

ICEWEB INC  
Form 424B3  
February 09, 2012

Filed Pursuant to Rule 424(b)(3)  
SEC File No. 333-178954

63,891,287 Shares of Common Stock

IceWEB, Inc.

Common Stock

This prospectus relates to the periodic offers and sales by the selling stockholders identified in this prospectus of up to 63,891,287 shares of our common stock, including up to 15,744,853 shares issuable upon the conversion of \$2,012,500 principal amount senior convertible notes and up to 48,146,434 shares issuable upon the exercise of common stock purchase warrants held by such selling stockholders. The notes and warrants described above were issued in our private placement financing on November 23, 2011. Even though we are registering the above underlying shares for resale, there is no assurance that any of these shares will become issued and outstanding, nor is there any assurance that any of the above shares will be sold by selling stockholders in reliance on this prospectus. We are registering the number of shares stated above pursuant to a registration rights agreement with the investors in our private placement financing. For a more detailed explanation of the reasons for this registration, please see “Terms of the Offering with the Selling Stockholders”.

The prices at which the selling stockholders may sell shares will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive any proceeds from the sale of these shares by the selling stockholders. However, we will receive proceeds from the exercise of the warrants if they are exercised for cash by the selling stockholders.

We will bear all costs relating to the registration of these shares of our common stock, other than any selling stockholder’s brokerage expenses, fees, or discounts. For a description of the plan of distribution of these shares, please see the “Plan of Distribution”.

Our common stock is quoted on the OTC Bulletin Board under the symbol “IWEB”. The last reported sale price of our common stock as reported by the OTC Bulletin Board on January 5, 2012, was \$0.13 per share.

Investing in our common stock is highly speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties described under the heading “Risk Factors” beginning on page 9 of this prospectus before making a decision to purchase our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 8, 2012

## ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus, any supplement and the documents we have incorporated by reference. We have not authorized anyone to provide information that is different from that contained in this prospectus. The information contained in this prospectus, any supplement and any document incorporated by reference is accurate only as of the date of such document, regardless of the time of delivery of this prospectus or of any sale of our common stock.

## PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider in making your investment decision. You should read the following summary together with the entire prospectus, including the more detailed information regarding us, the common stock being sold in this offering and our financial statements and the related notes appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this prospectus before deciding to invest in our common stock. Some of the statements in this prospectus constitute forward-looking statements. See “Forward-Looking Statements.”

Except where the context otherwise requires or where otherwise indicated, the terms “IceWEB,” “we,” “us,” “our,” “our company” and “our business” refer IceWEB, Inc. and its consolidated subsidiaries as a combined entity. Certain differences in the numbers in the tables and text throughout this prospectus may exist due to rounding.

The fiscal year ends on September 30. References to fiscal 2011, for example, refer to the fiscal year ending September 30, 2011.

### About Us

Headquartered just outside of Washington, D.C., we manufacture and market unified data storage, purpose built appliances, network and cloud attached storage solutions and deliver on-line cloud computing application services. Our customer base includes U.S. government agencies, enterprise companies, and small to medium sized businesses (SMB).

Our principal executive offices are located at 22900 Shaw Road, Suite 111, Sterling, VA 20166 and our telephone number at that office is (571) 287-2400. Our fiscal year end is September 30.

## SUMMARY OF THE OFFERING

This prospectus covers the resale of a total of 63,891,287 shares of our common stock by the selling security holders which includes up to 15,744,853 shares that are issuable upon the conversion of our \$2,012,500 principal amount senior convertible notes and up to 48,146,434 shares that are issuable upon the exercise of warrants with an exercise price of \$0.17 per share. Selling security holders may resell their shares from time-to-time, including through broker-dealers, at prevailing market prices. We will not receive any proceeds from the resale of our shares by the selling security holders. To the extent the warrants are exercised on a cash basis, we will receive the exercise price of the warrants. We will pay all of the fees and expenses associated with registration of the shares covered by this prospectus.

Common Stock Outstanding Prior to this Offering: 158,094,066 shares of common stock on January 6, 2012.



Common Stock Reserved:	An aggregate of 64,389,877 shares of our common stock, including 15,744,853 shares issuable upon the possible conversion of our senior convertible notes, 64,556,620 shares issuable upon the exercise of options and warrants with exercise prices ranging from \$0.001 to \$0.70 per share, and 626,667 shares issuable upon conversion of our Series B convertible preferred stock. The resale of 63,891,287 shares issuable upon the conversion of the senior convertible notes and the exercise of warrants held by the selling stockholders are covered by this prospectus.
Common Stock Outstanding After this Offering:	221,985,353 shares of common stock, assuming the issuance of 15,744,853 shares of our common stock issuable upon the conversion of the senior convertible notes, and the issuance of 48,146,434 shares of our common stock upon exercise of common stock purchase warrants held by the selling stockholders at an exercise price of \$0.17 per share exercised on a cash basis, the resale of which is covered by this prospectus, but giving no effect to the possible exercise of the remaining outstanding warrants, outstanding options or Series B convertible preferred stock.

#### TERMS OF THE OFFERING WITH THE SELLING STOCKHOLDERS

On November 23, 2011, we entered into a Securities Purchase Agreement with three accredited investors pursuant to which we sold \$2,012,500 in principal amount of senior convertible notes and issued the investors Series O, Series P and Series Q warrants to purchase up to an aggregate of 35,514,789 shares of our common stock for an aggregate purchase price of \$1,750,000 in a private transaction exempt from registration under the Securities Act of 1933. We issued the senior convertible notes at an original issue discount of 13%. We also entered into a Registration Rights Agreement with investors in which we agreed to register the shares underlying the senior convertible notes and the warrants.

We paid Rodman & Renshaw, LLC, a broker-dealer and member of FINRA who acted as the exclusive placement agent for us in the private placement, a cash commission of \$155,000, issued it warrants to purchase an aggregate of 911,765 shares of our common stock with an exercise price of \$0.17 per share which are identical to the Series O warrants, and reimbursed it for legal expenses of \$20,000. We reimbursed Iroquois Master Fund Ltd., an investor in the private placement, \$60,000 for its non-accountable expenses related to the investment. We are using the net proceeds from the private placement for general working capital.

Under the terms of the Securities Purchase Agreement, we agreed not to take certain actions, including:

- we agreed not to file any registration statement, other than the registration statement of which this prospectus is part, or a registration statement on Form S-4 or S-8, until the first date on which the resale by the investors of all shares of common stock underlying the securities sold in the private placement are either covered by one or more effective registration statements or may be resold pursuant to Rule 144 under the Securities Act of 1933 without the need for current public information required by Rule 144 (the “Applicable Date”);
- we agreed not conduct any other securities offerings until the 30th trading day after the Applicable Date, except for certain excluded securities, and while the senior convertible notes and warrants are outstanding, we agreed not to enter into any variable rate transactions;
- we agreed to offer to the investors, until the first anniversary of the closing date, the opportunity to participate in any subsequent securities offerings by our company;
- so long as the senior convertible notes or warrants are outstanding, we agreed not to issue any securities other than for cash or in connection with options which may be granted to our officers, directors and employees; and

- we entered into an amendment with Sand Hill Finance, LLC for our factoring agreement to extend the maturity date of the agreement to at least 91 days after all obligations under the senior convertible notes have been satisfied, among other modifications.

