ICEWEB INC
Form 10-K
January 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2013

OR

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

For the transition period from __________ to __________

Commission File Number **000-27865**

IceWEB, Inc.

(Exact name of registrant as specified in its charter)

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

324 E 11th, Suite 2425, Kansas City, MO	64106
(Address of principal executive offices)	(Zip Code

Registrant's telephone number, including area code: (571) 287-2388

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

Title of each class	Name of each exchange on which registered
None	None

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

Common Stock, $0.001 Par Value

(Title of class)

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Act

Yes ¨ No þ

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained in this form, and will not 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-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

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

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 last sold, or the average of the bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter. 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 on March 31, 2013, the last business day of the registrant’s most recently completed second fiscal quarter was $ 9,288,089.

Indicate the number of shares outstanding of each of the registrant’s classes of common equity, as of the latest practicable date. The number of common shares issued and outstanding as of January 14, 2014 was 473,460,779 shares.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the part of the Form 10-K (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. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980). None

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Cautionary Statement Regarding Forward Looking Statements

This Annual Report on Form 10-K contains statements that are considered forward-looking statements. Forward-looking statements give our current expectations and forecasts of future events. All statements other than statements of current or historical fact contained in this annual report, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. The words "anticipate", "believe", "continue", "estimate", "expect", "intend", "ma "plan", and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. These statements are based on our current plans, and our actual future activities and results of operations may be materially different from those set forth in the forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. Any or all of the forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on its current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs. The forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and assumptions. We undertake no obligation to publicly revise these forward-looking statements to reflect events occurring after the date hereof. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this report.

OTHER PERTINENT INFORMATION

When used in this report, the terms the “Company”, “IceWEB”, "we", "our", and "us" refers to IceWEB, Inc., a Delaware corporation, and our subsidiaries. When used in this report, “fiscal year 2013” or “fiscal 2013” means the year ended September 30, 2013, and “fiscal year 2014” or “fiscal 2014” means the year ending September 30, 2014. The information which appears on our Web sites is not part of this report.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS OF ICEWEB

OVERVIEW

With our acquisition of Computers & Telecom, Inc. and KCNAP, LLC, (collectively “CTC”) in October 2013, IceWEB provides wireless and fiber broadband service, co-location space and related services and operate a Network Access Point (“NAP”) where customers directly interconnect with a network ecosystem of partners and customers. This access to Internet routes provides CTC customers improved reliability and streamlined connectivity while significantly reducing costs by reaching a critical mass of networks within a centralized physical location. In addition, through our IceWEB Storage Corporation subsidiary we deliver on-line cloud computing application services, and manufacture and market cloud-attached and network storage.

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

We leverage our NAP which allows our customers to increase information and application delivery performance while significantly reducing costs. Our platform enables scalable, reliable and cost-effective co-location, interconnection and traffic exchange thus lowering overall cost and increasing flexibility.

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

<u>IceWEB unified data storage line of products</u>

Our high performance unified data storage solutions make it possible to operate and manage files and applications from a single device. File-based and block-based access data are consolidated in a single storage platform which supports Fibre Channel SAN, IP-based SAN (iSCSI), and NAS (network attached storage).

Our unified storage system simultaneously enables storage of file data and handles the block-based I/O (input/output) of enterprise applications. One advantage of unified storage is reduced hardware requirements. Instead of separate storage platforms, like NAS for file-based storage and a RAID disk array for block-based storage, unified storage combines both in a single device. Alternatively, a single device could be deployed for either file or block storage.

In addition to reduced capital expenditures for the enterprise, unified storage systems can also be simpler to manage than separate products since our IceWEB Storage System offers one platform for file and block data of all kinds. Whether it is Microsoft Exchange, SQL Server or Oracle databases, virtualized environments, scanned images, files, video, pictures, graphics, or voice data, we believe our products maximize the efficiency of storage by centralizing all data on one platform secured with strong data protection capabilities.

The all-inclusive IceWEB Storage System 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.

We believe our product offerings have broad appeal in the enterprise and federal marketplaces, and are used as core building blocks (enabling technologies) of business critical storage infrastructure for a diverse group of data intensive key vertical market segments such as geospatial information systems, entertainment, security and defense, higher education, Internet service providers, managed service providers, oil and gas, and health care. We believe our storage systems delivers levels of performance, scalability, versatility and simplicity that exceed existing network storage alternatives. Our unified network storage offering is deployed as storage operating system software on our NAS and our storage area network (SAN) hardware products.

