance, LLC under which we can sell certain accounts receivable to the lender on a full recourse basis at 80% of the face amount of the receivable up to an aggregate of $1.8 million. This financing agreement was amended in fiscal 2008 to increase the line amount to $2,750,000, and to add an 18 month term loan of $1,000,000 with an interest rate of 24% per annum. As of September 30, 2009, we had $967,490 available under the line of credit facility. Also, in July 2006, we entered into what is in essence a sale and leaseback agreement with respect to certain computer and office equipment. This agreement has expired and we are in default under the agreement. We have accrued for the remaining liability under this agreement, and the amount is included in our accounts payable and accrued liabilities on our balance sheet at September 30, 2009.

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

As long as our cash flow from operations remains insufficient to completely fund operations, we will continue depleting our financial resources and seeking additional capital through equity and/or debt financing. Under the terms of the financing agreement with Sand Hill Finance, LLC we agreed not to incur any additional indebtedness other than trade credit in the ordinary course of business. These covenants may also limit our ability to raise capital in future periods. There can be no assurance that acceptable financing can be obtained on suitable terms, if at all. Our ability to continue our existing operations and to fund our working capital needs will 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 sales 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.

Off Balance Sheet Arrangements.

None.

Recent Accounting Pronouncements

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 105, FASB Accounting Standards Codification (“ASC 105”). The statement confirmed that the FASB Accounting Standards Codification (the “Codification”) is the single official source of authoritative GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related literature. The Codification does not change GAAP. Instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research.

Recent Accounting Pronouncements

In June 2009, the FASB issued Accounting Standards Update No. 2009-01, “Generally Accepted Accounting Principles” (ASC Topic 105) which establishes the FASB Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative U.S. generally accepted accounting principles (“GAAP”). All existing accounting standards are superseded. All other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission (“SEC”) guidance organized using the same topical structure in separate sections within the Codification.

Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (“ASU”) which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for our third-quarter 2009 financial statements and the principal impact on our financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification. In order to ease the transition to the Codification, we are providing the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

In April 2009, the FASB issued FASB Staff Positions FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (ASC Topic 320-10-65). This update provides guidance for allocation of charges for other-than-temporary impairments between earnings and other comprehensive income. It also revises subsequent accounting for other-than-temporary impairments and expands required disclosure. The update was effective for interim and annual periods ending after June 15, 2009. The adoption of FAS 115-2 and FAS 124-2 did not have a material impact on the results of operations and financial condition.

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, “Interim Disclosures About Fair Value of Financial Instruments” (ASC Topic 320-10-65). This update requires fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value on a quarterly basis and is effective for interim periods ending after June 15, 2009. The Company’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. At September 30, 2009 and September 30, 2008 the carrying value of the Companies financial instruments approximated fair value, due to their short term nature.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (ASC Topic 855). This guidance is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on our consolidated financial statements. The Company evaluated all events and transactions that occurred after September 30, 2009 up through December 22, 2009. During this period no material subsequent events came to our attention.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” (ASC Topic 810-10). This updated guidance requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. It is effective for annual reporting periods beginning after November 15, 2009. We are currently evaluating the impact of the pending adoption of SFAS No. 167 on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, “Multiple-Deliverable Revenue Arrangements.” This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities.

This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements." This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are "essential to the functionality," and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered "essential to the functionality." The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

ITEM 7A. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

IceWEB, Inc. and Subsidiaries
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
IceWEB, Inc.

We have audited the accompanying consolidated balance sheets of IceWEB, Inc. and Subsidiaries as of September 30, 2009 and 2008 and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of our management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of our internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IceWEB, Inc. and Subsidiaries, as of September 30, 2009 and September 30, 2008 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company had net losses of $2,526,602 and $6,410,793 respectively, for the years ended September 30, 2009 and 2008. These matters raise substantial doubt about the Companys' ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Sherb & Co., LLP
Certified Public
Accountants

Boca Raton, Florida

December 23, 2009

ICEWEB, Inc.
Consolidated Balance Sheets

	September 30, 2009	September 30, 2008
CURRENT ASSETS:		
Cash	$ 63,310	$ 4,780
Accounts receivable, net of allowance for doubtful accounts of $9,000	424,919	3,094,110
Inventory, net	151,361	400,312
Other current assets	6,390	21,572
Prepaid expenses	25,180	55,155
	671,160	3,575,929
OTHER ASSETS:		
Property and equipment, net of accumulated depreciation of $1,761,730	752,162	1,169,369
Deposits	13,320	61,418
Intangible assets, net of accumulated amortization of $425,408	790,042	1,132,612
Total Assets	$ 2,226,684	$ 5,939,328
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,971,376	$ 7,762,872
Notes payable	1,847,755	1,372,565
Deferred revenue	10,261	13,164
	3,829,392	9,148,601
Long-Term Liabilities		
Notes Payable	934,756	956,520
Total Liabilities	4,764,148	10,105,121
Stockholders' Deficit		
Preferred stock ($.001 par value; 10,000,000 shares authorized) Series A convertible preferred stock ($.001 par value; 0 shares issued and outstanding)	—	—
Series B convertible preferred stock ($.001 par value; 626,667 shares issued and outstanding at September 30, 2009 and 1,253,334 shares issued and outstanding as of September 30, 2008)	626	1,253
Common stock ($.001 par value; 1,000,000,000 shares authorized; 68,469,617 shares issued and 68,307,117 shares outstanding at September 30, 2009 and 24,688,088 shares issued and 24,525,588 outstanding at September 30, 2008)	68,471	24,690
Additional paid in capital	20,064,998	15,953,221
Accumulated deficit	(22,658,559)	(20,131,957)
Treasury stock, at cost, (162,500 shares)	(13,000)	(13,000)
Total stockholders' deficit	(2,537,464)	(4,165,793)
Total Liabilities and stockholders' deficit	$ 2,226,684	$ 5,939,328

See accompanying notes to consolidated financial statements

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ICEWEB, Inc.
Consolidated Statements of Operations

	For the Year Ended September 30, 2009	For the Year Ended September 30, 2008
Sales	$ 3,934,684	$ 16,294,423
Cost of sales	2,674,692	14,067,629
Gross profit	1,259,992	2,226,794
Operating expenses:		
Marketing and selling	81,636	192,595
Depreciation and amortization expense	742,636	575,499
Research and development	336,616	303,526
General and administrative	4,625,113	6,910,039
Total operating expenses	5,786,001	7,981,659
Loss from operations	(4,526,009)	(5,754,865)
Other income (expenses):		
Gain from sale of subsidiary	2,666,236	-
Interest income	1,142	3,444
Interest expense	(667,971)	(659,372)
Total other income (expenses)	1,999,407	(655,928)
Net loss	$ (2,526,602)	$ (6,410,793)
Basic and diluted loss per common share	$ (0.06)	$ (0.35)
Weighted average common shares outstanding basic and diluted	40,911,411	18,321,369

See accompanying notes to consolidated financial statements

IceWEB, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the years ended September 30, 2009 and 2008

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		To
	Shares	Amount	Shares	Amount	Shares	Amount			Share	Amount	
e at ber 30,	456,667	$ 457	1,833,334	$ 1,833	13,040,315	$ 13,042	$ 12,248,779	$ (13,721,164)	(162,500)	$ (13,000)	$ (1,47
zation rred nsation	-	-	-	-	-	-	910,930	-	-	-	91
e of n stock n	-	-	-	-	400,000	400	79,600	-	-	-	8
on sued rcise of	-	-	-	-	1,780,000	1,780	217,420	-	-	-	21
on sued rcise of ts	-	-	-	-	2,625,000	2,625	(2,625)	-	-	-	
on sued in tion tes e	-	-	-	-	266,500	267	40,860	-	-	-	4
sion of A ed to n stock	(456,667)	(457)	-	-	456,667	457	-	-	-	-	
sion of B ed to n stock	-	-	(580,000)	(580)	580,000	580	-	-	-	-	
on sued rices	-	-	-	-	1,086,250	1,086	495,577	-	-	-	49

on sued to ees	-	-	-	-	2,950,000	2,950	1,073,750	-	-	-	1,07
on sued in tion tion	-	-	-	-	1,503,356	1,503	875,343	-	-	-	87
e of ts	-	-	-	-	-	-	13,587	-	-	-	1
s for r	-	-	-	-	-	-	-	(6,410,793)	-	-	(6,41
e at ber 30,	-	-	1,253,334	1,253	24,688,088	24,690	15,953,221	(20,131,957)	(162,500)	(13,000)	(4,16
zation rred nsation	-	-	-	-	-	-	1,016,137	-	-	-	1,01
e of n stock n	-	-	-	-	3,900,000	3,900	203,100	-	-	-	20
ation mon	-	-	-	-	(100,000)	(100)	100	-	-	-	
on sued rcise of	-	-	-	-	18,715,000	18,715	960,585	-	-	-	97
on sued in tion tes e	-	-	-	-	1,959,601	1,960	150,313	-	-	-	15
sion of 3 ed to n stock	-	-	(626,667)	(627)	626,667	627		-	-	-	
on sued	-	-	-	-	1,725,000	1,725	130,775	-	-	-	13

rices												
on sued to ees	-	-	-	-	13,155,261	13,154	1,154,567	-	-	-	1,16
on sued in tion tion of ary	-	-	-	-	1,000,000	1,000	79,000	-	-	-	8
on sued in tion sion of ible ure	-	-	-	-	2,800,000	2,800	417,200	-	-	-	42
s for r	-	-	-	-	-	-	-	(2,526,602)	-	-	(2,52
e at ber 30,	-	$ -	626,667	$ 626	68,469,617	$ 68,471	$ 20,064,998	$ (22,658,559)	(162,500)	$ (13,000)	$ (2,53

See accompanying notes to consolidated financial statements

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ICEWEB, Inc.
Consolidated Statements of Cash Flows

	For the Year Ended September 30, 2009	2008
Net loss	$ (2,526,602)	$ (6,410,793)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	742,636	575,498
Share-based compensation	1,167,721	1,573,363
Amortization of deferred compensation	1,016,134	910,930
Gain on sale of subsidiary	(2,666,236)	—
Common stock issued for services rendered	132,500	—
Amortization of deferred finance costs	30,248	16,196
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	2,669,191	2,887,773
Prepaid expense	29,975	(27,436)
Inventory	248,951	2,647
Deposits	33,035	(11,143)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(3,020,165)	1,342,947
Deferred revenue	(2,902)	2,709
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(2,145,514)	862,691
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(99,762)	(186,621)
Cash used in acquisitions, net		(1,925,128)
NET CASH USED IN INVESTING ACTIVITIES	(99,762)	(2,111,749)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of equipment financing	-	(98,887)
Proceeds from notes payable - related party	-	157,425
Repayment of notes payable - related party	-	(124,109)
Proceeds from notes payable	7,594,455	6,519,365
Payments on notes payable	(6,476,949)	(6,591,626)
Proceeds from sale of common stock	207,000	80,000
Proceeds from exercise of common stock options	979,300	219,200
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,303,806	161,368
NET INCREASE/(DECREASE) IN CASH	58,530	(1,087,690)
CASH - beginning of period	4,780	1,092,470
CASH - end of period	$ 63,310	$ 4,780

Supplemental disclosure of cash flow information:				
Cash paid for :				
Interest	$	552,886	$	659,372
Income taxes	$	—	$	—
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Common stock issued for debt and interest	$	152,273	$	41,127
Warrant granted for debt discount and debt issuance costs	$	—	$	13,587
Common stock issued in connection with convertible debenture	$	420,000	$	—
Common stock issued in connection with acquisition/disposition	$	80,000	$	876,846
Acquisition details:				
Fair value of assets acquired	$	—	$	2,688,795
Intangible assets	$	—	$	1,215,450
Liabilities assumed	$	—	$	(614,668)
Common stock issued in connection with acquisition	$	—	$	876,846

See accompanying notes to consolidated financial statements

IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

NOTE 1 – ORGANIZATION

IceWEB, Inc. (the "Company") began trading publicly in April 2002. Utilizing resources gained through acquisitions, we have developed two lines of business, IceWEB Storage products, and IceMAIL which is a hosted Microsoft Exchange application service. We currently have two wholly owned operating subsidiaries: IceWEB Storage Corporation (formerly known as Inline Corporation), and IceWEB Online, Inc.