## Senior convertible notes

The senior convertible notes are senior unsecured indebtedness of our company, senior to all other indebtedness other than our obligations to Sand Hill Finance, LLC, with which it is pari passu, and guaranteed by our subsidiaries. The senior convertible notes do not bear any interest unless there has been an “event of default” as described below, at which time interest begins accruing at 18% per annum, compounded quarterly. Monthly installment payments on the principal amount of the senior convertible notes begin on the earlier of six months from the issuance date of the notes or upon the effectiveness of the registration statement registering the shares of our common stock into which the senior convertible notes are convertible of which this prospectus is a part. Installment payments under the senior convertible notes may either be made in shares of our common stock or cash. We are not able to make the installment payments in shares of our common stock if there has been an “equity conditions failure” or “dollar failure.” Generally, under the terms of the senior convertible notes an “equity conditions failure” means that the shares of our common stock issuable for the installment payment are not covered by an effective registration statement or the issuance of the shares would cause the holder or its affiliates to be the beneficial owners of in excess of 4.9% of our outstanding common stock, together with certain other “equity conditions” as described in the senior convertible notes. A “dollar failure” means that the average of the aggregate trading volumes of our common stock for the 20 trading days preceding the installment date has not equaled or exceeded \$25,000. If we cannot make installment payment in shares of common stock because one of these conditions is not satisfied, we must make such payment in cash. Unless previously converted into shares of our common stock, the senior convertible notes mature on May 23, 2013. Except as described below, we have no right to prepay any amounts due under the senior convertible notes.

The senior convertible notes are convertible at the option of the holders into shares of our common stock at an initial conversion price of \$0.17 per share. The conversion price is subject to adjustment for stock splits, combinations or similar events. The conversion price is also subject to a “full ratchet” anti-dilution adjustment which, in the event that we issue or are deemed to have issued, certain securities at a price lower than the then applicable conversion price, immediately reduces the conversion price to equal the price at which we issued or were deemed to have issued our common stock. In addition, if we sell or issue any options or convertible securities that are convertible into or exchangeable or exercisable for shares of our common stock at a price which varies or may vary with the market price of the shares of common stock, including by way of one or more reset(s) to a fixed price, but exclusive of such formulations reflecting customary anti-dilution provisions, the holder of a senior convertible note will have the right to substitute the variable price for the fixed conversion price upon conversion of all or part of the note. The senior convertible notes provide that no conversion may be made if, after giving effect to the conversion, the holder or any of its affiliates would be the beneficial owner as determined in accordance with the rules of the SEC of in excess of 4.9% of our outstanding shares of common stock.

Beginning at any time after the earlier of the 30th calendar day immediately following the date that the registration statement of which this prospectus is a part is declared effective by the SEC or the 210th day from the issuance date of the senior convertible notes, and upon at least 10 days but not more than 30 days prior notice to the holders, we have the right to redeem all amounts outstanding under the senior convertible notes in cash for an amount equal to 110% of the greater of the amount to be redeemed and the product of the conversion rate and the closing sale price of our common stock on the trading day immediately preceding the notice of redemption.

The senior convertible notes contain a variety of events of default which generally include the following events and which apply to these events by our subsidiaries as well, where applicable:

- failure to pay any amounts due under the senior convertible notes when due;
- an occurrence of default under other of our obligations or our bankruptcy, insolvency, reorganization or liquidation;
-

- a judgment against us in excess of \$25,000 or if we should fail to pay when due any indebtedness due any other creditor in excess of \$10,000;
- if we should fail to file the registration statement of which this prospectus is a part with the SEC by January 10, 2012, or if the registration statement is not declared effective by the SEC on or before 90 calendar days from the closing date, or 120 calendar days if the registration statement is reviewed by the SEC, with a 10 day grace period, or if after the registration statement is declared effective by the SEC, the effectiveness lapses for more than five consecutive days or more than 10 days in any 365-day period;

- the occurrence of a “material adverse effect” as described in the Securities Purchase Agreement which means any material adverse effect on (i) the business, properties, assets, liabilities, operations (including results thereof), condition (financial or otherwise) or prospects of our company or any subsidiary, either individually or taken as a whole, (ii) the transactions contemplated by the private placement documents, or (iii) the authority or ability of our company or any of our subsidiaries to perform any of their respective obligations under any of the private placement documents;
- the failure to issue shares upon conversion of a senior convertible note or exercise of a warrant for more than five trading days after the relevant conversion date or exercise date;
  - notification of our intention not to comply with a request for conversion or exercise; and
- the failure to remove any restrictive legend on any certificate or any shares of common stock issued upon conversion or exercise required by the terms of Securities Purchase Agreement, unless otherwise prohibited by applicable federal securities laws, and such failure remains uncured for five days.

If there is an event of default, upon election of the holders of at least 20% of the outstanding principal amount of the senior convertible notes, we will be obligated to redeem all or any portion of the senior convertible notes, including all accrued and unpaid interest, in cash, at a price equal to the greater of:

- 110% of the amount being converted, depending on the nature of the default, and
- the product of (a) the amount being converted multiplied by the closing bid price of our common stock on the trading date immediately before the date of redemption multiplied by (b) the highest closing sale price of our common stock during the period beginning on the date immediately preceding such event of default and ending on the trading day immediately prior to the trading day that the redemption price is paid by us.

We have agreed not to take certain actions while the senior convertible notes are outstanding, including:

- incur other indebtedness which is due before 91 days from the payment in full of the senior convertible notes, except for certain permitted indebtedness, nor will we incur any liens, except for certain permitted liens,
  - accelerate the payment of any indebtedness,
  - pay any dividends or redeem any of our securities,
- making cash expenditures in excess of \$400,000 during any measuring period, as specified in the senior convertible notes,
  - change the nature of our business, or
- issue any shares of our capital stock other than for cash or in connection with options which may be granted to our officers, directors and employees.

If we issue options, convertible securities, warrants or similar securities to holders of our common stock, the holders of the senior convertible notes shall have the right to acquire the same as if they had converted their senior convertible note into common stock.

## Warrants

The exercise price of the warrants is \$0.17 per share, subject to adjustment as described below. The Series O warrants and Series P warrants are each immediately exercisable. The Series Q warrants become exercisable at any time that any portion of the Series P warrants are exercised. The term of the Series O warrants is five years from the issue date, the term of the Series P warrants is one year from the Applicable Date, and the term of the Series Q warrants is five years from the Applicable Date. Other than the exercise periods, all three series of warrants are identical. The warrants are also exercisable on a cashless basis during the first six months the warrants are outstanding or at any time the registration statement covering the shares issuable upon the exercise of the warrants is not effective. The warrants are not exercisable if, after giving effect to the exercise, the holder or any of its affiliates would be the beneficial owner as



determined in accordance with the rules of the SEC of in excess of 4.9% of our outstanding shares of common stock. If we issue options, convertible securities, warrants or similar securities to holders of our common stock, the warrant holders shall have the right to acquire the same as if they had exercised the warrants into common stock.

The exercise price is subject to adjustment for stock splits, combinations or similar events, and, in such event, the number of shares issuable upon the exercise of the warrants will also be adjusted such that the aggregate warrant exercise price shall be the same immediately before and immediately after such adjustment. In addition, the warrant exercise price is also subject to a "full ratchet" anti-dilution adjustment which, in the event that we issue or are deemed to have issued, certain securities at a price lower than the then applicable warrant exercise price, immediately reduces warrant exercise price to equal the price at which we issued or was deemed to have issued, our common stock.

