

ICEWEB INC  
Form 10KSB  
February 08, 2007

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

Form 10-KSB

(Mark One)

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

For the fiscal year ended September 30, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27865

ICEWEB, INC.

(Name of small business issuer in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-2640971  
(I.R.S. Employer Identification No.)

205 Van Buren Street, Suite 150  
Herndon, VA  
(Address of principal executive offices)

20170  
(Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:

None  
(Title of each class)

None  
(Name of each exchange on which  
registered)

Securities registered under Section 12(g) of the Exchange Act:

Common stock, par value \$0.001 per share  
(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been

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subject to such filing requirements for the past 90 days. Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

State issuer's revenues for its most recent fiscal year. \$4,768,993 for the 12 months ended September 30, 2006.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within the past 60 days. As of February 5, 2007 the aggregate market value of the common stock held by non-affiliates at the closing price of the registrant's common stock is approximately \$2,695,711.

State the number of shares outstanding of each of the issuer's class of common equity. As February 5, 2007, 9,677,909 shares of common stock are outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act").

Not applicable

Transitional Small Business Disclosure Form (check one): Yes  No

When used in this annual report, the terms "IceWEB," "we," "our," and "us" refers to IceWEB, Inc., a Delaware corporation, and our subsidiaries. The information which appears on our web site at [www.iceweb.com](http://www.iceweb.com) is not part of this annual report.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this annual report contain or may contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, among other things, such factors as: our high level of indebtedness and ability to satisfy the same, our history of unprofitable operations, the continued availability of financing in the amounts, at the times and on the terms required, to support our future business and capital projects, the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products, changes in economic conditions specific to any one or more of our markets, changes in general economic conditions, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements, and the other factors and information disclosed and discussed in other sections of this report.

You should consider the areas of risk described in connection with any forward-looking statements that may be made in this annual report. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this annual report in its entirety, including the risks described in Part I - Item 1. Description of Business - Risk Factors. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events.

## PART I

### ITEM 1. Description of Business

#### OVERVIEW

We are an Internet technology company headquartered in Herndon, Virginia, which was founded in 2000 and became public in 2002 through a reverse merger. Our focus has consistently remained on providing small businesses enterprise-class applications via the Internet in a hosted service model (Software as a Service or “SaaS”). Our products and services are used by organizations in both the public and private sectors. Through internal software development and a series of acquisitions, we have developed a suite of robust, hosted software application services that are accessed by our customers via the Internet. Our current “online” products include IceMAIL (messaging), IceVISTA (web hosting), and IcePORTAL (Intranet portal). Our goal is to bring this enterprise-class technology, normally affordable by only large corporations, to small business customers via a recurring monthly subscription model. This recurring revenue along with little or no startup costs make IceWEB more costs effective and faster for small businesses to begin using our technology service.

Complementing the online service offerings is our IceWEB Solutions Group. The IceWEB Solutions Group focuses on providing computer network security products such as access control, content filtering, email security, intrusion detection, and the latest layer 7 firewall technology to the Federal Government. IceWEB’s key partners are Secure Computing, Internet Security Systems, RSA Security, Blue Coat and F5 Networks. The combination of our vendor partners/manufacturers, customers, and Government contracting vehicles enables IceWEB to be successful in providing the industry’s best network security solutions to the Federal Government and commercial integrators who service the Government.

48% of revenues were generated by the IceWEB Solutions Group’s reselling of third-party hardware and software 52% of revenues were generated by services and online web subscriptions.

#### OUR PRODUCTS AND SERVICES

IceWEB has two lines of business that have many common technologies and leverage our personnel and vendor/manufacture relationships: IceWEB Online services and IceWEB Solutions Group.

#### ONLINE PRODUCTS AND SERVICES

Our focus is providing enterprise-class applications via the Internet in a hosted service model (Software as a Service or “SaaS”). Our goal is to have all of the IceWEB “online” service offerings automatically provision new accounts and offer our customers web-based control panels for “self service” account management. Customers can purchase products/services via the IceWEB web site and have their new account/service automatically created without human intervention or manual steps taken by IceWEB Customer Service. The web-based control panel enables IceWEB Customer Service to manage all services/products via a single interface, adjust customer billing information, view reports, and control resellers. Customers use a version of this same control panel system to view all of their IceWEB Online services, adjust their billing information, view past bills, and activate new services. This “self service” is coupled with IceWEB Customer Service via telephone, email, and live chat to complete our IceWEB Online service offerings.