BUSINESS OF ICEWEB

Since 2005, the Company has been focused on serving the commercial and federal markets with network security products and proprietary on-line software solutions. In 2008, the Company narrowed its focus and expanded its capabilities by acquiring INLINE Corporation, a data storage manufacturing company.

In March, 2009, the Company sold its wholly owned subsidiary, IceWEB Virginia, Inc. to an unrelated 3rd party, and in the process exited its low-margin IT re-seller business products business to further focus on the higher margin data storage manufacturing business.

At the close of fiscal year 2009, the Company has three key product offerings:

- Iplicity Unified Network Storage Solutions
- Purpose Built Network/Data Appliances
- Cloud Computing Products/Services

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

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

Reclassifications
Certain reclassifications have been made to previously reported amounts to conform to 2008 amounts. The reclassifications had no impact on previously reported results of operations or shareholders' deficit.

Going Concern
Our auditors stated in their report on the consolidated financial statements of the Company for the Years ended September 30, 2009 and 2008 that we have had losses since inception that raise doubt about our ability to continue as a going concern. In addition and as discussed further in Note 6, we are not in compliance with debt covenants under our Financing Agreements with Sand Hill Finance LLC. For the year ended September 30, 2009 we incurred a net loss of $2,526,602. The consolidated financial statements do not include any adjustments related to the recovery and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event we cannot continue in existence.

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

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IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments
The carrying amounts of financial instruments, including cash, accounts receivable, prepaid expenses, and other current assets, accounts payable and accrued liabilities, and deposits approximated fair value as of September 30, 2009 and 2008, because of the relatively short-term maturity of these instruments and their market interest rates.

Use of Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheets and the reported amounts of sales and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates in 2009 and 2008 include the allowance for doubtful accounts, the valuation of stock-based compensation, the allowance for inventory obsolescence and the useful life of property and equipment and intangible assets, and litigation reserves.

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

Accounts Receivable
Accounts receivable consists of normal trade receivables. We recorded a bad debt allowance of $9,000 as of September 30, 2009. Management performs ongoing evaluations of its accounts receivable. Management believes that all remaining receivables are fully collectable. Bad debt expense amounted to $29,324 and $0 for the Years ended September 30, 2009 and 2008, respectively.

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

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

Intangible Assets
Intangible assets, net consists of the cost of acquired customer relationships. We capitalize and amortize the cost of acquired intangible assets over their estimated useful lives on a straight-line basis. The estimated useful life of our acquired customer relationships is five years.

IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-lived Assets

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

Revenue Recognition

We follow the guidance of Accounting Standards Codification (ASC) Topic 605, "Revenue Recognition" (formerly Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition") for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for our various revenues streams:

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

Revenue from services is recorded as it is earned. Commissions earned on third party sales are recorded in the month in which contracts are awarded. Customers are generally billed every two weeks based on the units of production for the project. Each project has an estimated total which is based on the estimated units of production and agreed upon billing rates. Amounts billed in advance of services being provided are recorded as deferred revenues and recognized in the consolidated statement of operations as services are provided.

Earnings per Share

We compute earnings per share in accordance with ASC Topic 260, "Earnings Per Share" (formerly SFAS No. 128, "Earnings per Share") Under the provisions of ASC Topic 260, basic earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and upon the conversion of convertible preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive. At September 30, 2009, there were options and warrants to purchase 11,169,483 shares of common stock, 626,667 shares issuable upon conversion of Series B preferred stock, and no shares of Series C preferred stock outstanding which could potentially dilute future earnings per share.

Stock-Based Compensation

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

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IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Stock-Based Compensation (continued)
Prior to October 1, 2005, we accounted for stock options issued under the Plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by ASC Topic 718, “Compensation – Stock Compensation (Formerly SFAS No. 123 (R), “Share-Based Payments. No stock-based compensation cost related to employee stock options was recognized in the Consolidated Statement of Operations for the year ended September 30, 2005 as all options granted under the Plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective October 1, 2005, we adopted the fair value recognition provisions of ASC Topic 718, “Compensation – Stock Compensation (Formerly SFAS No. 123 (R), “Share-Based Payments using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the year ended September 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of September 30, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to October 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Financial results for the year ended September 30, 2005 have not been restated.

Recent Accounting Pronouncements
In June 2009, the Financial Accounting Standards Board (FASB), issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162". SFAS No. 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This SFAS is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and is not expected to have a material impact on our consolidated financial statements.

In June 2009, the FASB issued Accounting Standards Update No. 2009-01, “Generally Accepted Accounting Principles” (ASC Topic 105) which establishes the FASB Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative U.S. generally accepted accounting principles (“GAAP”). All existing accounting standards are superseded. All other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission (“SEC”) guidance organized using the same topical structure in separate sections within the Codification.

Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (“ASU”) which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for our fiscal year ending 2009 financial statements and the principal impact on our financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification. In order to ease the transition to the Codification, we are providing the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

In April 2009, the FASB issued FASB Staff Positions FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (ASC Topic 320-10-65). This update provides guidance for allocation of charges for other-than-temporary impairments between earnings and other comprehensive income. It also revises subsequent accounting for other-than-temporary impairments and expands required disclosure. The update was effective for interim and annual periods ending after June 15, 2009. The adoption of FAS 115-2 and FAS 124-2 did not have a material impact on the results of operations and financial condition.

IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Recent Accounting Pronouncements (continued)

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments" (ASC Topic 320-10-65). This update requires fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value on a quarterly basis and is effective for interim periods ending after June 15, 2009. The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. At September 30, 2009 and September 30, 2008 the carrying value of the Companies financial instruments approximated fair value, due to their short term nature.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (ASC Topic 855). This guidance is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on our consolidated financial statements. The Company evaluated all events and transactions that occurred after September 30, 2009 up through December 22, 2009. During this period no material subsequent events came to our attention.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (ASC Topic 810-10). This updated guidance requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. It is effective for annual reporting periods beginning after November 15, 2009. We are currently evaluating the impact of the pending adoption of SFAS No. 167 on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements." This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements." This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are "essential to the functionality," and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered "essential to the functionality." The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

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IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

NOTE 3 - PROPERTY AND EQUIPMENT

At September 30, 2009, property and equipment consisted of the following:

	Estimated Life		2009		2008
Office equipment	5 years	$	637,920	$	628,080
Computer software	3 years		607,278		713,876
Furniture and fixtures	5 years		261,385		261,385
Leasehold improvements	5 years		1,007,250		999,050
			2,513,833		2,602,391
Less: accumulated depreciation			(1,761,671)		(1,433,022)
		$	752,162	$	1,169,369

Depreciation expense for the years ended September 30, 2009 and 2008 was $453,633 and $281,355 respectively.

NOTE 4 - INTANGIBLE ASSETS

At September 30, 2009, intangible assets consist of the following:

		2009	2008
Acquired software library	$	-	100,000
GSA Schedule - IceWEB Virginia, Inc.		-	275,479
Manufacturing GSA Schedule		750,000	750,000
Customer relationships intangible		465,451	465,451
		1,215,451	1,590,930
Less: accumulated amortization		(425,409)	(458,318)
	$	790,042	1,132,612

Amortization expense amounted to $289,003 and $294,144 for the Years ended September 30, 2009 and 2008, respectively.

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IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Amortization expense subsequent to the year ended September 30, 2009 is as follows:

Years ending September 30:	
2010	$ 243,090
2011	243,090
2012	243,090
2013	60,772
	$ 790,042

NOTE 5 - RELATED PARTY TRANSACTIONS

Advances from Related Party

Our Chief Executive Officer provides advances to us from time-to-time for operating expenses. These advances are short-term in nature and are non-interest bearing. At September 30, 2009 and 2008, amounts due to this related party amounted to $0.

NOTE 6 - NOTES PAYABLE

Sand Hill Finance, LLC

On December 19, 2005, we entered into a Financing Agreement with Sand Hill Finance, LLC pursuant to which, together with related amendments, we may borrow up to 80% on our accounts receivable balances up to a maximum of $1,800,000. In conjunction with the acquisition of Inline Corporation in December, 2007, the lending limit on the credit facility was increased to $2,750,000. In addition, in November, 2008 we and Sand Hill Finance, LLC entered into a 36 month term note agreement in the amount of $1,000,000. Amounts borrowed under the Financing Agreement are secured by a first security interest in substantially all of our assets. At September 30, 2009, the principal amount due under the Financing Agreement amounted to $1,847,755. The principal amount due under the term note amounted to $934,756. These amounts are included in the notes payable balance of $2,782,510 on the balance sheet at September 30, 2009.

Interest is payable under the Financing Agreement at a rate of 1.75% per month on the average loan balance outstanding during the year, equal to an annual interest of approximately 21% per year. We also agreed to pay an upfront commitment fee of 1% of the credit line upon signing the Financing Agreement, half of which was due and paid upon signing (amounting to $9,000) and half of which is due on the first anniversary of the Financing Agreement. In addition, we are obligated to pay a commitment fee of 1% of the credit limit annually, such amounts are payable on the anniversary of the agreement.

In connection with the Financing Agreement, we issued Sand Hill Finance, LLC, a seven-year common stock purchase warrant to purchase 25,000 shares of our common stock at an exercise price of $1.00 per share. The warrant contains a cashless exercise provision which means that at the option of the holder, the warrant is convertible into a number of shares of our common stock as determined by dividing the aggregate fair market value of our common stock minus the aggregate exercise price of the warrant by the fair market value of one share of common stock. The number of shares issuable upon the exercise of the warrant and the exercise price are subject to adjustment in the event of stock dividends, stock splits and reclassifications. The fair value of the warrant of $16,250 has been recorded as an addition to paid-in capital and interest expense during the year ended September 30, 2007.

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IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

NOTE 6 - NOTES PAYABLE (continued)

In connection with the term loan, we issued Sand Hill Finance, LLC a seven-year common stock purchase warrant to purchase 120,000 shares of our common stock at an exercise prices $1.00 per share. The warrant contains a cashless exercise provision which means that at the option of the holder, the warrant is convertible into a number of shares of our common stock as determined by dividing the aggregate fair market value of our common stock minus the aggregate exercise price of the warrant by the fair market value of one share of common stock. The number of shares issuable upon the exercise of the warrant and the exercise price are subject to adjustment in the event of stock dividends, stock splits and reclassifications. The fair value of the warrant of $13,587 has been recorded as an addition to paid-in capital and deferred finance costs during the year ended September 30, 2008.

The Financing Agreement has a term of one year, subject to mutual extension by both parties. As a result, the balance due to Sand Hill Finance, LLC is classified as a current liability on the accompanying consolidated balance sheet.