If we sell or issue any options or convertible securities that are convertible into or exchangeable or exercisable for shares of our common stock at a price which varies or may vary with the market price of the shares of common stock, including by way of one or more reset(s) to a fixed price, but exclusive of such formulations reflecting customary anti-dilution provisions, the holder of a warrant will have the right to substitute the variable price for the warrant exercise price upon exercise of all or part the warrant.

#### Registration Rights Agreement

We entered to a Registration Rights Agreement with the investors in the private placement that requires we file a registration statement with the SEC on or before January 10, 2012 for the resale by the investors of 133% of the maximum number of shares of our common stock issuable upon conversion of the senior convertible notes, and upon exercise of the warrants. We refer to these shares as the registrable securities. This prospectus is part of that registration statement. The initial registration statement must be declared effective by the SEC within 90 calendar days from the closing date, or 120 calendar days if the registration statement is reviewed by the SEC. We are prohibited from including any other securities in this registration statement. We will be required to pay liquidated damages to the investors if:

- the initial registration statement is not filed with the SEC on or before January 10, 2012, or
- it is not declared effective by the SEC on or before 90 calendar days from the closing date, or 120 calendar days if the registration statement is reviewed by the SEC, or
- other than during an allowable grace period, on any day after the effective date of a registration statement sales of all of the registrable securities required to be included on such registration statement cannot be made pursuant to such registration statement, or
- if a registration statement is not effective for any reason or the prospectus contained therein is not available for use for any reason, or we are not in compliance with the current public information requirement of Rule 144(c) of the Securities Act of 1933, as a result of which any of the investors are unable to sell registrable securities without restriction under Rule 144.

Upon the occurrence of any of these events we are obligated to pay each investor an amount in cash equal to 1% of such investor's original principal amount of senior convertible note on each such date and on every 30 day anniversary of each such date until these filing failures are cured. In the event we fail to make the payments in a timely manner in accordance with the foregoing, the payments shall bear interest at the rate of 1.5% per month, prorated for partial months, until paid in full.

We agreed to keep the registration statement effective until all registrable securities have been disposed of. We also agreed to pay all costs associated with the preparation and filing of this registration statement, and to reimburse Iroquois Master Fund Ltd. \$10,000 for legal fees of its counsel incurred in connection with the registration statement. The Registration Rights Agreement contains customary indemnification provisions for all parties.

## SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements include statements regarding our expectations, hopes, beliefs or intentions regarding the future, including but not limited to statements regarding our market, strategy, competition, development plans (including acquisitions and expansion), financing, revenues, operations, and compliance with applicable laws. Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in greater detail in the following paragraphs. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement. Market data used throughout this prospectus is based on published third party reports or the good faith estimates of management, which estimates are based upon their review of internal surveys, independent industry publications and other publicly available information. Although we believe that such sources are reliable, we do not guarantee the accuracy or completeness of this information, and we have not independently verified such information.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following summary of our financial information for the fiscal years ended September 30, 2011 and 2010, which have been derived from, and should be read in conjunction with, our consolidated financial statements included elsewhere in this prospectus.

## SELECTED INCOME STATEMENT DATA:

	Fiscal Year ended September 30,	
	2011	2010
Net Revenues	\$ 2,678,346	\$ 3,353,286
Cost of sales	1,751,640	1,742,110
Operating Expenses:		
Sales and marketing	975,282	1,690,684
Depreciation and amortization	545,890	662,003
Research and development	790,048	547,364
General and administrative	2,605,999	5,312,247
Loss on impairment of intangible assets	303,859	-
Total operating expenses	5,221,078	8,212,298
Loss from operation	(4,294,372 )	(6,601,122 )
Total other expense	(410,919 )	(363,111 )
Net loss	\$ (4,705,291 )	\$ (6,964,233 )

## SELECTED BALANCE SHEET DATA:

	September 30, 2011	September 30, 2010
Working Capital	\$ (1,713,336 )	\$ (1,250,033 )
Cash	4,120	540,156
Subscription receivable	1,171,520	-
Accounts receivable, net	1,182,060	1,466,483

Edgar Filing: ICEWEB INC - Form 424B3

Inventory	55,981	62,197
Total current assets	2,450,806	2,106,941
Property and equipment, net	252,835	418,873
Marketable Securities	115,200	524,800
Intangibles, net	-	546,952
Total assets	\$ 2,832,161	\$ 3,610,886
Accounts payable and accrued liabilities	2,186,691	1,648,252
Notes payable-current	1,972,544	1,649,140
Deferred revenue	4,904	59,582
Total liabilities	4,164,139	3,356,972
Accumulated deficit	(34,328,080)	(29,622,792)
Stockholders' equity (deficit)	(1,331,978 )	253,913

## RISK FACTORS

AN INVESTMENT IN OUR COMMON STOCK INVOLVES A SIGNIFICANT DEGREE OF RISK. YOU SHOULD NOT INVEST IN OUR COMMON STOCK UNLESS YOU CAN AFFORD TO LOSE YOUR ENTIRE INVESTMENT. YOU SHOULD CONSIDER CAREFULLY THE FOLLOWING RISK FACTORS AND OTHER INFORMATION IN THIS PROSPECTUS BEFORE DECIDING TO INVEST IN OUR COMMON STOCK.

### RISKS RELATED TO 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 approximately \$34.3 million at September 30, 2011. For the years ended September 30, 2011 and 2010, we had a net loss of approximately \$4.7 million and approximately \$6.96 million, respectively. In fiscal 2011, cash used in operations was approximately \$2.29 million and we had approximately \$4,120 of cash on hand at September 30, 2011 and \$1,171,520 in subscription receivable from the sale of our stock at September 30, 2011. The report of our independent registered public accounting firm on our consolidated financial statements for the fiscal year ended September 30, 2011 contains an explanatory paragraph 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 sales from continuing operations for fiscal 2011 as compared to fiscal 2010 of approximately 20.1% which is primarily related to a slowdown in sales due to the economic downturn and budget constraints within the Federal government during fiscal 2011. We cannot assure you that our sales will increase in future periods, nor can we assure you that they will not further decrease. As long as our cash flow from operations remains insufficient to fund our operations, we will continue depleting our cash and other financial resources, as well as issue additional equity to raise capital. Our failure to achieve profitable operations in future periods will adversely affect our ability to continue as a going concern. In this event, you could lose all of your investment in our company.

WE WILL NEED ADDITIONAL FINANCING WHICH WE MAY NOT BE ABLE TO OBTAIN ON ACCEPTABLE TERMS. IF WE CANNOT RAISE ADDITIONAL CAPITAL AS NEEDED, OUR ABILITY TO EXECUTE OUR GROWTH STRATEGY AND FUND OUR ONGOING OPERATIONS WILL BE IN JEOPARDY.

Historically, our operations have been financed primarily through the issuance of equity and short-term loans. Capital is typically needed not only to fund our ongoing operations and to pay our existing obligations, but is also necessary if we wish to acquire additional assets or companies and for the effective integration, operation and expansion of these businesses. At September 30, 2011, we had a working capital deficit of approximately \$1,713,000. While subsequent to September 30, 2011 we received gross proceeds of \$1.75 million from the sale of the senior convertible notes, under the terms of this private offering our ability to raise additional capital is limited. Our future capital requirements, however, depend on a number of factors, including our ability to internally grow our sales, manage our business and control our expenses. If we are unable to raise additional capital as may be necessary to fund our operations and satisfy our obligations as they become due, our ability to continue as a going concern will be in jeopardy.