Starting with enterprise messaging (IceMAIL), collaboration (IcePORTAL), and web hosting (IceVISTA) services, IceWEB will continue to add additional software systems to our server farms. Each application and service has the goal of bringing enterprise-level applications, normally cost effective for only large corporations, to small business

customers through a monthly/annual subscription plan. This recurring revenue business model brings more consistent profits to the company with a much higher customer retention rate than any other service IceWEB has ever offered (currently over 90% retention rate).

#### IceMAIL

In December 2005, we launched IceMAIL, a packaged service that provides a network-hosted groupware, email, calendaring, and collaboration solution utilizing Microsoft Exchange, the most widely used enterprise system available. Customers are able to leverage the full capabilities of Microsoft Exchange and Microsoft Outlook without the initial implementation and maintenance costs associated with such an advanced system. In addition to providing hosted Exchange services, IceMAIL focuses on providing wireless PDA/Smart Phone synchronization services that enable our customers to have everything in Outlook/Exchange available while traveling away from their office. IceWEB can function as a single-source provider of wireless PDA/Smart Phones, GoodLink or Blackberry software, and the cellular carrier services through agent/reseller arrangements with those companies. IceMAIL also forms marketing initiatives with PDA/Smart Phone manufacturers to create demand for our subscription based services while driving sales of those manufacturers' devices.

IceMAIL is based on the advanced Microsoft Exchange platform which provides industry-leading features such as calendars, group scheduling, contact management, task management, notes, and shareable public folders. Using the latest in network hosting, wireless, and Internet technologies, IceMAIL is accessible from anywhere on the Internet via Microsoft Outlook or a web-browser. For the true "road warrior", we will also offer wireless handheld PDA access using a Palm Treo, RIM Blackberry, Windows PocketPC, or SmartPhone devices.

Features of IceMAIL include:

- 1 Use your own professional email domain name
- 1 Manage your personal/business calendar. See when employees are available for meetings
- 1 Share your calendar with people you choose or delegate permissions to your assistant
- 1 Schedule shared resources such as conference rooms, projectors, vehicles, technicians, etc.
- 1 Spam and virus protection
- 1 Assign tasks to employees and track progress
- 1 Track all calls, emails, or documents relating to a person contained within your contacts list
- 1 Optional inbound/outbound faxing from Outlook or your wireless PDA
- 1 IceMAIL handles all system maintenance, daily backups, security updates, and end-user support
- 1 Real-time synchronization of email, calendar, contacts, and tasks to your cellular PDA using ActiveSync, GoodLink, or Blackberry
- 1 View or edit file attachments from your PDA
- 1 All users receive the latest Microsoft Outlook software free (a \$110 value each)

IcePORTAL

IcePORTAL leverages the power of Microsoft SharePoint to provide customers with a complete Intranet portal for their company. Customers can share and manage announcements, tasks, events/calendars, document libraries, pictures, discussion threads, and more through a single web-based portal with no need to purchase their own network file server.

Features of IcePORTAL include:

- 1 Provide a central location for all of employees to log into via a web browser for all of a company's company news, announcements, document libraries, and phone directories.
- 1 Enables access to a company's Intranet securely from anywhere in the world via the Internet. And no VPN configuration is required
- 1 Eliminates the need to purchase and maintain a network file server within a company which could cost \$20,000 or more each year.
- 1 Stores all of a company's files and documents within multiple document libraries and directories. Assign read/write/delete permissions to some or all employees for each document library, the customer has complete control of who can access each section of their Intranet portal.
- 1 Search for information or documents/files right from within the Intranet portal's main page.
- 1 Post company news, announcements, calendars/events, or track tasks all via the Intranet portal.
- 1 Create sub-portals or sections within a customer's Intranet portal for vendor/partners or customers with complete control of account and passwords so the customer controls what they can see/view/edit and what portions of the Intranet portal they can access.
- 1 Customize the portal layout, colors, theme, and specific modules/features to a customer's liking—include company stock quotes and news that is automatically updated from the Internet.