Our IceSTORM™ file management system replaces complex and performance-limited competitive products with high performance, scalable and easy to use systems capable of handling the most data-intensive applications and environments. We believe that our solution delivers three key benefits:

- *Performance - which equals or exceeds all competitive products*
- *Management – which requires less expertise and provides ease of use for overburdened technical staffers*
- *Cost – our solutions typically can be deployed costing far less than those of ours competitors while delivering feature-rich performance with comprehensive, yet easy-to-use management.*

Competitive Landscape

We compete with storage vendors such as NetApp, Inc., EMC, Inc., and many other companies in the markets we serve, including companies that offer a broad spectrum of IT products and services.

With the demand for data storage growing exponentially within all organizations, budgetary and common sense decision making is creating a second tier storage marketplace where our IceWEB data storage products are perceived as compelling data storage solutions. Based upon our review of the market, we believe some customers are searching for alternatives from the high costs and hardware replacement upgrades often required by the larger Tier 1 storage providers, who push expensive upgrades to satisfy to meet their billion dollar revenue growth commitments. Instead, some customers are opting to deploy our products with versatile and feature rich capabilities.

Cloud Computing Products and Services

Cloud Storage Appliances (CSA)

We have focused our engineering and research and development efforts on crafting our products to perform as scalable 'building blocks' for those companies or service providers wishing to rapidly deploy high performance infrastructure to enable delivery of cloud-based services. In September 2009 we introduced a line of devices called "cloud storage appliances" or CSAs. A cloud storage appliance is a purpose built storage device configured for either branch office or central site deployment which allows the housing and delivery of customer data across not only their internal networking infrastructure, but also to make that data available to employees or business partners securely via the Internet, often called the cloud. The CSA line has been built to address concerns within the enterprise marketplace which revolve around hesitation to entrust corporate data to third party providers such as Amazon S3, Mozy, Nirvanix, and others. The CSA line also addresses additional concerns about data access latency and performance.

By implementing our CSA devices, we believe companies can gain all of the benefits of cloud computing, while mitigating the impact of long-term contracts frequently required by vendors, and reducing the potential for security breaches. High performance data transfers are maintained by back-hauling the data and replicating it from remote branch offices across existing wide area network links to the corporate IT infrastructure. We believe an additional benefit derived from the deployment of private or hybrid storage clouds on the CSA products is that companies may not be required to pay per-megabyte or per-gigabyte transfer and storage fees to third party service companies.

Customers

Our products have been sold to customers in the U.S., Canada and Europe across a broad range of industries, including GIS; oil and gas; state, local and federal government; and healthcare. We believe that our customers have a high level of satisfaction with our products and services. During the year ended September 30, 2013 two customers accounted for 40% of our consolidated revenue.

Sales and Marketing

We sell our products via full “channel-based” model and through a direct sales force. In a channel-based sales model, companies with products or services build partnerships with systems integrators, other manufacturers, vertical companies and distributors and leverage the sales resources of those groups to drive sales of products/services. We believe that the value of a channel-based sales model is twofold. First it allows us to grow total sales volume significantly while keeping sales staff, and our general and administrative expenses, low. Rather than building a significant worldwide sales force of our own, this model allows us to build a small channel organization responsible for identification, training and support of partner organizations to ensure their success and productivity. The second value of the channel-based model is that partners bring their own knowledge of key accounts and have relationships already in place which compresses the sales cycle and increases the close ratio on new business, with the goal of generating more sales for our company’s products and services.

We continue to aggressively pursue partner agreements to increase our sales and market exposure and footprint. These partner agreements typically take between three and six months to develop prior to materially increasing sales revenues.

Manufacturing

Historically, our manufacturing has been conducted at our headquarters in Sterling, Virginia. Utilizing chassis from premium manufacturers such as AIC Corporation, Intel, SuperMicro, and others, all systems are built, burned-in, and tested at this facility by our in-house engineering and production staff. We manufacture IceBOX appliances, data storage management platforms. We use best-of-breed, readily available, commercial off-the-shelf products sourced from various resellers and suppliers in our manufacturing process. Subsequent to our acquisition of CTC, we now outsource the manufacture of our IceWEB Storage products to a third party contract manufacturer located in Northern Virginia.