The terms of the Financing Agreement also restricts us from undertaking certain transactions without the written consent of the creditor including (i) permit or suffer a change in control involving 20% of its securities, (ii) acquire assets, except in the ordinary course of business, involving payment of $100,000 or more, (iii) sell, lease, or transfer any of its property except for sales of inventory and equipment in the ordinary course of business, (iv) transfer, sell or license any intellectual property, (v) declare or pay a dividend on stock, except payable in the form of stock dividends (vi) incur any indebtedness other than trade credit in the ordinary course of business and (vii) permit any lien or security interest to attach to any collateral. Sand Hill Finance provided a waiver with respect to our disposition of IceWEB, Virginia, Inc. in March, 2009, as discussed herein.

Third party guarantee - In November 2006, we sold our interest in one of our subsidiaries (Integrated Power Solutions, Inc. or IPS) to a shareholder of ours and related party. IPS is a party to the Financing Agreement and can borrow against receivables transferred to Sand Hill Finance, LLC under the terms of the Financing Agreement. We remain liable for any such amounts borrowed under the Financing Agreement by IPS which is no longer under our control. To date, IPS has not borrowed any funds under the Financing Agreement.

In August, 2008, we borrowed $187,500 from an accredited investor. The note bears interest at 16% and had a term of four months, and can be repaid in either cash or shares of our common stock. As of September 30, 2009 we had repaid the note in full

IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

NOTE 7 - EQUIPMENT FINANCING PAYABLE

On July 6, 2006, we entered into what is in essence a sale and leaseback agreement with respect to certain computer and office equipment. We received gross proceeds of $300,000 from the sale of the equipment to a third party. As part of the same transaction, we entered into an agreement to lease the equipment back from the third party for 36 monthly rent payments of $10,398 until August 2009. We are accounting for this equipment financing arrangement as a capital lease. In connection with the agreement, we made an initial security deposit of $30,000. The equipment had a net book value of $37,846 on the date of the transaction. In connection with the financing, we did not record any gain or loss. Imputed interest on this financing is 20% per annum. This agreement terminated in August, 2009. We are in default under this agreement, and the remaining estimated amount owed under this agreement is included in accounts payable and accrued liabilities on the accompanying balance sheet.

NOTE 8 - INVENTORY

Inventory consisted of the following:

	September 30, 2009	September 30, 2008
Raw materials	$ 78,966	$ 351,579
Work in progress	14,862	65,921
Finished goods	57,533	21,974
	151,361	439,474
Less: reserve for obsolescence	-	(39,162)
	$ 151,361	$ 400,312

NOTE 9 - COMMITMENTS

We lease office space in Sterling, Virginia under a two-year operating lease that expires on March 31, 2011. The office lease agreement has certain escalation clauses and renewal options. Additionally, we have lease agreements for computer equipment and an office copier/fax machine. Future minimum rental payments required under these operating leases are as follows:

Years ending September 30:	
2010	$ 75,222
2011	37,611
2012	-
2013	-
2014 and thereafter	-
	$ 112,833

Rent expense was $71,400 and $326,932 for the years ended September 30, 2009 and 2008.

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Explanation of Responses:

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NOTE 10 - INCOME TAXES

We account for income taxes under the provisions of ASC 740-10-25 effective September 30, 2007. ASC 740-10-25 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all the relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC 740-10-25 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties. ASC 740-10-25 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carryforwards. ASC 740-10-25 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets.

As of September 30, 2009 we had unused net operating loss carry forwards of approximately $11,000,000 available to reduce our future federal taxable income. Net operating loss carryforwards expire through fiscal years ending 2029. Internal Revenue Code Section 382 places a limitation on the amount of taxable income that can be offset by carryforwards after a change in control (generally a greater than 50% change in ownership).

		2009		2008
Deferred Tax Assets:				
Tax benefit of net operating loss carry forward	$	4,146,000	$	4,865,000
Grant of stock options/restricted stock to employees		1,768,000		838,000
Unpaid accrued salaries		31,000		20,000
Reserve for legal settlement		451,000		-
Amortization of leasehold improvements		115,000		49,000
Amortization of intangibles		175,000		97,000
		6,686,000		5,869,000
Less: valuation allowance		(6,686,000)		(5,869,000)
Net deferred tax assets	$	—		—

Net operating loss carryforwards and the associated deferred tax asset were reduced during fiscal September 30, 2009 to reflect the impact of the disposition of IceWEB Virginia, Inc. in a stock sale transaction in the second quarter.

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The table below summarizes the differences between our effective tax rate and the statutory federal rate as follows for fiscal 2009 and 2008. The effective tax rate is 34% Federal and 3.6% State after Federal tax benefit:

	2009	2008
Computed "expected" tax benefit	(34.0)%	(34.0)%
State income taxes	(3.6)%	(3.6)%
Other permanent differences	42.0%	—
Change in valuation allowance	(4.4)%	37.6%
Effective tax rate	0.0%	0.0%

The valuation allowance at September 30, 2009 was $6,686,000. The increase during fiscal 2009 was approximately $817,000.

NOTE 11 - CONCENTRATION OF CREDIT RISK

Bank Balances

We maintain our cash bank deposits at various financial institutions which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC). During October 2008, the FDIC increased the insured amounts at participating financial institutions from $100,000 to $250,000 and provided unlimited coverage for non-interest bearing transaction accounts. At September 30, 2009 we had no amounts in excess of FDIC insured limits. We have not experienced any losses in such accounts.

Major Customers

Sales to eight customers represented approximately 82% of total sales for the year ended September 30, 2009. As of September 30, 2009 approximately 48% of our accounts receivable was due from one customer. Sales to ten customers represented approximately 63% in 2008.

NOTE 12 - STOCKHOLDERS' DEFICIT

Preferred Stock

Our authorized capital includes 10,000,000 shares of blank check preferred stock, par value $0.001 per share, of which 1,666,667 shares have previously been designated as Series A Convertible Preferred Stock. 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 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.

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IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - STOCKHOLDERS' DEFICIT (continued)

A) Series A Convertible Preferred Stock

On March 30, 2005, we entered into a Preferred Stock Purchase Agreement and related agreements with Barron Partners LP. Under the terms of this agreement, we sold Barron Partners LP, an accredited investor, 1,666,667 shares of our Series A Convertible Preferred Stock and issued the purchaser the Common Stock Purchase Warrants "A", "B" and "C" to purchase an aggregate of 4,500,000 shares of our common stock at exercise prices ranging from $2.00 to $9.60 per share for an aggregate purchase price of $1,000,000. We received net proceeds of $900,000 after payment of expenses of $35,000 and a finder's fee to Liberty Company LLC of $65,000. We also issued Liberty Company LLC, a broker-dealer, a Common Stock Purchase Warrant "A" exercisable into 175,000 shares of our common stock with an exercise price of $0.70 per share as additional compensation for its services. We used these proceeds for general working capital and acquisitions. The transaction was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that act.

All shares of Series A Convertible Preferred Stock were converted into shares of our common stock in fiscal 2008. As of September 30, 2009 there are no Series A Convertible Preferred shares outstanding. The warrants issued in conjunction with the Series A Convertible Preferred Stock transaction were fully converted into shares of our common stock in fiscal 2008. There are no outstanding warrants related to the Series A Convertible Preferred Stock transaction at September 30, 2009.

B) 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, the shares carry a liquidation preference of $0.2727 per share,

- 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 conversation ratio is subject to adjustment in the event of stock dividends, stock splits or reclassification of our common stock. The conversion ratio is also subject to adjustment in the event we should sell any shares of its common stock or securities convertible into common stock at an effective price less than the conversion ratio then in effect, in which case the conversion ratio would be reduced to the lesser price. 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,

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IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - STOCKHOLDERS' DEFICIT (continued)

- so long as the Series B Convertible Preferred Stock is outstanding, we have agreed not to issue any rights, options or warrants to holders of its common stock entitling the holders to purchase shares of its common stock at less than the conversion ratio without the consent of the holders of a majority of the outstanding shares of Series B Convertible Preferred Stock. If we should elect to undertake such an issuance and the Series B holders consent, the conversion ratio would be reduced. Further, if we should make a distribution of any evidence of indebtedness or assets or rights or warrants to subscribe for any security to our common stockholders, the conversion value would be readjusted,

- 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, and

- so long as the shares of Series B Convertible Preferred Stock are outstanding, we cannot sell or issue any common stock, rights to subscribe for shares of common stock or securities which are convertible or exercisable into shares of common stock at an effective purchase price of less than the then conversion value of the Series B Convertible Preferred Stock.

During fiscal 2008, Series B Preferred stockholders' converted 580,000 shares of Series B Preferred Stock into 580,000 shares of common stock.

During fiscal 2009, Series B Preferred stockholders' converted 626,667 shares of Series B Preferred Stock into 580,000 shares of common stock.

During fiscal 2009, the remaining 626,667 shares of Series B Preferred Stock were acquired from the original holders by John Signorello, the Company's CEO, for total consideration of $75,000.

On December 28, 2005, the Company consummated a Preferred Stock Purchase Agreement and related agreements with Barron Partners LP. Under the terms of these agreements, the Company issued Barron Partners LP, an accredited investor, 1,833,334 shares of its Series B Convertible Preferred Stock and Common Stock Purchase Warrants "D", "E" and "F" to purchase an aggregate of 2,250,000 shares of its common stock at exercise prices ranging from $2.00 to $9.60 per share, for an aggregate purchase price of $500,000. The Company received net proceeds of $475,000 after payment of commissions of $25,000 (before placement expenses). The Company used these proceeds for general working capital. The transaction was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - STOCKHOLDERS' DEFICIT (continued)

On the date of issuance of the Series B Preferred Stock, the effective conversion price was at a discount to the price of the common stock into which it was convertible. In fiscal 2006, the Company recorded a $500,000 preferred stock dividend related to the beneficial conversion feature and the fair value of the warrants granted in connection with the preferred stock.
Under the terms of the Preferred Stock Purchase Agreement, the Company agreed:

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

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

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

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

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

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

Mr. John R. Signorello, the Company's CEO, agreed not to sell any shares of the Company's common stock that he may own in excess of 1% per quarter or at a price of less than $1.50 per share for a period ending August 30, 2007, and that the earliest any other insiders could sell their shares would be beginning two years from the closing date.

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

Warrants Issued In the Series B Convertible Preferred Stock Transaction

In connection with the sale of shares of our Series B Convertible Preferred Stock, we issued the purchaser the following common stock purchase warrants:

- Common Stock Purchase Warrants “D” to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of $2.00 per share,

- Common Stock Purchase Warrants “E” to purchase an aggregate of 625,000 shares of our common stock at an exercise price of $4.80 per share, and

- Common Stock Purchase Warrants “F” to purchase an aggregate of 625,000 shares of our common stock at an exercise price of $9.60 per share.

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IceWEB, Inc. and Subsidiaries
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NOTE 12 - STOCKHOLDERS' DEFICIT (continued)

We also issued Liberty Company LLC, a broker dealer which served as finder for us in the transaction, a Common Stock Purchase Warrant "G" to purchase 25,000 shares of its common stock at an exercise price of $1.00 per share. Other than the exercise price, all other terms of the warrant issued to Liberty Company LLC are identical to the Common Stock Purchase Warrants "E" and "F" issued to the purchaser.

The expiration date of the warrants is five years, or 18 months after effectiveness of a registration statement subsequent to the issuance hereof with such 18 months to be extended by one month for each month or portion of a month during which such registration statement's effectiveness has lapsed or been suspended, whichever is longer. The warrants contain a cashless exercise provision which permits the holder, rather than paying the exercise price in cash, to surrender a number of warrants equal to the exercise price of the warrants being exercised. The holder cannot utilize the cashless exercise feature during the first six months of the term or so long as there is an effective registration statement covering the shares of common stock underlying the warrants. The exercise price of the warrants and the number of shares issuable upon the exercise of the warrants is subject to adjustment in the event of stock splits, stock dividends and reorganizations, as well as if we issue common stock or securities convertible into common stock at an effective price less than the then current exercise price of the warrant.