IceVISTA

IceVISTA provides web hosting services. Customers leverage IceVISTA's network security, servers, and redundant data center environment for their critical web hosting needs. Typically, customers have both a public facing web site

which is the focus of IceVISTA and also an internal Intranet web site which is serviced by our IcePORTAL product. IceVISTA includes a combination of web technologies from Microsoft and open source software providers. Specific web hosting needs vary depending on what operating system platform and web programming language is used by the web developer. IceVISTA supports all of the most popular web platforms and technologies thus providing customers with flexibility and reliability for their web hosting needs. IceVISTA provides both shared and dedicated web services solutions and currently hosts numerous content management and database-driven solutions for our customers.

#### LEARNINGSTREAM.COM

LearningStream.com is an online business education portal that offers subscription-based online classes to consumers and corporate customers (managers, employees, associations, etc.). Business professionals can choose among many different subjects such as making presentations, managing people and learning software applications from training developers such as Fred Pryor Seminars, CareerTrack and Evelyn Woods. LearningStream currently hosts 13 online video training classes and will expand to more than 100 in Q2 2007.



IceWEB SOLUTIONS GROUP ([www.icewebsg.com](http://www.icewebsg.com))

IceWEB's Solutions Group specializes in network infrastructure security solutions. Through our team of engineers and our partners Secure Computing, RSA Security, ISS, Blue Coat, F5 Networks, McAfee and Cisco, we provide government agencies with the firewall, authentication, PKI, encryption, and traffic filtering products and services to protect your network infrastructure.

- 1 Firewall implementation and management/monitoring
- 1 Intrusion Detection System implementation and management/monitoring (IDS or IPS)
- 1 Security Information Management System implementation and management/monitoring
- 1 Load Balancing & High Availability Solutions
- 1 User Authentication
- 1 Remote Access Control
- 1 Anti-Virus/Anti-Spam
- 1 Content Filtering and URL Filtering
- 1 E-mail Security

With our headquarters office located just outside of Washington D.C., IceWEB has specialized in Federal Government (DOD and civilian agencies) solutions for over 6 years. We have multiple GSA, GWAC, and BPA agreements with key agencies to make purchasing simple. More importantly, we have the technical talent and manufacturer relationships to help government agencies design, build, secure, and manage your network infrastructure.

#### PRINCIPAL CUSTOMERS

For the fiscal year ended September 30, 2006 two of our customers represented approximately 43% of total revenues for the year and approximately 51% of our accounts receivable at September 30, 2006 are due from these two customers. Both of these customers purchase products and services from us on a purchase order basis and, accordingly, may elect at any time to purchase similar products or services from our competitors.

#### TECHNOLOGY

IceWEB "online" products are web-based systems available from any computer in the World via the Internet. IceWEB is leveraging the Internet as the transport mechanism to deliver its services due to its wide availability and relatively low cost for connectivity. IceWEB leverages commercial off-the-shelf (COTS) software whenever possible for its three primary advantages: quick time to market/delivery, reduced upgrade and maintenance costs, and reduced internal development/R&D costs. The key to our success has been in partnering with the best manufacturers and selecting software products that can be turned into a Software as a Service (SaaS) that can be sold via a subscription.

The specific software systems we host include IceMAIL, IcePORTAL, and IceVISTA. Each of these systems are hosted in a tier-one data center located in Northern Virginia technology corridor area. With redundant Internet connections, power systems, fire suppression, 24x7 security guards, biometric scanners, and network security systems, the IceWEB services are very well protected and far exceed what individual small business customers could afford if they were to host a similar system of their own.

IceMAIL ([www.icemail.com](http://www.icemail.com)) is a customized implementation of Microsoft Exchange that is specialized for multi-tenant (multiple customers and domains) use. This specialized implementation provides customers all of the features of Microsoft Exchange and the email client Microsoft Outlook; however, scales of economy are gained by hosting multiple customers on our server farm. This enables us to provide Exchange hosting services at a fraction of

the cost that individual customers would pay to implement their own internal solution. The IceMAIL server farm consists of redundant Microsoft Windows servers, Active Directory Servers, front-end Exchange servers, SMTP servers, back-end database servers, Storage Area Networks (SANs), GoodLink, Blackberry, ActiveSync, and backup systems. Network security is provided by multiple firewalls and/or gateways and filtering systems. The online purchasing, provisioning, and web-based management consoles are based on technology from SWsoft who is a World-wide leader in software/control systems for Internet and Application Services Providers (ASPs) such as IceWEB.