Competition

The market for our storage is highly competitive and likely to become even more competitive in the future. Established companies have historically dominated the storage market, including EMC, Network Appliance, Dell, Hewlett-Packard, Sun Microsystems, Hitachi Data Systems and IBM.

In addition, there is additional competition from smaller companies such as Compellent Technologies and Isilon. In the future, new competitors will emerge as well as increased competition, both domestically and internationally, from other established storage companies. The principal competitive market factors are:

- Industry credibility
- Product scalability, performance and reliability
- Ease of installation and management
- Software functionality
- Total cost of ownership
- Customer support
- Market presence

We believe that we compete effectively across all of these factors. In particular, we believe that our product architecture provides significant competitive advantages in terms of performance, scalability, ease of management and low total cost of ownership. Historically, our OEM partners have provided us with a significant number of reference accounts which address credibility and helps in our marketing efforts to new customers.

Many of the competitors have longer operating histories, better name recognition, larger customer bases and significantly greater financial, technical, sales and marketing resources than we have. Competitors may also be able to devote greater resources to the development, promotion, sale and support of their products. Competitors may also have more extensive customer bases and broader customer relationships than we do, including relationships with potential our customers.

Research and Development

Research and development expenses consist primarily of personnel-related expenses, costs of prototype equipment, costs of using contractors, allocated facility and IT overhead expenses and depreciation of equipment used in research and development activities. We expense research and development costs as incurred. Our research and development expenses were $1,246,060 and $1,046,026, in fiscal 2013 and fiscal 2012, respectively. We anticipate that research and development activity will substantially decline in fiscal 2014 as we focus on selling and marketing our storage products and operate the businesses of CTC.

Intellectual Property

Success in our technological markets depends, in part, upon our ability to obtain and maintain proprietary protection for our products, technology and know-how. This must be accomplished without infringing the proprietary rights of others and while simultaneously preventing others from infringing upon our proprietary rights.

We seek to protect our proprietary positions by, among other methods, filing patent applications. Patent efforts are focused in the United States and, when justified by cost and strategic importance, we plan to file related foreign patent applications in jurisdictions such as the European Union and Japan.

Pending patent applications relate to various software development projects and to the rapid ingestion of massive amounts of video and other data and other network storage concepts. It is unknown if any of the patent applications will issue as patents. The patent applications may be opposed, contested, circumvented, designed around by a third-party, or found to be invalid or unenforceable.

Copyright law, trademarks and trade secret agreements are also used to protect and maintain proprietary positions. Our proprietary information is protected by internal and external controls, including contractual agreements with employees, end-users and channel partners. There is no assurance that these parties will abide by the terms of their agreements.

Trademarks are used on some of our products and these distinctive marks may be an important factor in marketing the products. Inline® and Inline logo trademarks have been registered in the United States.

Our History

We were 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. which we had received.

On March 21, 2002, we executed an Agreement and Plan of Merger with IceWEB Communications, Inc., a Delaware corporation and its security holders. 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. As described later in this section, we sold Seven Corporation in February 2007.

In October 2003, we acquired 19% of the capital stock of IceWEB 5000, 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 security holders 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 security holders 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 $100,000 was paid through the issuance of 100,000 shares of our common stock. We granted Patriot Computer Group, Inc., the seller in the transaction, certain piggyback registration rights for the 100,000 shares of our common stock issued as partial consideration in the transaction. At the time of the acquisition, the purchase price exceeded the fair value of the assets acquired by $390,600 which we treated as goodwill for accounting purposes. From the date of acquisition through September 30, 2007 revenues from PatriotNet were approximately $316,000 and represented approximately 6% of our consolidated revenues. On December 1, 2006 we sold PatriotNet to Leros Online, Inc., a third party, for $150,000 in cash and the assumption of $60,000 in liabilities. At September 30, 2007 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 Mr. John Younts, our Vice President of Integrated Power Solutions and a key employee, for the assumption of approximately $180,000 in liabilities and the payment of $12,000 we owed him. For the fiscal year ended September 30, 2006, revenues for Integrated Power Solutions were approximately $457,000, or approximately, 9.5%, of our total sales.