The warrants issued in conjunction with the Series B Convertible Preferred Stock transaction were fully converted into shares of our common stock in fiscal 2008. There are no outstanding warrants related to the Series B Convertible Preferred Stock transaction.

Series C Preferred Stock

On July 29, 2009, we entered into a Preferred Stock Purchase Agreement with an Investor which provided that, upon the terms and subject to the conditions set forth therein, the Investor is committed to purchase up to $3,000,000 of our Series C Preferred Stock. Under the terms of the purchase agreement, from time to time until July 23, 2010 and at our sole discretion, we may present the Investor with a notice to purchase such Series C Preferred Stock. The Investor is obligated to purchase such Series C Preferred Stock on the tenth trading day after the notice date, subject to satisfaction of certain closing conditions. The Investor will not be obligated to purchase the Series C Preferred Stock (i) in the event the closing price of our common stock during the nine trading days following delivery of a notice falls below 75% of the closing price on the trading day prior to the date such notice is delivered to the Investor, or (ii) to the extent such purchase would result in the Investor and its affiliates beneficially owning more than 9.99% of our common stock.

On the date of delivery of each notice under the purchase agreement, we will also issue to the Investor warrants to purchase our common stock at an exercise price equal to the closing price of our common stock on the trading day prior to the delivery date of the notice. The number of shares issuable upon exercise of the warrant will be equal in value to 135% of the purchase price of the Series C Preferred Stock to be issued in respect of the related notice, and shall have a term of two years, or four years if the exercise price is below the closing sale price of the common stock on the date of the notice. Each warrant will be exercisable on the earlier of (i) the date on which a registration statement registering for resale the shares of common stock issuable upon exercise of such warrant becomes effective and (ii) the date that is six months after the issuance date of such warrant.

The Series C Preferred Stock is redeemable after the fifth anniversary of the date of its issuance and is subject to repurchase by us (i) at any time at our election, or (ii) following the consummation of certain fundamental transactions by us, at the option of a majority of the holders of the Series C Preferred Stock.

Holders of Series C Preferred Stock will be entitled to receive dividends, which will accrue in shares of Series C Preferred Stock on an annual basis at a rate equal to 10% per annum from the issuance date. Accrued dividends will be payable upon redemption of the Series C Preferred Stock. The Series C Preferred Stock ranks, with respect to dividend rights and rights upon liquidation:

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NOTE 12 - STOCKHOLDERS' DEFICIT (continued)

senior to our common stock; and

on parity with our Series B Preferred Stock.

Common Stock

Fiscal 2008 Transactions

During fiscal 2008, Series A preferred stockholders' converted 456,667 shares of Series A Preferred Stock into 456,667 shares of common stock.

During fiscal 2008, Series B preferred stockholders' converted 580,000 shares of Series B Preferred Stock into 580,000 shares of common stock.

In fiscal 2008, in connection with the exercise of 1,780,000 stock options, we issued 1,780,000 shares of common stock for cash proceeds of $219,200.

During fiscal 2008, in connection with the cashless exercise of 5,250,000 stock warrants, we issued 2,525,000 shares of common stock.

During fiscal 2008, in connection with the payment on a note payable discussed in Note 6, we issued 266,500 shares of common stock. The shares were valued at $41,126, the fair market value in the date of issuance.

During fiscal 2008, in connection with the payment for consulting services rendered, we issued 2,086,250 shares of common stock. The services were valued at $1,096,663, the fair market value on the date of issuance.

During fiscal 2008, in connection with the acquisition of Inline Corporation, we issued 503,356 shares of common stock. The shares were valued at $276,846, the fair market value on the date of issuance.

During fiscal 2008 we issued 2,950,000 shares of common stock to employees, valued at $1,076,700, the fair market value at the time of issuance, as additional compensation.

IceWEB, Inc. and Subsidiaries
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Fiscal 2009 Transactions

On October 28, 2008 we issued 3,431,680 shares of restricted common stock at a per share price of $0.07, valued at $240,218, in lieu of pay to our employees. 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.

On February 18, 2009 we issued 480,000 shares of restricted common stock at a per share price of $0.14, valued at $67,200, in lieu of pay to our employees. 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.

On March 26, 2009 we issued 6,243,581shares of restricted common stock at a per share price of $0.09, valued at $560,305, in lieu of pay to our employees. 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.

On August 19, 2009 we issued 3,000,000 shares of restricted common stock at a per share price of $0.10 valued at $300,000, in lieu of pay to our employees. 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.

On June 3, 2009 we sold 1,400,000 shares of common stock at a per share price of $0.03, valued at $42,000 to 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.

On June 8, 2009 we sold 1,000,000 shares of common stock at a per share price of $0.04, valued at $40,000 to 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.

On June 11, 2009 we sold 500,000 shares of common stock at a per share price of $0.03, valued at $15,000 to 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.

On August 10, 2009 we sold 1,000,000 shares of common stock at a per share price of $0.08, valued at $80,000 to 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.

On March 10, 2009, we issued 25,000 shares of our common stock valued at $2,500 in satisfaction of debt in the amount of $2,500, which related to services rendered to the Company. 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.

On March 11, 2009, we issued 100,000 shares of our common stock valued at $4,000 in satisfaction of debt in the amount of $4,000, which related to services rendered to the Company. 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.

On June 25, 2009, we issued 100,000 shares of our common stock valued at $6,000 in satisfaction of debt in the amount of $6,000, which related to services rendered to the Company. 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.

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Fiscal 2009 Transactions (continued)

On September 2, 2009, we issued 1,500,000 shares of our common stock valued at $120,000 in satisfaction of debt in the amount of $120,000, which related to services rendered to the Company. 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.

In March, 2009, in conjunction with the sale of its subsidiary IceWEB Virginia, Inc., the Company issued 1,000,000 shares of our common stock to the purchaser, valued at $80,000. 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.

During fiscal 2009, we issued 18,715,000 of our common stock in connection with the exercise of options under our stock option plan.

In the fiscal first quarter of 2009, we issued 1,959,601 shares of common stock in connection with payments on a short term note payable, valued at $152,273.

Common Stock Warrants

A summary of the status of our outstanding common stock warrants as of September 30, 2009 and 2008 and changes during the period ending on that date is as follows:

	Year Ended September 30, 2009		Year Ended September 30, 2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Common Stock Warrants				
Balance at beginning of year	300,000	$ 1.25	5,955,000	$ 1.25
Granted	-	-	120,000	1.00
Exercised	-	-	(5,150,000)	0.28
Forfeited	(75,000)	0.65	(625,000)	2.79
Balance at end of year	225,000	$ 1.78	300,000	$ 1.25
Warrants exercisable at end of year	225,000	$ 1.78		
Weighted average fair value of warrants granted or re-priced during the year		$ -		

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The following table summarizes information about common stock warrants outstanding at September 30, 2009:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Price	Number Outstanding at September 30, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at September 30, 2009	Weighted Average Exercise Price
0.50	145,000	5.05 Years	0.50	145,000	0.50
2.00	5,000	1.81 Years	2.00	5,000	2.00
4.00	37,500	0.25 Years	4.00	37,500	4.00
8.00	37,500	0.25 Years	8.00	37,500	8.00
	225,000		$ 1.78	225,000	$ 1.78

NOTE 13 - STOCK OPTION PLAN

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

The purpose of the Plan is to advance our 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, we believe 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 our 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 our 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.

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NOTE 13 - STOCK OPTION PLAN (continued)

As amended in fiscal 2009, the Plan permits the grant of options and shares for up to 60,000,000 shares of our common stock. The Plan terminates 10 years from the date of the Plan's adoption by our stockholders.

The term of each Plan option and the manner in which it may be exercised is determined by the Board of Directors, provided that no Plan option may be exercisable more than three years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of our 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. We used the following assumptions for determining the fair value of options granted under the Black-Scholes option pricing model:

	Year Ended September 30,	
	2009	2008
Expected volatility	149% - 183%	87% - 198%
Expected term	1 - 5 Years	1 - 5 Years
Risk-free interest rate	2.53% - 4.76%	2.34% - 4.38%
Forfeiture Rate	0% - 45%	0% - 45%
Expected dividend yield	0%	0%

The expected volatility was determined with reference to the historical volatility of our stock. We use historical data to estimate option exercise, employee termination, and forfeiture rate 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 year ended September 30, 2009, total stock-based compensation charged to operations for option-based arrangements amounted to $1,016,134. At September 30, 2009, there was approximately $519,182 of total unrecognized compensation expense related to non-vested option-based compensation arrangements under the Plan.

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A summary of the status of our outstanding stock options as of September 30, 2009 and changes during the period ending on that date is as follows:

	Year Ended September 30, 2009			Year Ended September 30, 2008		
	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Stock options						
Balance at beginning of year	6,583,827	$ 0.61		$ 5,212,219	$ 0.61	$
Granted	24,395,000	0.06		7,310,000	0.27	
Exercised	(18,715,000)	0.05		(1,780,000)	0.12	
Forfeited	(1,319,344)	0.28		(4,158,392)	0.49	
Balance at end of year	10,944,483	$ 0.27	$ 103,006	6,583,827	$ 0.45	$ 92,650
Options exercisable at end of year	9,352,725	$ 0.28	$ 103,006	4,123,134	$ 0.47	$ 10,560
Weighted average fair value of options granted during the year		$ 0.06			$ 0.27	

The following table summarizes information about employee stock options outstanding at September 30, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at September 30, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at September 30, 2009	Weighted Average Exercise Price
$ 0.001-0.25	6,990,000	2.67 Years	$ 0.08	5,909,400	$ 0.09
0.30-0.48	535,000	2.56 Years	0.45	501,950	0.46
0.54-0.60	2,501,608	2.89 Years	0.58	2,026,208	0.58
0.61-0.80	917,500	1.91 Years	0.72	914,792	0.72
1.44-3.80	375	0.04 Years	3.80	375	3.80
	10,944,483		$ 0.27	9,352,725	$ 0.28

IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

NOTE 14 - ACQUISITIONS AND DISPOSITIONS

On December 22, 2007, we acquired 100% of the outstanding stock of Inline Corporation for $2,412,731 in cash, plus 503,356 shares of our common stock valued at $276,846, the fair market value on the date of acquisition. The acquisition was accounted for using the purchase method of accounting. The results of operations are included in the financial statements of operations from the date of acquisition. The purchase of Inline Corporation included the acquisition of assets of $3,904,245, and liabilities of $614,668. The aggregate purchase price consisted of the following:

Cash payment to seller	$ 2,412,731
Fair value of common stock issued to seller	276,846
Estimated direct transaction fees and expenses	600,000
	$ 3,289,577

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

Cash	$ 487,603
Accounts Receivable	866,455
Lease Deposits	20,500
Inventory, net	394,863
Property and equipment, net	919,374
Intangible assets	1,215,450
Accounts payable and accrued expenses	(614,668)
	$ 3,289,577

Intangible assets acquired from Inline were assigned the following values: (i) value of manufacturing GSA schedule with an assigned valued of $750,000 amortized straight line over five years; and (ii) value of customer relationships with an assigned value of $465,450 amortized straight line over five years. Intangible assets acquired from Inline had the following unamortized values at September 30, 2009: (i) value of manufacturing GSA schedule of $487,500; and (ii) value of customer relationships of $302,543.