IcePORTAL ([www.iceweb.com/iceportal\\_home.asp](http://www.iceweb.com/iceportal_home.asp)) is a customized implementation of Microsoft SharePoint. The SharePoint system provides integration with Microsoft Exchange, and thus IceMAIL, which reduced the need for IceWEB to develop our own modules and software code. The IcePORTAL data is stored using Microsoft SQL and a Storage Area Network (SAN). Services are provided to customers via the Internet and each customer's "portal" is available through a standard web browser such as Internet Explorer. As it is integrated with IceMAIL, the same network security and redundant servers and data center systems are leveraged. This enabled IceWEB to deploy IcePORTAL for minimal additional costs.

IceVISTA ([www.icewebvista.com](http://www.icewebvista.com)) consists of several web hosting technologies and servers. Customers are hosted on individual dedicated servers and also shared-host web servers depending on their need and specialized applications. There are several DotNetNuke (DNN) based web sites with some custom-developed modules as well as static web sites hosted on Microsoft Internet Information Server (IIS) (Windows operating system) and Apache running on the Linux operating system.

LearningStream ([www.learningstream.com](http://www.learningstream.com)) is running on numerous web servers and streaming media servers. Course content is streamed via the Internet from Real and Windows Media servers while online purchasing and the course catalog are hosted on Microsoft-based web servers. Additional course content to be added in fiscal year 2007 may reside outside of the IceWEB server farms and be streamed directly from the course content provider/partner that IceWEB has contracted.

## MARKET AND TRENDS

The market for hosted network applications and wireless access to web content is expanding exponentially. More and more small businesses are selecting “hosted applications” instead of purchasing and deploying internal network servers. IceMAIL, IcePORTAL, and IceVISTA are specifically targeted to these small business customers.

According to IDC, the Software as a Service market will be \$8.0 billion by 2007 with an annual growth rate of 25%. More businesses are outsourcing their software services to hosted providers such as IceWEB in order to reduce their up-front capital expenditures for software technology. Microsoft says “hosting providers...are now positioned to act as a primary software delivery channel for everyone from consumers to small businesses and large enterprises”.

## SALES AND MARKETING

We sell our products and services through our direct sales force, online marketing and through strategic channel partners. Our direct sales process typically includes a demonstration of our product capabilities followed by one or more detailed technical reviews. Our employees utilize our software to generate leads, sales, demos and references. Our internal operations and sales tracking all run on our IceMAIL and IcePORTAL platforms.

In June 2006, we entered into an agreement with CompUSA to private label our IceMAIL service offering for them. Customers may now purchase IceMAIL subscriptions in person at any CompUSA location or via CompUSA’s website ([www.compusa.com/icemail](http://www.compusa.com/icemail)). IceWEB has conducted training at CompUSA corporate and retail stores as well as provided marketing collateral, online presentations, and a sales training video. IceWEB is one of the first Hosted Exchange providers to enter the retail market so we cannot reliably predict the success of this and other potential retail partnerships.

During fiscal 2005, we did not have an effective marketing strategy in place and relied mostly upon direct sales and marketing through radio and print advertisements in regional markets within the National Capital Area. These efforts succeeded in getting the IceWEB name publicized but did not produce significant revenues. The CompUSA partnership took several months to train their employees, update their web site, and begin in store sales so this channel relationship provided no revenue in FY2005. In FY2006, we have a specific marketing plan that includes more concise Internet marketing of the IceMAIL and IcePORTAL products along with magazine or print advertisements in primary and secondary markets throughout the U.S. IceWEB will also contract with a professional marketing firm to further enhance our product marketing and improve our Internet search engine optimization, pay-per-click advertising, and direct marketing sales pitch. Our marketing efforts also produce materials in support of prospective sales to new customers, including brochures, data sheets, white papers, presentations and demonstrations. For the fiscal years ended September 30, 2006 and 2005 we spent \$225,338 and \$56,538, respectively, on marketing.

## RESEARCH AND DEVELOPMENT

IceWEB performed software development and research/development efforts in fiscal 2006 relating to the IceMAIL and IcePORTAL products. IceMAIL began sales in December 2005; however additional development for the online shopping cart, automatic provisioning system (based on SWsoft PEM), and web-based management consoles was a

significant amount of effort in Q1 and Q2 of fiscal year 2006. IcePORTAL research and development to prove the feasibility of the solution was conducted in Q3 and Q4 of fiscal year 2006. The product was not launched to the public until January 2007 based on these R&D efforts.