**OUR TARGET MARKETS ARE HIGHLY COMPETITIVE AND DOMINATED BY LARGER COMPANIES AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY.**

The market for our products is highly competitive and we expect competition to intensify in the future. This competition could result in increased pricing pressure, reduced gross margins, increased sales and marketing expenses or our failure to increase, or our loss of, market share, any of which could seriously harm our business, operating results and financial condition.

Currently, we face competition from a number of established companies, including EMC Corporation, or EMC, Hewlett-Packard Company, or HP, Hitachi Limited, International Business Machines Corporation, or IBM, and Network Appliance, Inc., or NetApp. We also face competition from a large number of private companies and recent public company market entrants, such as Isilon Systems, Inc. Many of our current competitors have, and some of our potential competitors could have, longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we have. Potential customers may prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features.

NetApp is our primary competition in the high performance unified network storage system market. They have a significantly greater share of this market than we do. In addition, they are a substantially larger company with more resources than we have.

Our ability to compete effectively in our target markets depends on a number of factors, including:

- our products' scalability, performance, ease of use and cost effectiveness relative to that of our competitors' products;
- aggressive business tactics by our competitors, including selling at a discount or asserting intellectual property rights irrespective of the validity of the claims;
- our success in utilizing new and proprietary technologies to offer products and features previously not available in the marketplace;
  - our success in identifying new markets, applications and technologies;
  - our ability to attract and retain value-added resellers and OEMs;
  - our name recognition and reputation;
  - our ability to recruit development engineers and sales and marketing personnel; and
  - our ability to protect our intellectual property.

We expect increased competition from other established and emerging companies, including companies such as networking infrastructure and storage management companies that provide complementary technology and functionality. Some of our competitors, including EMC, HP and NetApp, have made acquisitions of businesses that allow them to offer more directly competitive and comprehensive solutions than they had previously offered. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties. If so, new competitors or alliances that include our competitors may emerge that could acquire significant market share.

**WE ARE SUBSTANTIALLY DEPENDENT ON CUSTOMERS IN A LIMITED NUMBER OF INDUSTRIES. DOWNTURNS IMPACTING CERTAIN INDUSTRIES MAY RESULT IN REDUCED SALES FOR US.**

Sales to five customers represented approximately 90% of total sales for fiscal 2011 and as of September 30, 2011 approximately 84% of our accounts receivable was due from one customer. Sales to eight customers represented approximately 89% of our revenues in fiscal 2010. We do not have any long-term agreements with any of these customers and the loss of one or more of them would materially adversely impact our results of operations and cash

flow in future periods.

9

---

**IF WE ARE UNABLE TO CONTINUE TO DEVELOP AND INTRODUCE NEW PRODUCTS AND RESPOND TO TECHNOLOGICAL CHANGES, OUR REVENUE COULD BE REDUCED.**

Our future growth depends on the successful development and introduction of new systems and software products. Due to the complexity of network storage systems, these products are subject to significant technical risks that may impact our ability to introduce these products successfully. Our new products also may not achieve market acceptance. In addition, our new products must respond to technological changes and evolving industry standards. If we are unable for technological or other reasons to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, or if these products do not achieve market acceptance, our revenue could be reduced.

**IMPROVEMENTS IN ALTERNATIVE MEANS TO ACCELERATE STORAGE PERFORMANCE OR REDUCE STORAGE COSTS COULD HARM OUR BUSINESS AS THE DEMAND FOR OUR SYSTEMS MAY BE REDUCED.**

Our products are designed to improve the performance of many applications, including applications that are based on Microsoft Corporation's, or Microsoft, protocols. Accordingly, improvements to Microsoft application protocols to accelerate storage performance or reduce storage costs may reduce the need for our products, adversely affecting our business, operating results and financial condition. Improvement in other application protocols or in the Transmission Control Protocol could have a similar effect.

**OUR OPERATING RESULTS MAY BE ADVERSELY AFFECTED BY UNCERTAIN ECONOMIC AND MARKET CONDITIONS.**

We are subject to the effects of general global economic and market conditions. Challenging economic conditions worldwide or in certain geographic regions, such as the continuing fiscal challenges in the U.S. and Europe, have from time to time contributed to slowdowns in the computer, storage, and networking industries at large, as well as the information technology (IT) market, resulting in:

- Reduced demand for our products as a result of constraints on IT-related spending by our customers;
  - Risk of supply constraints, particularly the recent flooding in Thailand;
  - Increased price competition for our products from competitors;
- Deferment of purchases and orders by customers due to budgetary constraints or changes in current or planned utilization of our systems;
  - Higher overhead costs as a percentage of revenues;
- Negative impacts from increased financial pressures on customers, distributors and resellers;
- Negative impacts from increased financial pressures on key suppliers or contract manufacturers; and
  - Potential discontinuance of product lines or businesses and related asset impairments.

Any of the above-mentioned factors could have a material and adverse effect on our business and financial performance.

**IF WE ARE UNABLE TO CONTINUE TO CREATE VALUABLE INNOVATIONS IN SOFTWARE AND HARDWARE, WE MAY NOT BE ABLE TO GENERATE ADDITIONAL HIGH-MARGIN REVENUE THAT WILL ENABLE US TO MAINTAIN OR INCREASE OUR GROSS MARGINS, WHICH COULD REDUCE OUR REVENUE.**

Our industry has a history of declining network storage hardware prices as measured on a "dollar per gigabyte of storage capacity" basis. To maintain or increase our gross margins, we will need to continue to create valuable software



that is included with our network storage systems and/or sold separately as a licensed software application. Any new feature or application that we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to help increase our overall gross margin. If we are unable to successfully develop or acquire and then market and sell additional software and hardware functionality, our revenue could be reduced.

OUR ABILITY TO SELL OUR PRODUCTS IS HIGHLY DEPENDENT ON THE QUALITY OF OUR SUPPORT SERVICES, AND ANY FAILURE TO OFFER HIGH-QUALITY SUPPORT SERVICES COULD REDUCE OUR PRODUCT SALES AND REVENUE.

After our products are deployed within our customers' networks, our customers depend on our support services organization to resolve issues relating to our products and how they perform within our customer's environment. High-quality support services are therefore critical for the successful marketing and sale of our products. If we do not succeed in helping our customers to quickly resolve post-deployment issues and provide ongoing support if our partners do not effectively assist our customers in deploying our products, it would adversely affect our ability to sell our products to existing customers and could harm our prospects with potential customers. In addition, as we expand our operations internationally, our support services organization will face additional challenges, which we expect to include those issues that are associated with delivering support, training and documentation in languages other than English. As a result, our failure to maintain high-quality support services could reduce our product sales and revenue.

OUR PRODUCTS ARE HIGHLY TECHNICAL AND MAY CONTAIN UNDETECTED SOFTWARE OR HARDWARE DEFECTS, WHICH COULD CAUSE DATA UNAVAILABILITY, LOSS OR CORRUPTION THAT MIGHT, IN TURN, RESULT IN LIABILITY TO OUR CUSTOMERS, HARM TO OUR REPUTATION AND A REDUCTION OF PRODUCT SALES AND REVENUE.

Our network storage products are highly technical and complex and are often used to store information critical to our customers' business operations. Our products have contained and may contain undetected errors, defects or security vulnerabilities that could result in data unavailability, loss or corruption or other harm to our customers. Some errors in our products may only be discovered after they have been installed and used by customers. Any errors, defects or security vulnerabilities discovered in our products after commercial release, as well as any computer virus or human error on the part of our customer support or other personnel resulting in a customer's data unavailability, loss or corruption could result in a loss of customers or increased support and warranty costs, any of which may adversely affect our business, operating results and financial condition. In addition, we could face claims for product liability, tort or breach of warranty, including claims relating to changes to our products made by our partners. Our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may be difficult to enforce. Defending a lawsuit, regardless of its merit, could be costly and might divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate for a claim, or future coverage is unavailable on acceptable terms or at all, our product sales and revenue could be reduced.