On March 30, 2009, we completed the sale of IceWEB Virginia, Inc., a wholly owned subsidiary, to ABC Networks, Inc., a privately held U.S. company. Pursuant to the terms of the transaction, ABC Networks, Inc. acquired 100% of the outstanding common stock of IceWEB, Virginia, Inc.

The aggregate sales price consisted of the following:

Common stock issued to purchaser	$ 80,000
Net book value of disposed subsidiary	(2,746,236)
	$ (2,666,236)

The following table summarizes the estimated fair values of IceWeb Virginia’s assets and liabilities disposed of at the date of the sale:

Intangible assets, net	$ (53,565)
IceWEB, Inc. common stock	(80,000)
Accounts payable and accrued liabilities	2,799,801
Estimated gain on the sale	$ 2,666,236

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IceWEB, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

The following table summarizes the required disclosures for the Company, as if the disposition of IceWEB Virginia, Inc. had occurred at October 1, 2007.

	For the Year Ended September 30, 2009	2008
Revenues, net	$ 1,969,772	$ 1,407,725
Net loss, excluding gain from sale in 2009	(3,425,195)	(2,248,048)
Net income (loss) per common share – basic and diluted	$ (0.08)	$ (0.12)

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 disposition occurred at October 1, 2007, nor is it necessarily indicative of future operating results.

NOTE 15 - SEGMENT REPORTING

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

Our chief operating decision-maker is considered to be our Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The financial information reviewed by the CEO is identical to the information presented in the accompanying consolidated statements of operations. Therefore, the Company has determined that it operates in a single operating segment, specifically, web communications services. For the periods ended September 30, 2009 and 2008 all material assets and revenues of the Company were in the United States.

NOTE 16 – SUBSEQUENT EVENTS

In November 2009 we purchased an approximately 16% interest in VOIS Inc. (OTCBB: VOIS), a development stage company that operates a social commerce website where people can find and do business with buyers and sellers of on-demand work or manufacturing around the world for $48,000. We acquired a strategic interest in VOIS to enter the Cloud Computing marketplace and deploy our storage products in conjunction with VOIS' product offerings. In exchange for this strategic interest, VOIS received access to distribute IceMAIL, IcePORTAL, and IceSECURE to their existing and prospective new user base, and IceWEB's cloud storage network.

We have evaluated events and transactions that occurred subsequent to September 30, 2009 through December 29, 2009, the date the financial instruments were issued, for potential recognition or disclosure in the accompanying financial statements. Other than the disclosures show, we did not identify any events or transactions that should be recognized or disclosed in the accompanying financial statements.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

We are a party to litigation which arises primarily in the ordinary course of business. In the opinion of management, the ultimate disposition of such litigation should not have a material adverse effect on our financial position or results of operations.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A(T). CONTROLS AND PROCEDURES

Item 9A(T). Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded as of the evaluation date that our disclosure controls and procedures were not effective.

Management's Annual Report on Internal Control Over Financial Reporting

Management of our company is responsible for establishing and maintaining adequate internal control over financial reporting, as required by Sarbanes-Oxley (SOX) Section 404 A. Our company's internal control over financial reporting is a process designed under the supervision of our company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of September 30, 2009, management assessed the effectiveness of our company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments. Based on that evaluation, they concluded that, during the period covered by this report, such internal controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below. This was due to deficiencies that existed in the design or operation of our internal control over financial reporting that adversely affected our internal controls and that may be considered to be material weaknesses. The matters involving internal controls and procedures that our company's management considered to be material weaknesses under the standards of the Public Company Accounting Oversight Board were (1) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (2) ineffective controls over period end financial disclosure and reporting processes. The aforementioned material weaknesses were identified by our company's Chief Financial Officer in connection with the audit of our financial statements as of September 30, 2009 and communicated the matters to our management.

Management believes that the material weaknesses set forth in items (1) and (2) above did not have an effect on our company's financial results.

We are committed to improving our financial organization. As part of this commitment, we will prepare and implement sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements.

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Management believes that preparing and implementing sufficient written policies and checklists will remedy the following material weaknesses (i) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (ii) ineffective controls over period end financial close and reporting processes.

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow. This annual report does not include an attestation report of our company's registered accounting firm regarding internal control over financial reporting.

Management's report is not subject to attestation by our company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission.

Changes in Internal Controls 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 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

During fiscal 2009 we amended our 2000 Management and Director Equity Incentive and Compensation Plan to increase the number of shares covered by the plan to an aggregate sixty million shares.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following individuals serve as our executive officers and members of our Board of Directors:

Name	Age	Positions
John R. Signorello	43	Chairman and Chief Executive Officer
Mark B. Lucky	51	Chief Financial Officer
Harold F. Compton (1)(2)	62	Director
Raymond H. Pirtle (2)	66	Director
Joseph L. Druzak (1)	55	Director
Jack Bush(1)	72	Director
Harry E. Soyster	72	Director

(1) Member of the Compensation Committee
(2) Member of the Audit Committee

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John R. Signorello. Mr. Signorello has served as Chairman of the Board and CEO since March 2000. From 1991 until September 1997, Mr. Signorello served as the Chief Executive Officer of STMS -"Solutions That Make Sense" - a private technology company he founded that specialized in computer networks, systems integration and information technology. In 1996, STMS was ranked the 17th fastest growing technology company in America by The National Technology Council's "The Fast Five Hundred". In September 1997, they were acquired by Steelcloud (Nasdaq: SCLD), and Mr. Signorello remained as Vice President of Sales and Marketing until November 1998. Mr. Signorello is an accomplished musician, and serves as a principal in New York City Lights Entertainment. Mr. Signorello received a B.B.A. in Marketing from Radford University in 1989.

Mark B. Lucky. Mark B. Lucky has served as our Chief Financial Officer since March 2007. Since October 30, 2009 he has also served as a member of the Board of Directors of VOIS Inc. (OTCBB: VOIS), an entity in which we purchased an interest as described elsewhere herein. He has over 20 years professional experience in high growth/start-up ventures and established companies with multi-industry experience including financial services, technology, software, real estate, biotech and entertainment and media. Prior to joining IceWEB, he consulted at Bearing Point on their financial restatement project. From 2004 to 2005 he was Vice President of Finance and Administration at Galt Associates, Inc., a Sterling, Virginia informatics/ technology and medical research services company and from 2001 to 2004 he was Vice President of Finance and Administration of MindShare Design, Inc., a San Francisco, California based internet technology company. While at both Galt Associates, Inc. and MindShare Design, Inc. Mr. Lucky was the senior financial officer for the Company, providing strategic and tactical analysis and managing day to day finance, accounting, cash management, reporting and human resource responsibilities. During his career Mr. Lucky has also been employed by Axys Pharmaceuticals, Inc., a NASDAQ-listed South San Francisco, California-based early stage drug discovery biotech company (acting CFO and Senior Director of Finance), PriceWaterhouseCoopers, LLC, COMPASS Management and Leasing, Inc. (Vice President - Finance 1997 to 1998), Mindscape, Inc. (Director of Financial Planning and Analysis 1995 to 1996), The Walt Disney Company (Manager, Operations Planning & Analysis, Manager of Corporate Planning 1991 to 1995), and KPMG. Mr. Lucky is a member of the Board of Directors of VOIS Inc. and HASCO Medical, Inc. Mr. Lucky is a CPA and received his B.A., Economics, from the University of California.

Harold F. Compton. Mr. Compton has been a member of our Board of Directors since May 2005. Mr. Compton has been a retailer for more than 30 years. Mr. Compton joined CompUSA Inc. in 1994 as Executive Vice President-Operations, becoming Executive Vice President and Chief Operating Officer in 1995, President of CompUSA Stores in 1996 and Chief Executive Officer of CompUSA Inc. in 2000, a position he held until his retirement in 2004. Prior to joining CompUSA, Inc., from 1993 until 1994 he served as President and COO of Central Electric Inc., Executive Vice President Operations and Human Resources, and Director of Stores for HomeBase (1989 to 1993), Senior Vice President Operations and Director of Stores for Roses Discount Department Stores (1986 to 1989), and held various management positions including Store Manager, District Manager, Regional Vice President and Zone Vice President for Zayre Corporation from 1965 to 1986. Since 1998 Mr. Compton was a member of the Board of Directors of Linens `N Things, Inc., is currently a member of the Board of Directors of Maidenform Brands, Inc. and is a member of its Compensation Committee and Corporate Governance and Nominating Committee of the Board of Directors of that company. Mr. Compton also serves as Chairman of the Board of HASCO Medical, Inc.

Raymond Pirtle. Jr. Mr. Pirtle has been a member of our Board of Directors since June 2005. Mr. Pirtle is a veteran of the financial services industry, having spent the past three decades in a variety of senior roles in corporate finance, institutional sales, investment banking, and equity research. From 1966 until 1989 he was employed by J.C. Bradford & Co., a large regional investment banking and brokerage, departing as a general partner. From 1989 until 2001 he was a Director and co-head of institutional sales of Equitable Securities Corp., a banking and institutional brokerage firm later known as SunTrust Equitable. In 2001 he was one of the founding partners of Avondale Partners, LLC, an institutional equity research and investment banking firm focusing on small companies generally with a market cap in the range of $200 million to $2 billion. In March 2005 Mr. Pirtle founded Clairidge Company, LLC., a consulting firm that represents micro-cap to small-cap companies with a public equity valuation under $200 million or larger companies that are seeking to attract broad attention from institutional portfolio managers, research analysts or investment bankers. Since 1985 Mr. Pirtle has been serving on the board of both public and private companies. He currently serves on the board of Premier Global Services, Inc. (NYSE: PGI), a provider of business communications services and business process solutions that enable enterprise customers to automate and simplify components of their critical business processes and to communicate more effectively with their constituents.

Joseph L. Druzak. Mr. Druzak has been a member of our Board of Directors since June 2005. Since 1985 Mr. Druzak has served President and CEO of Kreher Steel Company, LLC., a large, privately-held specialty steel distribution company serving such diverse markets as automotive, rail, construction, oil and gas, aerospace and defense.

Jack Bush. Mr. Bush has been a member of our Board of Directors since August 2005. Mr. Bush has served as the President of Raintree Partners, Inc., a management consulting company, since September 1995. He is also currently Chairman and Director of IdeaForest.com (Joann.com), and Vice Chairman and Director of FPE Corporation (Framed Picture Enterprises). From 1995 to 1999 he served as Chairman of Aaron Brothers Holding Company and of Carolina Art & Frame Co. He was a founder, Chief Concept Officer and Director of Artistree Art, Frame & Design Company. During this time he was also a Director of Cyberplay, New York Coffee & Bagels, Bradlees Stores, Stage Stores, Telequip and Jumbo Sports Company. He served on the board of Bradlees during a successful reorganization and served as special assistant to the board of Stage Stores during a successful reorganization. From 1997 to 1999 he served as Chairman, CEO and President of Jumbo Sports Co. From 1991 to August 1995, he was President and Director of Michaels Stores, Inc. and was Chairman of Michaels of Canada. The Company grew from 136 to 530 stores and became the largest arts and crafts retailer in the world. Upon leaving the NASDAQ-listed company, sales reached $1.5 billion and had 22,000 associates. From 1990 to 1991 he served as Executive Vice President, Director of Operations and Stores for Ames Department Stores. From 1985 to 1990 Mr. Bush was President and Director of Roses stores, a NASDAQ-listed company. During his tenure the Company grew to 226 stores with $1.6 billion in sales and 25,000 associates. From 1980 to 1985 He served as Vice President of Zayre Corporation, an NYSE-listed company responsible for 105 stores and $750 million in sales. From 1958 to 1980 he served in a variety of positions with J.C. Penney Company, an NYSE-listed company. Mr. Bush was a U.S. Air Force Reserve officer and holds a Bachelor of Science from the University of Missouri.