The bulk of our research and development efforts for the coming year will focus on providing additional hosted application service offerings and improving features for our current “online” service offerings.

Additional features to be added to IceMAIL and also available individually include messaging encryption, content filtering, and “certified” email. These would generate additional revenue to IceWEB once fully developed and deployed. We expect to deploy the first pieces of this solution early in the third quarter of fiscal 2007. We anticipate that we will fully launch this offering, currently called “IceSECURE” by the fourth quarter fiscal 2007.

Additional archiving and compliance management services will also be added to IceMAIL in FY2007. Computer systems, storage, and software will be implemented to provide current and future IceMAIL customers with increased data storage options including long-term archiving and compliance management to meet industry or Government-specific regulations for data retention. These services will generate additional revenue for IceWEB and attract new customers that must have these services in order to outsource their email system to IceWEB.

IceWEB will implement additional online purchasing and automated provisioning so that the IcePORTAL and IceVISTA services become visible and manageable within the current SWsoft-based web control panel system. Currently, only IceMAIL has fully automated provisioning and online purchasing. Adding these capabilities to IcePORTAL and IceVISTA will reduce our operational support costs while providing current and new customers a single web-based management console to manage all of their IceWEB-based software services.

A new LearningStream web site, additional course content, and a new online purchasing system will be deployed in Q3 of fiscal 2007. This new content and ordering system will greatly improve the ease of use of the web site and is anticipated to increase revenues due to the increased number of online courses that will be available.

Our technology plan calls for a research and development budget of \$250,000 per quarter for fiscal 2007 in order to accomplish the above goals.

## INTELLECTUAL PROPERTY

Our success depends in part on our ability to protect our intellectual property. The source codes, object codes, and documentation related to our products are all proprietary to us and as to which copyright in favor of our company arose from the date of creation of the products or the date on which the products were assigned to us, whichever is later. We also rely on common law rights to our trademark and service mark "IceWEB" in both block letters and stylized form. To protect our proprietary rights, we rely generally on copyright and trade secret laws, confidentiality agreements with employees and third parties, and agreements with consultants, vendors and customers, although we have not signed such agreements in every case. Despite such protections, a third party could, without authorization, copy or otherwise obtain and use our intellectual property.

It is also possible that our competitors will adopt product or service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to customer confusion. We can give no assurance that our agreements with employees, consultants and others who participate in development activities will not be breached, or that we will have adequate remedies for any breach, or that our trade secrets will not otherwise become known or independently developed by competitors. There can be no assurance that we will be able to adequately protect our trade secrets. Third parties may assert infringement claims against us or against third parties upon whom we rely and, in the event of an unfavorable ruling on any claim, we may be unable to obtain a license or similar agreement to use technology that we rely upon to conduct our business.

In the future we may pursue copyright protection of our source codes, object codes and documentation as well as the registration of certain of our trademarks and service marks in the United States. In general, there can be no assurance that our efforts to protect our intellectual property rights through copyright, trademark and trade secret laws will be effective to prevent misappropriation of our content. Our failure or inability to protect our proprietary rights could materially adversely affect our business, financial condition and results of operations.

## COMPETITION

Our competitors include portal vendors, application service providers, software vendors, systems integrators and information technology consulting service providers who offer some or all of the same products as we do. Our competitors, particularly for IceMAIL, IcePORTAL, and IceVISTA, include InterMedia.net, MailStreet, Mi8 Inc, and USA.net. Our competitive strategy is to undercut the pricing model of our competitors while delivering a higher value to customers and building brand name recognition for our company and our products. We are also pursuing retail channels for sales (beginning with our recent CompUSA partnership) which to our knowledge, our competitors have not attempted. We face significant competition from these and other companies, most of which have greater brand recognition, are better capitalized than us and can obtain financing on more favorable terms. We may never be able to

successfully compete in our target market.

In addition, there are relatively low barriers to entry into the Company's business, and the Company does not believe its proprietary technology would preclude or inhibit competitors from entering its markets. As such, the Company anticipates that new entrants will try to develop competing products and services as well as new forums for conducting eCommerce that could be deemed competitors. However, the Company believes it can compete successfully by relying on the Company's established infrastructure, marketing strategies, market futures anticipation, systems and procedures. In addition, the Company will continue to add additional products and services in the future and periodically revise its methods of doing business and also pursue its expansion into international markets, where the Company believes there is an overall lower level of competition.