OUR FACTORING AGREEMENT WITH SAND HILL FINANCE, LLC CONTAINS CERTAIN TERMS WHICH MAY ADVERSELY AFFECT OUR ABILITY TO RAISE CAPITAL IN FUTURE PERIODS.

In December 2005 and as amended during fiscal 2006 and fiscal 2009, we entered into a Finance Agreement with Sand Hill Finance, LLC for a \$2.75 million accounts receivable factoring line. Under the terms of this agreement we agreed not to take certain actions including undertaking a transaction which would result in a change of control of our company or the transfer of more than 20% of our securities and incurring any indebtedness other than trade credit in the ordinary course of business. While Sand Hill Finance, LLC waived these restrictions in connection with the recent sale of the senior convertible notes, these restrictions may limit our ability to raise working capital as needed.

WE DO NOT HAVE A DISASTER RECOVERY PLAN AND WE DO NOT CARRY BUSINESS INTERRUPTION INSURANCE.

Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, break-ins and similar events. Our headquarters are physically located in Fairfax County, Virginia, a

Washington, DC suburb, in close proximity to the US Capitol, White House, Pentagon, CIA, and numerous other agencies within the intelligence community. All these government installations are considered potential targets of any future terrorist attacks. We do not currently have a disaster recovery plan, nor do we carry business interruption insurance to compensate our company for losses that may occur. We are also vulnerable to computer viruses and/or physical disruptions, which could lead to interruptions, delays, loss of data or the inability to accept orders. The occurrence of any of the foregoing events could have a material adverse effect on our business, prospects, financial condition and results of operations.

**OUR MANAGEMENT MAY BE UNABLE TO EFFECTIVELY INTEGRATE OUR ACQUISITIONS AND TO MANAGE OUR GROWTH AND WE MAY BE UNABLE TO FULLY REALIZE ANY ANTICIPATED BENEFITS OF THESE ACQUISITIONS.**

Our business strategy includes growth through acquisition and internal development. We are subject to various risks associated with our growth strategy, including the risk that we will be unable to identify and recruit suitable acquisition candidates in the future or to integrate and manage the acquired companies. Acquired companies' histories, geographical locations, business models and business cultures can be different from ours in many respects. Our directors and senior management face a significant challenge in their efforts to integrate our businesses and the business of the acquired companies or assets, and to effectively manage our continued growth. There can be no assurance that our efforts to integrate the operations of any acquired assets or companies acquired in the future will be successful, that we can manage our growth or that the anticipated benefits of these proposed acquisitions will be fully realized. The dedication of management resources to these efforts may detract attention from our day-to-day business. There can be no assurance that there will not be substantial costs associated with these activities or of the success of our integration efforts, either of which could have a material adverse effect on our operating results.

**WE HAVE NOT VOLUNTARILY IMPLEMENTED VARIOUS CORPORATE GOVERNANCE MEASURES, IN THE ABSENCE OF WHICH, STOCKHOLDERS MAY HAVE MORE LIMITED PROTECTIONS AGAINST INTERESTED DIRECTOR TRANSACTIONS, CONFLICTS OF INTEREST AND SIMILAR MATTERS.**

Recent Federal legislation, including the Sarbanes-Oxley Act of 2002, has resulted in the adoption of various corporate governance measures designed to promote the integrity of the corporate management and the securities markets. Some of these measures have been adopted in response to legal requirements. Others have been adopted by companies in response to the requirements of national securities exchanges, such as the NYSE or The Nasdaq Stock Market, on which their securities are listed. Among the corporate governance measures that are required under the rules of national securities exchanges are those that address board of directors' independence, audit committee oversight, and the adoption of a code of ethics. Because our stock is not listed on an exchange we are not required to adopt these corporate governance standards. While our board of directors has adopted a Code of Ethics and Business Conduct and our Board has established Audit and Compensation Committees, we have not adopted all of the corporate governance measures which we might otherwise have been required to adopt if our securities were listed on a national securities exchange. It is possible that if we were to adopt all of these corporate governance measures, stockholders would benefit from somewhat greater assurances that internal corporate decisions were being made by disinterested directors and that policies had been implemented to define responsible conduct. Prospective investors should bear in mind our current lack of corporate governance measures in formulating their investment decisions.

**THE EXERCISE OF WARRANTS AND OPTIONS AND THE CONVERSION OF SHARES OF OUR SERIES B CONVERTIBLE PREFERRED STOCK WILL BE DILUTIVE TO OUR EXISTING STOCKHOLDERS.**

At January 6, 2012 we had outstanding:

- 158,094,066 shares of our common stock,
- 626,667 shares of Series B Convertible Preferred Stock owned by our Chief Executive Officer which is convertible into 626,667 shares of our common stock,
- common stock purchase warrants to purchase a total of 47,955,488 shares of our common stock with exercise prices ranging from \$0.15 to \$0.50 per share, and
- Stock options granted under our 2000 Management and Director Equity Incentive and Compensation Plan which are exercisable into 3,969,487 shares of our common stock with a weighted average exercise price of \$0.375 per share.



**CERTAIN OF OUR OUTSTANDING WARRANTS CONTAIN CASHLESS EXERCISE PROVISIONS WHICH MEANS WE WILL NOT RECEIVE ANY CASH PROCEEDS UPON THEIR EXERCISE.**

In December 2005, we issued a seven year common stock purchase warrant to purchase 25,000 shares of our common stock with an exercise price of \$1.00 per share in connection with our accounts receivable financing agreement with Sand Hill Finance, LLC.

These warrants were exercisable on a cashless basis which means that the holders, rather than paying the exercise price in cash, may surrender a number of warrants equal to the exercise price of the warrants being exercised. The utilization of this cashless exercise feature deprived us of additional capital which might otherwise be obtained if the warrants did not contain a cashless feature.

**PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS MAY DELAY OR PREVENT A TAKE-OVER WHICH MAY NOT BE IN THE BEST INTERESTS OF OUR STOCKHOLDERS.**

Provisions of our certificate of incorporation and bylaws may be deemed to have anti-takeover effects, which include when and by whom special meetings of our stockholders may be called, and may delay, defer or prevent a takeover attempt. In addition, certain provisions of the Delaware General Corporations Law also may be deemed to have certain anti-takeover effects which include that control of shares acquired in excess of certain specified thresholds will not possess any voting rights unless these voting rights are approved by a majority of a corporation's disinterested stockholders.

In addition, our certificate of incorporation authorizes the issuance of up to 10,000,000 shares of preferred stock with such rights and preferences as may be determined from time to time by our Board of Directors. We presently have outstanding 626,667 shares of Series B Convertible Preferred Stock. Our Board of Directors may, without stockholder approval, issue additional series of preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our common stock.