Harry E. Soyster. General Soyster has been a member of our Board of Directors since March 2008. General Soyster served as Director, Defense Intelligence Agency during Desert Shield/Storm. He also served as Deputy Assistant Chief of Staff for Intelligence, Department of the Army; Commanding General, U.S. Army Intelligence and Security Command; and in the Joint Reconnaissance Center, Joint Chiefs of Staff. In Vietnam, he was a field artillery battalion operations officer, and was twice decorated for valor and wounded in action. Upon retirement, General Soyster was Vice President for International Operations with Military Professional Resources Incorporated where he helped pioneer the concept of providing retired military expertise to support emerging democracies in Eastern Europe and Africa. In 2006, he served as Special Assistant to the SEC Army for World War II 60th Anniversary Commemorations. Currently, he serves as consultant to numerous corporations and participates in studies by the Center for Strategic and International Studies and the National Institute for Public Policy. In 1957, General Soyster graduated from the United States Military Academy with a Bachelor of Science degree in Engineering. He also holds a Masters of Science degree in Chemistry from Pennsylvania State University in Chemistry and a Masters of Science degree in Management from the University of Southern California. His military education includes completion of the Field Artillery School, Basic and Advanced Courses; the U.S. Army Command and General Staff College; and the National War College. General Soyster has an active TS/SCI (Top Secret/Sensitive Compartmented Information) clearance.

There are no family relationships between any of the executive officers and directors. Directors are elected at our annual meeting of stockholders and hold office until the next annual meeting of stockholders or until his or her resignation, removal, or death.

Committees of the Board of Directors

Our Board of Directors has created both an Audit Committee and a Compensation Committee. We do not have a Nominating Committee or any committee performing a similar function. The functions that such a committee would undertake are being undertaken by the entire board as a whole. We do not have a policy regarding the consideration of any director candidates which may be recommended by our stockholders, including the minimum qualifications for director candidates, nor has our Board of Directors established a process for identifying and evaluating director nominees. We have not adopted a policy regarding the handling of any potential recommendation of director candidates by our stockholders, including the procedures to be followed. Our Board has not considered or adopted any of these policies as we have never received a recommendation from any stockholder for any candidate to serve on our Board of Directors or any inquiry as to what the procedures may be if a stockholder wished to make such a recommendation. Since 2008 the Board has been developing a nominating and approval process and policy to guide the handling of potential recommendations of board candidates. While there have been no nominations of additional directors proposed, in the event such a proposal is made, all members of our Board will participate in the consideration of director nominees.

Audit Committee. The Audit Committee of our Board of Directors was formed to assist the Board of Directors in fulfilling its oversight responsibilities for the integrity of our consolidated financial statements, compliance with legal and regulatory requirements, the independent registered public accounting firm’s qualifications and independence, and the performance of our internal audit function and independent auditors. The Audit Committee will also prepare the report that SEC rules require be included in our annual proxy statement. The Audit Committee has adopted a charter which sets forth the parameters of its authority The Audit Committee Charter provides that the Audit Committee is empowered to:

- Appoint, compensate, and oversee the work of the independent registered public accounting firm employed by our company to conduct the annual audit. This firm will report directly to the audit committee;
- Resolve any disagreements between management and the auditor regarding financial reporting;
- Pre-approve all auditing and permitted non-audit services performed by our external audit firm;
- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation;
- Seek any information it requires from employees - all of whom are directed to cooperate with the committee’s requests - or external parties;
- Meet with our officers, external auditors, or outside counsel, as necessary; and
- The committee may delegate authority to subcommittees, including the authority to pre-approve all auditing and permitted non-audit services, provided that such decisions are presented to the full committee at its next scheduled meeting.

Each Audit Committee member is required to:

- satisfy the independence requirements of Section 10A(m)(3) of the Securities Exchange Act of 1934, and all rules and regulations promulgated by the SEC as well as the rules imposed by the stock exchange or other marketplace on which our securities may be listed from time to time, and
- meet the definitions of “non-employee director” for purposes of SEC Rule 16b-3 and “outside director” for purposes of Section 162(m) of the Internal Revenue Code.

Each committee member is required to be financially literate and at least one member is to be designated as the “financial expert,” as defined by applicable legislation and regulation. No committee member is permitted to simultaneously serve on the audit committees of more than two other public companies. Mr. Pirtle is considered an “audit committee financial expert” under the definition under Item 407 of Regulation S-K. As we expand our Board of Directors with additional independent directors the number of directors serving on the Audit Committee will also increase.

A copy of the Audit Committee Charter is available on our website at www.iceweb.com under the "Investor Relations" tab.

Compensation Committee. The Compensation Committee was appointed by the Board to discharge the Board's responsibilities relating to:

- compensation of our executives,
- equity-based compensation plans, including, without limitation, stock option and restricted stock plans, in which officers or employees may participate, and

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- arrangements with executive officers relating to their employment relationships with our company, including employment agreements, severance agreements, supplemental pension or savings arrangements, change in control agreements and restrictive covenants.

The Compensation Committee has adopted a charter. The Compensation Committee charter provides that the Compensation Committee has overall responsibility for approving and evaluating executive officer compensation plans, policies and programs of our company, as well as all equity-based compensation plans and policies. In addition, the Compensation Committee oversees, reviews and approves all of our ERISA and other employee benefit plans which we may establish from time to time. The Compensation Committee is also responsible for producing an annual report on executive compensation for inclusion in our proxy statement and assisting in the preparation of certain information to be included in other periodic reports filed with the SEC.
Each Compensation Committee member is required to:

- satisfy the independence requirements of Section 10A(m)(3) of the Securities Exchange Act of 1934, and all rules and regulations promulgated by the SEC as well as the rules imposed by the stock exchange or other marketplace on which our securities may be listed from time to time, and
- meet the definitions of “non-employee director” for purposes of SEC Rule 16b-3 and “outside director” for purposes of Section 162(m) of the Internal Revenue Code.

Pursuant to our Compensation Committee Charter, the Compensation Committee is charged with evaluating and recommending for approval by the Board of Directors the compensation of our executive officers. In addition, the Compensation Committee also evaluates and makes recommendations to the entire Board of Directors regarding grants of options which may be made as director compensation. The Compensation Committee does not delegate these authorities to any other persons nor does it use the services of any compensation consultants.

Messrs. Compton, Druzak and Bush are the members of our Compensation Committee. As we expand our Board of Directors with additional independent directors the number of directors serving on the Compensation Committee will also increase. A copy of the Compensation Committee Charter is available on our website at www.iceweb.com under the “Investor Relations” tab.

Code of Ethics

In May 2005, we adopted a Code of Business Conduct and Ethics applicable to our Chief Executive Officer, principal financial and accounting officers and persons performing similar functions. A Code of Business Conduct and Ethics is a written standard designed to deter wrongdoing and to promote:

- honest and ethical conduct,
- full, fair, accurate, timely and understandable disclosure in regulatory filings and public statements,
- compliance with applicable laws, rules and regulations,
- the prompt reporting violation of the code, and
- accountability for adherence to the Code.

A copy of our Code of Business Conduct and Ethics is filed as an exhibit to this annual report. We will provide a copy, without charge, to any person desiring a copy of the Code of Business Conduct and Ethics, by written request to us at our principal offices to the attention of Corporate Secretary.

Section 16(a) Beneficial Reporting Compliance

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(d) of the Securities Exchange Act during the fiscal year ended September 30, 2009 and Forms 5 and amendments thereto furnished to us with respect to the fiscal year ended September 30, 2009, as well as any written representation from a reporting person that no Form 5 is required, we are aware that the following Board members and officers failed to file on a timely basis, as disclosed in the aforementioned Forms, reports required by Section 16(a) of the Securities Exchange Act during the fiscal year ended September 30, 2009, except as set forth below:

- Mr. Signorello failed to file 1 report covering 1 transaction,
- Mr. Druzak failed to file 1 reports covering 1 transaction, and
- Mr. Lucky failed to file 1 reports covering 1 transaction.

All such Form 4s have subsequently been filed by the reporting person.

ITEM 11. Executive Compensation

Summary Compensation Table

The following table summarizes all compensation recorded by us in each of the last two completed fiscal years for our principal executive officer, each other executive officer serving as such whose annual compensation exceeded $100,000 and up to two additional individuals for whom disclosure would have been made in this table but for the fact that the individual was not serving as an executive officer of our company at September 30, 2009. The value attributable to any option awards is computed in accordance with accordance with ASC Topic 718, "Compensation – Stock Compensation (Formerly SFAS No. 123 (R), "Share-Based Payments.

SUMMARY COMPENSATION TABLE

Name and principal position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Nonqualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($) (i)	Total ($) (j)
John Signorello (1)	2009	145,230		392,789				8,174	556,342
	2008	235,500		559,500	-			5,736	800,736
Mark B. Lucky (2)	2009	147,500		176,148	-			7,403	331,051
	2008	211,250		158,900	9,601			5,736	385,487

(1) Mr. Signorello is our Chief Executive Officer. All other compensation in fiscal 2009 includes $8,174 which represents the value of health insurance premiums we pay for Mr. Signorello. In fiscal 2009, we granted him 8,147,222 shares of our restricted common stock, valued at $392,789. The compensation for Mr. Signorello in fiscal 2009 included $26,500 in salary that had been accrued and not yet paid. All other compensation in fiscal 2008 includes $5,736 which represents the value of health insurance premiums we pay for Mr. Signorello. In fiscal 2008 we granted him 1,500,000 shares of our restricted common stock, valued at $559,500. The compensation for Mr. Signorello in fiscal 2008 included $25,500 in salary that had been accrued and not yet paid. The compensation table above excludes the compensation provided to Mr. Signorello as a member of the Board of Directors.

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(2) Mr. Lucky is our Chief Financial Officer. All other compensation in fiscal 2009 and 2008 represents the value of health insurance premiums we pay for Mr. Lucky. In fiscal 2009, we granted him 3,100,606 shares of our restricted common stock, valued at $176,148. The compensation for Mr. Lucky in fiscal 2009 included $40,000 in salary that had been accrued and not yet paid. In fiscal 2008 we granted him options to purchase 50,000 shares of our common stock with an exercise price of $0.001 valued at $9,601. The compensation for Mr. Lucky in fiscal 2008 included $12,750 in salary that had been accrued and not yet paid

How Mr. Signorello's compensation is determined

Mr. Signorello, who has served as our CEO since March 2000, is not a party to an employment agreement with our company. His compensation is determined by the Compensation Committee of our Board of Directors. The Compensation Committee considered a number of factors in determining Mr. Signorello's compensation including the scope of his duties and responsibilities to our company and the time he devotes to our business. The Compensation Committee did not consult with any experts or other third parties in fixing the amount of Mr. Signorello's compensation. During fiscal 2009 Mr. Signorello's compensation package included a base salary of $250,000 and company provided health care benefits. Mr. Signorello's compensation excludes option grants he received as a member of the Board of Directors.

How Mr. Lucky's compensation is determined

Mr. Lucky, who has served as our CFO since March 2007, is not a party to an employment agreement with our company. His compensation is determined by the Compensation Committee of our Board of Directors. The Compensation Committee considered a number of factors in determining Mr. Lucky's compensation including the scope of his duties and responsibilities to our company and the time he devotes to our business. The Compensation Committee did not consult with any experts or other third parties in fixing the amount of Mr. Lucky's compensation. During fiscal 2009 Mr. Lucky's compensation package included a base salary of $225,000 and company provided health care benefits. Mr. Lucky did not receive any stock option grants during this fiscal year. The amount of compensation payable to Mr. Lucky can be increased at any time upon the determination of the Compensation Committee of our Board of Directors.