## STRATEGY

During fiscal 2007 the Company plans on greater automation for IceMAIL, IcePORTAL, and IceVISTA products. By using internal and external technical resources the Company will enable customers to manage and control their own environment (self service) or working with IceWEB Customer Service. IceWEB will be one of the few companies that allow customers almost total control of their features via web-based account management tools. All of our service offerings will have online purchasing and automated provisioning (account creation) that reduced human intervention for these repeatable tasks. This also helps customers with the desire for "immediate satisfaction" by having their product or service immediately available upon purchase.

The IceWEB Solutions Group's focus on network security and the Federal Government will continue. We are carefully evaluating new technology products and manufacturers. By continuous training of our employees and partnering with our key vendor partners, we can continue to accelerate our growth in this market.

## ACQUISITIONS

We plan on continuing to pursue strategic acquisitions that will broaden our product offerings and customer base, advance and expand our technological abilities, increase our cash flow and profitability, and diversify our operations.

## EMPLOYEES

As of January 31, 2007, IceWEB employed a total of 25 employees, all of whom work full-time. The Company has no collective bargaining agreements with any unions and believes that the overall relations with its employees are satisfactory. We also from time to time use consultants to fulfill contracting requirements.

## OUR HISTORY

IceWEB completed a reverse merger, in March 2002, with OTCBB:DSSC. Prior to this, the public entity was originally, formed under the laws of the State of Delaware in February 1969. For many years, we were a wholesaler of custom one, two, three and four-color processed commercial printing, as well as disposable and durable office equipment including stock paper, fax paper, fax and copy machines, computers, file cabinets and safes. We conducted our business throughout the United States of America and Puerto Rico from our headquarters in New York.

In March 1999, we changed the focus of our business and closed a transaction by which we acquired 100% of the outstanding capital stock of North Orlando Sports Promotions, Inc., a privately held Florida corporation. From 1999 until July 2001, we operated a variety of Internet-related services, however, we were unable to generate positive cash flow from these Internet-related businesses.

In May 2001, we executed an Agreement and Plan of Reorganization and Stock Purchase Agreement with Disease S.I., Inc. Under the terms of the agreement, we acquired 100% of the issued and outstanding stock of Disease S.I., Inc. in exchange for 750,000 shares of our common stock. The transaction was accounted for as a reverse acquisition under the purchase method for business combinations. Accordingly, the combination of the two companies was recorded as a recapitalization of Disease S.I., Inc., pursuant to which Disease S.I., Inc. was treated as the continuing entity. Disease S.I., Inc. was a developmental stage biopharmaceutical clinical diagnostics company planning to employ a broad array of technologies to detect, identify and quantify substances in blood or other bodily fluids and tissues. It intended to derive revenues from patent sub-licensing fees, royalties from pharmaceutical sales, appropriate milestone payments and research and development contracts.

Following completion of the acquisition of Disease S.I., Inc., it became apparent to us that it would be in our best long-term interest that the Internet operations be conducted apart from the biopharmaceutical clinical diagnostics operations. On July 24, 2001, we sold a former officer and director 100% of our subsidiary North Orlando Sports Promotions, Inc., in exchange for the assumption of all liabilities related to North Orlando Sports Promotions, Inc. and its operations estimated at approximately \$112,000, and which included the forgiveness of \$91,500 in accrued compensation. Included in the sale along with the capital stock of North Orlando Sports Promotions, Inc. were fixed assets, rights to several domain names and various contractual rights and obligations.

On November 27, 2001, we acquired 9,050,833 shares of the common stock of Healthspan Sciences, Inc., a privately held California corporation in exchange for 5,000 shares of our common stock in a private transaction exempt from

registration under the Securities Act of 1933 in reliance on Section 4(2) of that act. This agreement was rescinded on March 21, 2002. Pursuant to the rescission, Healthspan Sciences, Inc. returned all 5,000 shares of our common stock issued in the exchange and we returned all 9,050,833 shares of Healthspan Sciences, Inc. we had received.