**OUR COMMON STOCK COULD BE REMOVED FROM QUOTATION ON THE OTCBB IF WE FAIL TO TIMELY FILE OUR ANNUAL OR QUARTERLY REPORTS. IF OUR COMMON STOCK WAS NO LONGER ELIGIBLE FOR QUOTATION ON THE OTCBB, THE LIQUIDITY OF OUR STOCK MAY BE FURTHER ADVERSELY IMPACTED.**

Under the rules of the Securities and Exchange Commission we are required to file our quarterly reports within 45 days from the end of the fiscal quarter and our annual report within 90 days from the end of our fiscal year. Under rules adopted by the Financial Industry Regulatory Authority (FINRA) in 2005 which is informally known as the "Three Strikes Rule", a FINRA member is prohibited from quoting securities of an OTCBB issuer such as our company if the issuer either fails to timely file these reports or is otherwise delinquent in the filing requirements three times in the prior two year period or if the issuer's common stock has been removed from quotation on the OTCBB twice in that two year period. If we were to fail to file three reports on a timely basis our stock would be removed from quotation on the OTCBB and would in all likelihood then be quoted on the Pink Sheets Electronic Quotation Service. Pink Sheets offers a quotation service to companies that are unable to list their securities on the OTCBB or an exchange. The requirements for listing on the Pink Sheets are considerably lower and less regulated than those of the OTCBB an exchange. If our common stock were to be quoted on the Pink Sheets, it is possible that even fewer brokers or dealers would be interested in making a market in our common stock which would further adversely impact its liquidity.



THE APPLICATION OF THE “PENNY STOCK” RULES TO OUR COMMON STOCK COULD LIMIT THE TRADING AND LIQUIDITY OF OUR COMMON STOCK, ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK AND INCREASE STOCKHOLDER TRANSACTION COSTS TO SELL THOSE SHARES.

As long as the trading price of our common stock is below \$5.00 per share, the open-market trading of our common stock will be subject to the “penny stock” rules, unless we otherwise qualify for an exemption from the “penny stock” definition. The “penny stock” rules impose additional sales practice requirements on certain broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). These regulations, if they apply, require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser’s written agreement to a transaction prior to sale. These regulations may have the effect of limiting the trading activity of our common stock, reducing the liquidity of an investment in our common stock and increasing the transaction costs for sales and purchases of our common stock as compared to other securities.

THE MARKET PRICE FOR OUR COMMON STOCK MAY BE PARTICULARLY VOLATILE GIVEN OUR STATUS AS A RELATIVELY UNKNOWN COMPANY WITH A LACK OF PROFITS, WHICH COULD LEAD TO WIDE FLUCTUATIONS IN OUR SHARE PRICE. THE PRICE AT WHICH STOCKHOLDERS PURCHASE SHARES OF OUR COMMON STOCK MAY NOT BE INDICATIVE OF THE PRICE OF OUR COMMON STOCK THAT WILL PREVAIL IN THE TRADING MARKET.

The market for our common stock has been characterized by significant price volatility when compared to seasoned issuers, and we expect that our stock price could continue to be more volatile than a seasoned issuer for the indefinite future. The potential volatility in our share price is attributable to a number of factors. First, there has been limited trading in our common stock. As a consequence of this lack of liquidity, any future trading of shares by our stockholders may disproportionately influence the price of those shares in either direction. Second, we are a speculative or “risky” investment due to our limited operating history and lack of profits to date, and uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors will be beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common stock will be at any time or as to what effect that the sale of shares or the availability of shares for sale at any time will have on the prevailing market price.

In addition, the market price of our common stock could be subject to wide fluctuations in response to:

- quarterly variations in our sales and operating expenses;
- announcements of new products or services by us;
- fluctuations in interest rates;
- significant sales of our common stock;
- the operating and stock price performance of other companies that investors may deem comparable to us; and
- news reports relating to trends in our markets or general economic conditions.

#### MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS



Edgar Filing: ICEWEB INC - Form 424B3

Our common stock is quoted on the OTC Bulletin Board under the symbol "IWEB". The reported high and low sales prices for the common stock as reported on the OTC Bulletin Board are shown below for the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

	High	Low
<b>Fiscal 2010</b>		
First quarter ended December 31, 2009	\$0.235	\$0.07
Second quarter ended March 31, 2010	\$0.23	\$0.075
Third quarter ended June 30, 2010	\$0.47	\$0.135
Fourth quarter ended September 30, 2010	\$0.30	\$0.105
<b>Fiscal 2011</b>		
First quarter ended December 31, 2010	\$0.315	\$0.155
Second quarter ended March 31, 2011	\$0.285	\$0.16
Third quarter ended June 30, 2011	\$0.295	\$0.171
Fourth quarter ended September, 30, 2011	\$0.26	\$0.135
<b>Fiscal 2012</b>		
First quarter ended December 31, 2011	\$0.195	\$0.102

On January 5, 2012, the last sale price of our common stock as reported on the OTC Bulletin Board was \$0.13. As of January 6, 2012, there were approximately 4,275 record owners of our common stock.

#### DIVIDEND POLICY

We have never paid cash dividends on our common stock. Under Delaware law, we may declare and pay dividends on our capital stock either out of our surplus, as defined in the relevant Delaware statutes, or if there is no such surplus, out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. If, however, the capital of our company, computed in accordance with the relevant Delaware statutes, has been diminished by depreciation in the value of our property, or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, we are prohibited from declaring and paying out of such net profits and dividends upon any shares of our capital stock until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets shall have been repaired.

#### Transfer Agent

Our transfer agent is Olde Monmouth Stock Transfer, 200 Memorial Pkwy, Atlantic Highlands, NJ 07716. Its telephone number is (732) 872-2727.

#### PLAN OF DISTRIBUTION

We are registering the shares of common stock issuable upon conversion of the notes and exercise of the warrants to permit the resale of these shares of common stock by the holders of the notes and warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling stockholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling stockholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling stockholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
  - in the over-the-counter market;
  - in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;
  - ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
  - purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
  - an exchange distribution in accordance with the rules of the applicable exchange;
  - privately negotiated transactions;
  - short sales made after the date the Registration Statement is declared effective by the SEC;



- broker-dealers may agree with a selling securityholder to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares of common stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling stockholders may transfer the shares of common stock by other means not described in this prospectus. If the selling stockholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling stockholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling stockholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling stockholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling stockholders may pledge or grant a security interest in some or all of the notes, warrants or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending, if necessary, the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act of 1933 and the rules and regulations thereunder, the selling stockholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be “underwriters” within the meaning of the Securities Act of 1933, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act of 1933. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including,

without limitation, to the extent applicable, Regulation M of the Securities Exchange Act of 1934, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be approximately \$34,000 in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or “blue sky” laws; provided, however, a selling stockholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act of 1933 in accordance with the registration rights agreements or the selling stockholders will be entitled to contribution. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act of 1933 that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### BUSINESS OF ICEWEB

Headquartered just outside of Washington, D.C., we manufacture and market Unified data storage, purpose built appliances, network and cloud attached storage solutions and deliver on-line cloud computing application services.

Our customer base includes U.S. government agencies, enterprise companies, and small to medium sized businesses (SMB).

#### Data Storage

A unified storage system simultaneously enables storage of file data and handles the block-based I/O (input/output) of enterprise applications. We believe one advantage of unified storage is reduced hardware requirements. Instead of separate storage platforms, like NAS for file-based storage and a RAID (Redundant Array of Independent Disks) disk array for block-based storage, unified storage combines both modes in a single device. Alternatively, a single device could be deployed for either file or block storage as required.