Director Compensation

We have not established standard compensation arrangements for our directors and the compensation payable to each individual for their service on our Board is determined from time to time by our Board of Directors based upon the amount of time expended by each of the directors on our behalf. The following table provides information concerning the compensation of our directors for their services as members of our Board of Directors for the fiscal year ended September 30, 2009.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Harold Compton (1)	—	—	10,149	—	—	—	10,149
Jack Bush (1)	—	—	10,149	—	—	—	10,149
John R. Signorello (1)	—	—	10,149	—	—	—	10,149
Raymond Pirtle (1)	—	—	10,149	—	—	—	10,149
Harry E. Soyster (1)	—	—	10,149	—	—	—	10,149
Joseph Druzak (1)	—	—	10,149	—	—	—	10,149

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(1) Includes the value of stock options issued during the year to purchase 250,000 shares of our common stock at an exercise price of $0.10 per share, and options to purchase 250,000 shares of our common stock at an exercise price of $0.075 per share.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information concerning unexercised options, stock that has not vested and equity incentive plan awards for each named executive officer outstanding as of September 30, 2009:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

	OPTION AWARDS					STOCK AWARDS			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#) (j)
John R. Signorello	100,000	-		$ 0.70	04/29/2012				
	435,000	65,000		$ 0.58	05/06/2015				
	187,500	62,500		$ 0.60	09/06/2012				
	250,000	-		$ 0.10	03/09/2014				
	250,000	-		$ 0.075	05/11/2014				
Mark Lucky	87,000	13,000		$ 0.58	5/6/2012				
	126,000	24,000		$ 0.55	6/14/2012				
	112,500	37,500		$ 0.60	9/6/2012				
	15,000	35,000		$ 0.001	3/18/2013				

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STOCK OPTION PLAN

In August 2000, our Board of Directors adopted our 2000 Management and Director Equity Incentive and Compensation Plan (the "Plan"). The Plan was approved by our stockholders in August 2001. As amended in May 2006, June, 2007, February, 2009, and October, 2009, we have reserved an aggregate of 60,000,000 shares of common stock for issuance under the Plan. At November 30, 2009 we have granted options to purchase 10,944,108 shares of our common stock under the Plan. Our Board of Directors (or at their discretion a committee of our Board members) administers the Plan including, without limitation, the selection of recipients of awards under the Plan, the granting of stock options, restricted shares or performance shares, the determination of the terms and conditions of any such awards, the interpretation of the Plan and any other action they deem appropriate in connection with the administration of the Plan.

The purpose of the Plan is to advance our interests and those of our stockholders by providing a means of attracting and retaining key employees, directors and consultants. In order to serve this purpose, we believe the Plan encourages and enables key employees, directors and consultants to participate in our future prosperity and growth by providing them with incentives and compensation based on our performance, development and financial success. Participants in the Plan may include our 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 our 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 our 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 our officers or other key employees are eligible to receive incentive stock options and performance share grants. Any non-qualified stock option granted under our 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 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 our 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 our common stock having a fair market value on the date of delivery equal to the exercise price, or
- surrender of shares of our 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.

All Plan options are nonassignable and nontransferable, except by will or by the laws of descent and distribution and, during the lifetime of the optionee, may be exercised only by such optionee. At the discretion of the Board of Directors, it may approve the irrevocable transfer, without payment, of non-qualified options to the option holder's spouse, children, grandchildren, nieces or nephews, or to the trustee of a trust for the principal benefit of one or more such persons, or to a partnership whose partners are one or more of such persons. If an optionee's employment is terminated for any reason, other than due to his or her death, disability or termination for cause, or if an optionee is not our employee but is a member of our Board of Directors and his or her service as a director is terminated for any reason, other than due to his or her death or disability, the Plan option granted may be exercised on the earlier of the expiration date or 90 days following the date of termination. If the optionee dies during the term of his or her employment, the Plan option granted to him or her shall lapse to the extent unexercised on the earlier of the expiration date of the Plan option or the date one year following the date of the optionee's death. If the optionee's employment, membership on the Board of Directors or engagement as a consultant terminates by reason of the optionee's retirement, then the Plan option granted may be exercised until the earlier of 90 days following the date of termination or the expiration date. If the optionee is permanently and totally disabled within the meaning of Section 22(c)(3) of the Internal Revenue Code, the Plan option granted to him or her lapses to the extent unexercised on the earlier of the expiration date of the option or one year following the date of such disability.

At the time of the restricted share grant, the Board of Directors may determine the vesting schedule of such shares and that after vesting, such shares may be further restricted as to transferability or be subject to repurchase by us or forfeiture upon the occurrence of certain events. Awards of restricted shares must be accepted by the participant within 30 days of the grant.

At the time of the award of performance shares, the Board of Directors shall establish a range of performance goals to be achieved during the performance period, including, without limitation, earnings, return on capital, or any performance goal approved by our stockholders in accordance with Section 162(m) of the Internal Revenue Code. Attainment of the highest performance goal for the performance period will earn 100% of the performance shares awarded for the performance period; failure to attain the lowest performance goal will result in the participant earning no performance shares. Attainment of the performance goals will be calculated from our financial statements, excluding changes in federal income tax rates and the effect of non-recurring and extraordinary items. The performance goals may vary for different performance periods and need not be the same for each participant receiving an award during a performance period.

If the participant's employment by us, membership on our Board of Directors, or engagement by us as a consultant is terminated before the end of any performance period, or upon the participant's death, retirement or disability, the Board of Directors, taking into consideration the performance of such participant and our performance over the performance period, may authorize the issuance to the participant or his or her legal representative or designated beneficiary all or a portion of the performance shares which would have been issued to him or her had the participant's employment, Board membership or consulting engagement continued to the end of the performance period. If the participant's employment, Board membership or consulting engagement terminates before the end of the performance period for any other reason, all performance shares are forfeited.

Notwithstanding the foregoing, but subject to any stockholder approval or other requirements of Section 162(m) of the Internal Revenue Code, the Board of Directors in its discretion and as determined at the time of award of the performance shares, may provide the participant with the option of receiving cash in lieu of the performance shares in an amount determined at the time of award including, without limitation, by one or more of the following methods:

- the fair market value of the number of shares subject to the performance shares agreement on the date of award, or
- part or all of any increase in the fair market value since such date, or
- part or all of any dividends paid or payable on the number of shares subject to the performance share agreement, or

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- any other amounts which in the Board's sole discretion are reasonably related to the achievement of the applicable performance goals, or
- any combination of the foregoing.

The purchase price for restricted shares or performance shares granted under the Plan shall be set by the Board of Directors but may not be less than par value. Payment of the purchase price for the restricted shares or performance share may be made in either,

- cash, or
- by delivery of unrestricted shares of our common stock having a fair
- market value on the date of such delivery equal to the total
- purchase price, or
- a combination of either of these methods.

The restricted stock awards, performance stock awards and stock options are subject to accelerated vesting in the event of our change of control. We may, at our option, terminate all unexercised stock options 30 days after a change in control and pay to the participant holding these unexercised options cash in an amount equal to the difference between fair market value and the exercise price of the stock option. If the fair market value is less than the exercise price, we may terminate the options without payment to the holder. The per share purchase price of shares subject to Plan options granted under the Plan or related to performance share awards or restricted share awards may be adjusted in the event of certain changes in our capitalization, but any such adjustment shall not change the total purchase price payable upon the exercise in full of such option or award. No participant in our Plan has any rights as a stockholder until the shares subject to the Plan options or stock awards have been duly issued and delivered to him or her.

We have an option to purchase any shares of our common stock which have been issued to Plan participants pursuant to restricted stock awards, performance stock awards or stock options if the participant ceases to be our employee, a member of our Board of Directors or a consultant to us for any reason. We must exercise our repurchase right at the time of termination. The purchase price for any shares we repurchase will be equal to the fair market value of the our total stockholders' equity divided by the total outstanding shares of our common stock on the last day of that calendar month, calculated on a fully-diluted basis. If we exercise our repurchase right, we much close the transaction within 20 days from the termination date. At closing, we are entitled to delivery of a one-year promissory note as payment for the purchase price or, at our option, we may pay same in cash at closing.

We also have a right of first refusal to meet the offer if the holder of any shares of our common stock awarded or issued pursuant to our Plan desires to sell such shares to a third party.

The Board of Directors may amend, suspend or terminate our Plan at any time, except that no amendment shall be made which:

- affects outstanding Plan options or any exercise right thereunder, or
- extends the term of any Plan option beyond 10 years, or
- extends the termination date of the Plan.

Unless the Plan shall be earlier suspended or terminated, the Plan shall terminate 10 years from the date of the Plan's adoption by our stockholders. Any such termination of our Plan shall not affect the validity of any Plan options previously granted there under.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

At December 22, 2009, there were 82,469,617 shares of our common stock issued and outstanding. Our common stock is the only outstanding class of our voting securities. The following table sets forth, as of December 22, 2009, information known to us relating to the beneficial ownership of these shares by:

- each person who is the beneficial owner of more than 5% of the outstanding shares of common stock;
- each director;
- each executive officer; and
- all executive officers and directors as a group.

Unless otherwise indicated, the address of each beneficial owner in the table set forth below is care of 22900 Shaw Road, Suite 111, Sterling, Virginia 20166.

We believe that all persons named in the table have sole voting and investment power with respect to all shares of beneficially owned by them. Under securities laws, a person is considered to be the beneficial owner of securities he owns and that can be acquired by him within 60 days from December 22, 2009 upon the exercise of options, warrants, convertible securities or other understandings. We determine a beneficial owner's percentage ownership by assuming that options, warrants or convertible securities that are held by him, but not those held by any other person and which are exercisable within 60 days of December 15, 2009, have been exercised or converted. Unless otherwise noted, the address of each of these principal stockholders is our principal executive offices.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
John R. Signorello (1)	12,144,785	14.5%
Hal Compton (2)	2,522,833	3.0%
Raymond H. Pirtle (3)	997,167	1.2%
Joseph L. Druzak (4)	2,300,293	2.8%
Mark B. Lucky (5)	4,273,673	5.1%
Ed Soyster (6)	581,000	0.7%
Jack Bush (7)	1,997,167	2.4%
All executive officers and as a group (seven persons)	24,816,918	29.7%

(1) The number of shares beneficially owned by Mr. Signorello includes options to purchase 50,000 shares of our common stock at an exercise price of $0.47 per share, options to purchase 100,000 shares of our common stock at an exercise price of $0.70 per share, options to purchase 490,000 shares of our common stock at an exercise price of $0.58 per share, options to purchase 232,500 shares of our common stock at an exercise price of $0.60 per share, options to purchase 250,000 shares of our common stock at an exercise price of $0.10 per share and options to purchase 250,000 shares of our common stock at an exercise price of $0.075 per share. The number of shares beneficially owned by Mr. Signorello excludes 626,667 shares of our common stock issuable upon the conversion of 626,667 shares of Series B Convertible Preferred Stock. Under the designations, rights and preferences of such security, the Series B Convertible Preferred Stock is not convertible by the holder if such conversion would result in the holder becoming the beneficial owner of in excess of 4.99% of our common stock. 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 our affiliates.

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(2) The number of shares beneficially owned by Mr. Compton includes options to purchase 30,000 shares of our common stock at an exercise price of $0.80 per share, options to purchase 50,000 shares of our common stock at an exercise price of $0.47 per share, options to purchase 100,000 shares of our common stock at an exercise price of $0.70, options to purchase 139,500 shares of our common stock at an exercise price of $0.60 per share, options to purchase 139,000 shares of our common stock at an exercise price of $0.001 per share, options to purchase 250,000 shares of our common stock at an exercise price of $0.10 per share, and options to purchase 250,000 shares of our common stock at an exercise price of $0.075 per share.