On March 21, 2002, we executed an Agreement and Plan of Merger with IceWEB Communications, Inc., a Delaware corporation and its stockholders. Founded in 2000, IceWEB Communications, Inc. enabled interactive communications and education on the web. In June 2001, it had acquired the assets in bankruptcy of Learning Stream, Inc., a provider of streaming services. Pursuant to the agreement, each of the 22,720,500 shares of common stock of IceWEB Communications, Inc. issued and outstanding immediately prior to the merger were converted into the right to receive 0.13375 shares of our common stock, for an aggregate of 303,888 shares of common stock. Each of the warrants to purchase an aggregate of 680,125 shares of IceWEB Communications, Inc. common stock issued and outstanding immediately prior to the merger were converted into the right to receive one warrant to purchase 0.13375 shares of our common stock upon exercise of said warrant.

In June 2003, we acquired 100% of the capital stock of Interlan Communications, Inc., a privately held corporation, in exchange for 25,000 shares of our common stock. In June 2003, we also acquired 100% of the capital stock of Seven Corporation in exchange for 37,500 shares of our common stock and cash consideration of \$123,000.



In October 2003, we acquired 19% of the capital stock of Iplicity, Inc. of Virginia, together with substantially all of its assets including software licenses, source code, potential patents and trademarks for a combined stock and cash value of approximately \$632,000 which included the issuance of 191,381 shares of our common stock and cash consideration of \$65,500.

In May 2004, we acquired substantially all of the assets of DevElements, Inc. of Virginia, including software licenses, source code, potential patents and trademarks, cash, hardware, and equipment. As consideration for the purchase of the assets, we paid DevElements \$100,000 and agreed to the assumption of liabilities up to an aggregate of \$150,000. In exchange for the 19% interest in DevElements, we issued to the shareholders of DevElements 187,500 shares of our common stock and options to purchase 187,500 shares of common stock exercisable at a price of \$27.20 per share and expiring May 13, 2009. We issued to the stockholders options to purchase 6,250 shares, which were contingently exercisable upon the satisfaction of certain performance criteria. The performance criteria, which required contracts, task orders and other work assignments involving billing of at least \$840,000 during the six-month period ending November 13, 2004, was not met and the options were cancelled.

In March 2006 we acquired PatriotNet, Inc., an Internet service provider, for total consideration of \$290,000 of which \$190,000 was paid in cash and we issued 100,000 shares of our common stock valued at \$100,000. At the time of the acquisition, the fair value of the assets acquired exceeded the purchase price by \$390,600 which we treated as goodwill for accounting purposes. From the date of acquisition through September 30, 2006 revenues from PatriotNet were approximately \$316,000 and represented approximately 6% of our consolidated revenues. On December 1, 2006 we sold PatriotNet to Leros Technologies, a third party, for \$150,000 in cash and the assumption of \$60,000 in liabilities. At September 30, 2006 we recorded goodwill impairment of \$180,000 related to this transaction.

On December 1, 2006 we sold 100% of the capital stock of our wholly-owned subsidiary, Integrated Power Solutions, Inc. to John Younts, a related party, for the assumption of approximately \$200,000 in liabilities. In FY2006, revenues for IPS accounting for approximately \$457,000 or 9.5% of overall IceWEB revenues.

On November 15, 2006, IceWEB acquired the assets of True North Federal Solutions group for \$350,000 of which \$250,000 was paid in cash and \$100,000 due upon future terms of the agreement. Under the terms of the agreement, IceWEB acquired the customers, forecast, contract renewals, and GSA schedule of True North Federal.

## RISK FACTORS

Before you invest in our securities, you should be aware that there are various risks. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. You should consider carefully these risk factors, together with all of the other information included in this annual report before you decide to purchase our securities. If any of the following risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially adversely affected and you could lose your entire investment in our company.

**WE HAVE AN ACCUMULATED DEFICIT AND WE ANTICIPATE CONTINUING LOSSES THAT WILL RESULT IN SIGNIFICANT LIQUIDITY AND CASH FLOW PROBLEMS ABSENT A MATERIAL INCREASE IN OUR REVENUES.**

We have an accumulated deficit of \$10,871,042 at September 30, 2006. For the years ended September 30, 2006 and 2005, we had a net loss attributable to common shareholders of approximately \$4,370,000 and approximately \$1,900,000, respectively, and cash used in operations was approximately \$1,000,000 and \$920,000, respectively. The report of our independent registered public accounting firm on our consolidated financial statements for the fiscal year

ended September 30, 2006 contains a qualification expressing substantial doubt as to our ability to continue as a going concern as a result of our net losses and cash used in operations. We reported a decrease in our revenues for fiscal 2006 as compared to fiscal 2005 of approximately 30% and we cannot assure you that our revenues will increase in future pe