In addition to lower capital expenditures for the enterprise, unified storage systems can also be simpler to manage than separate products. The IceWEB Storage System offers one platform for file and block data of all kinds. The IceWEB Storage System is an all-inclusive storage management system which includes de-duplication; unlimited snapshots; thin provisioning; local or remote, real-time or scheduled replication; capacity and utilization reporting, and integration with virtual server environments. Unified storage systems enjoy the same level of reliability as dedicated file or block storage systems.

#### Distribution

We believe that Promark is one of the premier value added distributors (VAD) in the United States. Promark's core technology focus is distributing data storage and electronic document imaging products and solutions through a two-tier distribution channel selling to VARs and system integrators. Promark leverages its direct relationships with technology partners including: LeftHand Networks, Kodak, QLogic, Data Domain, Panasonic, NEC, Overland Storage and many more to provide solutions that meet the most demanding needs of our customers.

We generate revenues from the manufacture and sale of high-performance unified data storage products, data storage appliances and servers, the sale of software services, and the distribution of data storage and electronic imaging

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

17

---

- Increasing the number of channel partners selling our products
- Continued investment in product development and research efforts
  - Hiring additional qualified, technical employees, and
  - Increasing the number of new customers added.

#### GOING CONCERN

We have a history of losses and have incurred net losses of approximately \$34.3 million since inception through September 30, 2011. Our current operations are not an adequate source of cash to fund future operations. The report of our independent registered public accounting firm on our consolidated financial statements for the years ended September 30, 2011 and 2010 contains an explanatory paragraph regarding our ability to continue as a going concern based upon our net losses. Our ability to continue as a going concern is dependent upon our ability to obtain the necessary financing to meet our obligations and repay our liabilities when they become due and to generate profitable operations in the future. We plan to continue to provide for our capital requirements through the sale of equity securities and debt, however, we have no firm commitments from any third party to provide this financing and we cannot assure you we will be successful in raising working capital as needed. There are no assurances that we will have sufficient funds to execute our business plan, pay our operating expenses and obligations as they become due or generate positive operating results.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such statements requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities as of the date of the financial statements. Our estimates are based on historical experience and other assumptions that we consider to be appropriate in the circumstances. However, actual future results may vary from our estimates.

We believe that the following accounting policies are significantly affected by critical accounting estimates and that they are both highly important to the portrayal of our financial condition and results and require difficult management judgments and assumptions about matters that are inherently uncertain. Note 2 of the accompanying consolidated financial statements describes the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies.

We believe the accounting policies described below are those that most frequently require us to make estimates and judgments and therefore are critical to the understanding of our results of operations.

#### Revenue Recognition, Reserves and Allowances

Revenue Recognition — We recognize revenue when:

- Persuasive evidence of an arrangement exists: It is our customary practice to have a purchase order and/or contract prior to recognizing revenue on an arrangement from our end users, customers, value-added resellers, or distributors.
- Delivery has occurred: Our product is physically delivered to our customers, generally with standard transfer terms such as FOB origin. We typically do not allow for restocking rights with any of our value-added resellers or distributors. Products shipped with acceptance criteria or return rights are not recognized as revenue until all criteria



are achieved. If undelivered products or services exist that are essential to the functionality of the delivered product in an arrangement, delivery is not considered to have occurred.

- The fee is fixed or determinable: Arrangements with payment terms extending beyond our standard terms, conditions and practices are not considered to be fixed or determinable. Revenue from such arrangements is recognized at the earlier of customer payment or when the fees become due and payable. We typically do not allow for price-protection rights with any of our value-added resellers or distributors.
- Collection is reasonably assured: If there is considerable doubt surrounding the credit worthiness of a customer at the outset of an arrangement, the associated revenue is deferred and recognized upon cash receipt.

We maintain a separate allowance for doubtful accounts for estimated losses based on our assessment of the collectability of specific customer accounts and the aging of the accounts receivable. We analyze accounts receivable and historical bad debts, customer concentrations, customer solvency, current economic and geographic trends, and changes in customer payment terms and practices when evaluating the adequacy of our current and future allowance. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, a specific allowance for bad debt is estimated and recorded, which reduces the recognized receivable to the estimated amount we believe will ultimately be collected. We monitor and analyze the accuracy of our allowance for doubtful accounts estimate by reviewing past collectability and adjusting it for future expectations to determine the adequacy of our current and future allowance. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

#### Inventory Valuation

Inventories are stated at lower of cost or market, on an average cost basis. We perform an excess and obsolete analysis of our inventory based upon assumptions about future demand and market conditions. We adjust the inventory value based on estimated excess and obsolete inventories.

#### Valuation of Intangibles

We periodically review the estimated remaining useful lives of our intangible assets. A reduction in the estimate of remaining useful life could result in accelerated amortization expense or a write-down in future periods. As such, any future write-downs of these assets would adversely affect our operating results.

#### Stock-Based Compensation

We account for stock-based compensation using the Black-Scholes option pricing model to estimate the fair value of each option grant on the date of grant. Our option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility, expected term, and forfeiture rate. Any changes in these highly subjective assumptions significantly impact stock-based compensation expense.

#### Fair Value Measurements and Impairments

All of our investments and nonmarketable securities are subject to periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including factors such as current economic and market conditions, the credit rating of the security's issuer, the length of time an investment's fair value has been below our carrying value, and our ability and intent to hold investments to maturity or for a period of time sufficient to allow for any anticipated recovery in fair value. If an investment's decline in fair value, caused by factors other than changes in interest rates, is deemed to be other-than-temporary, we reduce its carrying value to its estimated fair value, as determined based on quoted market prices, liquidation values or other metrics. For investments in publicly held companies, we recognize

an impairment charge when the decline in the fair value of our investment is below its cost basis and is judged to be other-than-temporary. The ultimate value realized on these investments is subject to market price volatility until they are sold.

Pursuant to the accounting guidance for fair value measurement and its subsequent updates, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a hierarchy for inputs used in measuring fair value that minimizes the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is broken down into the three input levels summarized below:

- Level 1 — Valuations are based on quoted prices in active markets for identical assets or liabilities, and readily accessible by us at the reporting date. Examples of assets and liabilities utilizing Level 1 inputs are certain money market funds, U.S. Treasuries and trading securities with quoted prices on active markets.
- Level 2 — Valuations based on inputs other than the quoted prices in active markets that are observable either directly or indirectly in active markets. Examples of assets and liabilities utilizing Level 2 inputs are U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposit and over-the-counter derivatives.
- Level 3 — Valuations based on unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. Examples of assets and liabilities utilizing Level 3 inputs are cost method investments, auction rate securities (ARS) and the Primary Fund.

### Results of Operations

The following table provides an overview of certain key factors of our results of operations for fiscal year 2011 as compared to fiscal year 2010:

	Fiscal Year ended September 30,		\$	%	
	2011	2010	Change	Change	
Net Revenues	\$ 2,678,346	\$ 3,353,286	\$(674,940 )	(20.1 )%	
Cost of sales	1,751,640	1,742,110	9,530	0.5	%
<b>Operating Expenses:</b>					
Sales and marketing	975,282	1,690,684	715,402	42.3	%
Depreciation and amortization	545,890	662,003	116,113	17.5	%
Research and development	790,048	547,364	(242,684 )	(44.3 )%	
General and administrative	2,605,999	5,312,247	2,706,249	50.9	%
Loss on impairment of intangible assets	303,859	-	(303,859 )	N/A	
Total operating expenses	5,221,078	8,212,298	2,991,220	36.2	%
Loss from operation	(4,294,372 )	(6,601,122 )	(2,306,750)	34.9	%
Total other expense	(410,919 )	(363,111 )	47,808	(13.2 )%	
Net loss	\$ (4,705,291 )	\$ (6,964,233 )	\$(2,258,942)	32.4	%

### Other Key Indicators:

	Fiscal		Fiscal	
	2011		2010	
Cost of sales as a percentage of revenues	65.40	%	51.95	%
Gross profit margin	34.60	%	48.05	%
General and administrative expenses as a percentage of revenues	97.30	%	158.42	%
Total operating expenses as a percentage of revenues	194.94	%	244.90	%

### Sales

Our sales decreased approximately 20.1% in fiscal year 2011 from fiscal year 2010. Of our total net sales for fiscal 2011, approximately \$2,520,535 is attributable to our sale of storage products, and approximately \$157,811 is attributable to sales from our online products and services. Of our total net sales for fiscal 2010, approximately

\$3,152,346 is attributable to our sale of storage products, and approximately \$200,940 is attributable to sales from our online products and services.