(3) The number of shares beneficially owned by Mr. Pirtle includes options to purchase 30,000 shares of our common stock at an exercise price of $0.80 per share, options to purchase 50,000 shares of our common stock at an exercise price of $0.47 per share, options to purchase 100,000 shares of our common stock at an exercise price of $0.70 per share, options to purchase 139,500 shares of our common stock at an exercise price of $0.60 per share, options to purchase 86,000 shares of our common stock at an exercise price of $0.001 per share, options to purchase 250,000 shares of our common stock at an exercise price of $0.10 per share, and options to purchase 250,000 shares of our common stock at an exercise price of $0.075 per share.

(4) The number of shares beneficially owned by Mr. Druzak includes options to purchase 30,000 shares of our common stock at an exercise price of $0.80 per share, options to purchase 50,000 shares of our common stock at an exercise price of $0.47 per share, options to purchase 100,000 shares of our common stock at an exercise price of $0.70 per share, options to purchase 139,500 shares of our common stock at an exercise price of $0.60 per share, options to purchase 860,000 shares of our common stock at an exercise price of $0.001 per share, options to purchase 250,000 shares of our common stock at an exercise price of $0.10 per share, and options to purchase 250,000 shares of our common stock at an exercise price of $0.075 per share.

(5) The number of shares beneficially owned by Mr. Lucky includes options to purchase 98,000 shares of our common stock at an exercise price of $0.58 per share, options to purchase 145,500 shares of our common stock at an exercise price of $0.55 per share, options to purchase 139,500 shares of our common stock at an exercise price of $0.60 per share, and options to purchase 20,000 shares of our common stock at an exercise price of $0.001 per share.

(6) The number of shares beneficially owned by Mr. Soyster includes options to purchase 18,750 shares of our common stock at an exercise price of $0.37 per share, options to purchase 66,000 shares of our common stock at an exercise price of $0.001 per share, options to purchase 250,000 shares of our common stock at an exercise price of $0.10 per share, and options to purchase 250,000 shares of our common stock at an exercise price of $0.075 per share.

(7) The number of shares beneficially owned by Mr. Bush includes options to purchase 30,000 shares of our common stock at an exercise price of $0.80 per share, options to purchase 50,000 shares of our common stock at an exercise price of $0.47 per share, options to purchase 100,000 shares of our common stock at an exercise price of $0.70 per share, options to purchase 139,500 shares of our common stock at an exercise price of $0.60 per share, options to purchase 86,000 shares of our common stock at an exercise price of $0.001 per share, options to purchase 250,000 shares of our common stock at an exercise price of $0.10 per share, and options to purchase 250,000 shares of our common stock at an exercise price of $0.075 per share.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We are not a party to any transactions since the beginning of fiscal year 2009 or which are currently proposed with any “related person” as that term is described in Regulation S-K in an amount which exceeds $120,000.

Director Independence

Messrs. Compton, Pirtle, Druzak, Soyster, and Bush, members of our Board of Directors, are “independent” within the meaning of Rule 5605 of the NASDAQ Marketplace Rules.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES

The aggregate fees billed for professional services rendered by our principal accountant for the audit of our annual financial statements, review of our financial statements included in our quarterly reports and other fees that are normally provided by our accountant in connection with our audits and reviews for the fiscal Years ended September 30, 2009 and 2008 is $66,000 and $61,500, respectively.

AUDIT-RELATED FEES

This category consists of assurance and related services by the independent auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under “Audit Fees.” The services for the fees disclosed under this category include consultation regarding our correspondence with the SEC and other accounting consulting. Our audit-related and review fees for the fiscal Years ended September 30, 2009 and 2008 were $0 and $0.

TAX FEES

The aggregate fees billed for professional services rendered by our principal accountant for tax compliance, tax advices and tax planning for the fiscal Years ended September 30, 2009 and 2008 is $0 and $0, respectively.

ALL OTHER FEES

There were no other fees billed by our principal accountant for the fiscal Years ended September 30, 2009 and 2008, except as provided above.

Our Board of Directors has adopted a procedure for pre-approval of all fees charged by our independent auditors. Under the procedure, the Board approves the engagement letter with respect to audit, tax and review services. Other fees are subject to pre-approval by the Board, or, in the period between meetings, by a designated member of Board. Any such approval by the designated member is disclosed to the entire Board at the next meeting. The audit and tax fees paid to the auditors with respect to fiscal year 2009 were pre-approved by the entire Board of Directors.

PART IV

ITEM 15. EXHIBITS

2.1	Agreement and Plan of Reorganization and Stock Purchase Agreement with Disease S.I. Inc.(4)
2.2	Agreement and Plan of Merger with IceWEB Communications, Inc. (8)
2.3	Agreement and Plan of Merger with Seven Corporation (9)
3.1	Certificate of Incorporation (1)
3.2	Certificate of Amendment to Certificate of Incorporation (1)
3.3	Certificate of Amendment to Certificate of Incorporation (1)
3.4	Certificate of Amendment to Certificate of Incorporation (1)
3.5	Certificate of Amendment to Certificate of Incorporation (2)
3.6	Certificate of Amendment to Certificate of Incorporation (3)
3.7	Certificate of Amendment to Certificate of Incorporation (11)
3.8	Certificate of Designations of Series A Convertible Preferred Stock (12)
3.9	Certificate of Amendment to Certificate of Incorporation (13)
3.10	Bylaws (1)
3.11	Certificate of Designations of Series B Convertible Preferred Stock (17)
4.1	Form of Common Stock Purchase Warrant “A” (12)
4.2	Form of Common Stock Purchase Warrant “B” (12)
4.3	Form of Common Stock Purchase Warrant “C” (12)
4.4	Form of Series H Common Stock Purchase Warrant (16)
4.5	Form of Series I Common Stock Purchase Warrant (16)
4.6	Form of $0.70 Common Stock Purchase Warrant “A” (16)
4.7	Form of Comerica Bank warrant (16)
4.8	Form of Common Stock Purchase Warrant “D” (17)
4.9	Form of Common Stock Purchase Warrant “E” (17)
4.10	Form of Common Stock Purchase Warrant “F” (17)
4.11	Form of Common Stock Purchase Warrant “G” (18)
4.12	Form of Common Stock Purchase Warrant for Sand Hill Finance LLC (18)
4.13	Secured Convertible Debenture for Sand Hill Finance LLC
4.14	Warrant Amendment Agreement with Sand Hill Finance LLC
10.1	Acquisition Agreement with North Orlando Sports Promotions, Inc. (1)
10.2	Asset Purchase Agreement with Raymond J. Hotaling (5)
10.3	2000 Management and Director Equity Incentive and Compensation Plan (6)
10.4	Stock Purchase Agreement with Health Span Sciences, Inc. (7)
10.4	Stock Purchase Agreement with Health Span Sciences, Inc. (7)
10.5	Stock Purchase and Exchange Agreement with Interlan Communications (9)
10.6	Preferred Stock Purchase Agreement dated March 30, 2005 (12)
10.7	Registration Rights Agreement with Barron Partners LP (12)
10.8	Asset and Stock Purchase Agreement for iPlicity, Inc.(16)
10.9	Asset and Stock Purchase Agreement for DevElements, Inc. of Virginia (15)
10.10	Form of Loan and Security Agreement with Comerica Bank (16)
10.11	Forbearance Agreement (16)
10.12	Sublease Agreement for principal executive offices (16)
10.13	Preferred Stock Purchase Agreement dated September 8, 2005 (18)
10.14	Registration Rights Agreement with Barron Partners LP (18)
10.15	Financing Agreement with Sand Hill Finance LLC (18)

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10.16	Lease Agreement for principal executive offices (19)
10.17	Retailer Marketing Agreement with CompUSA (20)
10.18	Stock Purchase Agreement with Inline Corporation (21)
10.19	First Amendment to Stock Purchase Agreement with Inline Corporation (21)
10.20	Convertible Debenture with Sand Hill Finance LLC (22)
10.21	Stock Purchase Agreement for Sale of IceWEB Virginia, Inc. (23)
10.22	Series C Preferred Stock Purchase Agreement (24)
14.1	Code of Business Conduct and Ethics (16)
21.1	Subsidiaries of the registrant (16)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer *
32.1	Section 906 Certification of Chief Executive Officer *
32.2	Section 906 Certification of Chief Financial Officer *

* filed herewith

(1) Incorporated by reference to the Form 10-SB, file number 000-27865, filed with on October 28, 1999, as amended.
(2) Incorporated by reference to the definitive Information Statement on Schedule 14C as filed on June 18, 2001.
(3) Incorporated by reference to the definitive Information Statement on Schedule 14C as filed on June 26, 2001.
(4) Incorporated by reference to the Report on Form 8-K as filed on June 6, 2001.
(5) Incorporated by reference to the Report on Form 8-K as filed on July 26, 2001.
(6) Incorporated by reference to the definitive Information Statement on Schedule 14C as filed on July 23, 2001.
(7) Incorporated by reference to the Report on Form 8-K as filed on December 4, 2001.
(8) Incorporated by reference to the Report on Form 8-K as filed on April 4, 2002.
(9) Incorporated by reference to the Report on Form 8-K as filed on August 1, 2003.
(10) Incorporated by reference to the Report on Form 8-K/A as filed on February 20, 2004.
(11) Incorporated by reference to the definitive Information Statement on Schedule 14C as filed on August 20, 2004.
(12) Incorporated by reference to the Report on Form 8-K as filed on April 5, 2005.
(13) Incorporated by reference to the definitive Information Statement on Schedule14C as filed on April 4, 2005.
(14) Incorporated by reference to Amendment No. 1 to the Report on Form 8-K/A as filed on February 20, 2004.
(15) Incorporated by reference to the Report on Form 8-K as filed on July 23, 2004.
(16) Incorporated by reference to the registration statement on Form SB-2, SEC file number 333-126898, as amended.
(17) Incorporated by reference to our Annual Report on Form 10-KSB as filed on January 18, 2006.
(18) Incorporated by reference to the Report on Form 8-K as filed on January 30, 2006.
(19) Incorporated by reference to the registration statement on Form SB-2/A, SEC file number 333-126898 filed on January 30. 2006.
(20) Incorporated by reference to the Report on Form 8-K as filed on June 22, 2006.
(21) Incorporated by reference to the Report on Form 8-K as filed on January 3, 2008.
(22) Incorporated by reference to the Report on Form 8-K as filed on December 1, 2008.
(23) Incorporated by reference to the Report on Form 8-K as filed on April 15, 2009.

(24) Incorporated by reference to the Report on Form 8-K as filed on July 31, 2009.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ICEWEB, INC.

December 29, 2009	By: /s/ John R. Signorello John R. Signorello, Chairman and Chief Executive Officer, principal executive officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John R. Signorello John R. Signorello	Chairman of the Board and CEO, principal executive officer	December 29, 2009
/s/ Mark B. Lucky Mark B. Lucky	Chief Financial Officer, principal financial and accounting officer	December 29, 2009
/s/ Hal Compton Hal Compton	Director	December 29, 2009
/s/ Raymond H. Pirtle, Jr. Raymond H. Pirtle, Jr.	Director	December 29, 2009
/s/ Joseph Druzak Joseph Druzak	Director	December 29, 2009
/s/ Jack Bush Jack Bush	Director	December 29, 2009
/s/ Harry E. Soyster Harry E. Soyster	Director	December 29, 2009