The decrease in fiscal 2011 net sales from fiscal 2010 is primarily due to the impact of economic uncertainty on our customers' budgets and IT spending capacity. We anticipate revenues for fiscal 2012 will increase due to the introduction of new products and services, including sales of our Unified Network Storage Solutions and other data storage products.

## Cost of Sales and Gross Profit

Our cost of sales consists primarily of products purchased to manufacture our storage products. For fiscal 2011, cost of sales was approximately 65% of sales, as compared to approximately 52% of sales, for fiscal 2010. The increase in costs of sales as a percentage of revenue and the corresponding decrease in our gross profit margin for fiscal 2011 as compared to fiscal 2010 was the result of an increased competition and the increase in the cost of certain components that go into our systems in fiscal 2011. We anticipate that our cost of sales as a percentage of revenue will return to the 50% to 55% range in fiscal 2012, as we introduce new higher margin products and solutions to augment our storage business.

## Total Operating Expenses

Our total operating expenses decreased approximately 36.4% for fiscal 2011 as compared to fiscal 2010. The decrease is primarily due to decreased headcount in sales and marketing, and lower costs associated with launching our channel sales distribution model, offset by increased investment in research and development, and the loss on the impairment of intangible assets. The changes include:

- **Sales and Marketing.** Sales and marketing expense includes salaries, commission, occupancy, telephone, travel, and entertainment expenses for direct sales personnel. For the fiscal year ended September 30, 2011, sales and marketing costs were \$975,282 as compared to \$1,690,684 for the fiscal year ended September 30, 2010, a decrease of \$715,402 or approximately 42%. The decrease was due primarily to reduced sales and marketing headcount during the fiscal year ended September 30, 2011, as we established and relied upon a two-tier channel distribution model.
- **Depreciation and amortization expense.** For fiscal 2011, depreciation and amortization expense decreased approximately 18% from fiscal 2010, as many of our assets became fully depreciated during the fiscal year.

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. The GSA schedule is being amortized on a straight-line basis over three years. Amortization expense was \$243,093 for fiscal 2011 and \$243,090 for fiscal 2010.

- **Research and development expense.** For fiscal 2011, research and development expenses increased approximately 44% from fiscal 2010. 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 2011 will be approximately \$200,000 per quarter related to developing and enhancing our storage solutions and pursuing intellectual property patents when we believe it is warranted.
- **Loss on impairment of intangible assets.** In fiscal 2011, management determined that the value of certain of our intangible assets had been impaired due to changes in our sales and marketing approach, and as a result we expensed the remaining unamortized balance of these assets, totaling \$303,859.
- **General and administrative expense.** For fiscal 2011, general and administrative expenses decreased approximately 51% from fiscal 2010. This decrease is primarily attributable to lower stock-based compensation, lower legal and professional fees, and lower bad debt expense, offset by higher investor relations expense. For fiscal 2011 and 2010, general and administrative expenses consisted of the following:

	Fiscal 2011	Fiscal 2010
Occupancy	\$ 50,208	\$ 49,085
Consulting	87,238	133,784
Employee compensation	1,117,737	3,458,814
Professional fees	325,105	671,548
Internet/Phone	20,479	14,834
Travel/Entertainment	34,002	49,016
Investor Relations	676,915	358,780
Insurance	35,203	46,304
Other	259,112	530,082
	\$ 2,605,999	\$ 5,312,247

The principal changes in fiscal 2011 as compared to fiscal 2010 include:

- For fiscal 2011, salaries and related taxes and benefits decreased \$2,341,077, or approximately 68% from fiscal 2010. The decrease was primarily attributable to a decrease in stock based compensation, and expense recorded in accordance with ASC Topic 718, “Compensation – Stock Compensation (Formerly SFAS No. 123 (R), “Share-Based Payments”), for fiscal 2011 of \$2,459,103, a decrease of 83%.
- For fiscal 2011, occupancy expense increased approximately 2% from fiscal 2010.
- For fiscal 2011, professional fees decreased \$346,443, or approximately 52% from fiscal 2010. The decrease was primarily attributable to a decrease in legal fees incurred and the settlement of lawsuits against us in fiscal 2010 versus 2011.
- For fiscal 2011, other expense decreased approximately 51% from fiscal 2010. The decrease is primarily due to a decrease in bad debt expense of \$235,877, and a decrease in hosting fees of \$23,022.
- For fiscal 2011, consulting expense decreased by approximately 35% from fiscal 2010. The decrease was primarily due to non-recurring consulting fees related to our capital raising activities, and human resources recruiting fees incurred in 2010 but not in fiscal 2011.
- For fiscal 2011, investor relations expense increased approximately 89% from fiscal 2010. The increase was attributable to an increase in general investor relations activity versus fiscal 2010. We expect that in fiscal 2012 our investor relations activity and related expense should decrease to fiscal 2010 levels.
- For fiscal 2011, internet and telephone expense increased approximately 38%. The increase was attributable to non-recurring costs incurred during the fiscal year 2011.
- For fiscal 2011, travel and entertainment expense decreased approximately 31%. The decrease was attributable to a decrease in general business, and travel-related investor relations activity.
- For fiscal 2011, insurance expense decreased approximately 24% from fiscal 2010. The decrease was attributable to lower premiums paid for general business and directors and officer’s insurance.

## LOSS FROM OPERATIONS

Our loss from operations decreased approximately 40% in fiscal year 2011 as compared to fiscal year 2010. This decrease is primarily the result of reduced headcount, offset by our increased research and development efforts, and

our investment in our channel marketing sales programs.

TOTAL OTHER INCOME (EXPENSES)

For fiscal 2011, interest expense decreased approximately 25.7%. The decrease in interest expense is primarily attributable to lower average outstanding note balances during fiscal 2011.

NET LOSS

Our net loss was \$4,705,291 for fiscal 2011 compared to \$6,964,233 for fiscal 2010, a decrease of \$2,258,942 or approximately 32%.



## LIQUIDITY AND CAPITAL RESOURCES

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

	September 30, 2011	September 30, 2010	\$ Change	% Change
Working Capital	\$ (1,713,336 )	\$ (1,250,033 )	\$(463,302 )	(37.1 )%
Cash	4,120	540,156	(536,036 )	(99.2 )%
Subscription receivable	1,171,520	-	1,171,520	N/A
Accounts receivable, net	1,182,060	1,466,483	(284,423 )	(19.4 )%
Inventory	55,981	62,197	(6,216 )	(10.0 )%
Total current assets	2,450,806	2,106,941	343,865	16.3 %
Property and equipment, net	252,835	418,873	(166,038 )	