On November 15, 2006, we acquired certain of the assets of True North Solutions related to its governmental customer business for $350,000 of which $250,000 was paid in cash and the balance was paid through the delivery of a $100,000 principal amount promissory note secured by collateral pledge of the assets, payable immediately upon accomplishment of the novation of the GSA Schedule. Under the terms of the agreement, we acquired the customers, forecast, contract renewals, and GSA schedule of True North Solutions. We permitted True North Solutions to use the purchased assets until December 31, 2006 pursuant to which we acted as the seller's subcontractor until the novation of the GSA Schedule was complete. The novation of the GSA schedule was completed in March, 2008.

On February 16, 2007 we sold 100% of the outstanding stock of our subsidiary, The Seven Corporation of Virginia, Inc., to PC NET in exchange for the waiver of approximately $11,000 we owed PC NET. Under the terms of the agreement we may not engage in any staffing services businesses as The Seven Corporation had conducted for a period of at least two years. For the fiscal year ended September 30, 2006 revenues from The Seven Corporation were $360,000 or approximately 7.5%, of our total sales.

On December 22, 2007, we acquired 100% of the outstanding stock of Inline Corporation for $2,412,731 in cash, plus 503,356 shares of our common stock valued at $276,846, the fair market value on the date of acquisition. The acquisition was accounted for using the purchase method of accounting.

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

On October 1, we acquired 100% of the outstanding stock of Computers and Tele-Comm., Inc., a Missouri corporation ("CTCI"), and its wholly owned subsidiary, KC NAP, LLC ("KC NAP") in exchange for 9,568,400 shares. Concurrently, and as part of the share exchange agreement, the Company issued shares to retire an outstanding debt owing by CTCI to Streamside Partners, LLC, which totaled $155,000, and other debts of CTCI totaling $267,823, in exchange for 13,485,799 shares of our $0.001 par value common stock (such transactions taken together are sometimes referred to herein as the "Share Exchange"). As a result of the Share Exchange, we are now the holding company of CTCI and we now operate a company in the business of operating data centers and providing Information Technology ("IT") services. The acquisition was accounted for using the purchase method of accounting.

EMPLOYEES

At January 13, 2014 we had 13 full-time employees, including our executive officers. None of our employees are covered by collective bargaining agreements, and we believe our relationships with our employees to be good.

ITEM 1A. 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 annual report before deciding to invest in our common stock. If any of the following risks and uncertainties were to develop 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.

RISKS RELATED TO OUR COMPANY

WE HAVE AN ACCUMULATED DEFICIT AND MAY HAVE CONTINUING LOSSES THAT WOULD RESULT IN SIGNIFICANT LIQUIDITY AND CASH FLOW PROBLEMS ABSENT MATERIAL INCREASES IN REVENUES.

We had an accumulated deficit of approximately $47.9 million at September 30, 2013. For the years ended September 30, 2013 and 2012, we had a net loss of approximately $7.1 million and approximately $6.485 million, respectively. In fiscal year 2013, cash used in operations was approximately $2.7 million. The report of our independent registered public accounting firm on our consolidated financial statements for the fiscal year ended September 30, 2013 contains a qualification expressing substantial doubt as to our ability to continue as a going concern as a result of net losses and cash used in operations. We cannot assure prospective investors that sales will increase in future periods, nor can we assure prospective investors that they will not further decrease. We expect to potentially make significant expenditures related to the development of the business, potentially including hiring additional personnel relating to sales and marketing, customer service and support and technology development. As a result of these increased expenditures, we will be required to generate and sustain increased revenue to achieve profitability. As long as cash flow from operations remains insufficient to fund operations, we will continue depleting cash and other financial resources. Our failure to achieve profitable operations in future periods will adversely affect our ability to continue as a going concern. In this event, prospective investors could lose all of their investment in our company.

OUR SALES HAVE DECLINED SUBSTANTIALLY FROM PRIOR PERIODS AND THERE ARE NO ASSURANCES OUR SALES WILL RETURN TO HISTORIC LEVELS.

Due to the untimely passing of our Chief Executive Officer in May, 2012, we experienced a significant decrease in sales momentum as customers, vendors, and partners put their purchasing decisions on hold until we could reassure them that we were going to be able to provide them with products and services and were able to continue our operations. We cannot assure you that our operations will achieve the level of historic sales in future periods.

WE HAVE ENTERED INTO A LOAN ARRANGEMENT WITH A COMPANY CONTROLLED BY OUR INDEPENDENT DIRECTORS WHICH COULD CAUSE A CONFLICT OF INTEREST.

In November 2012 we entered into a Loan Agreement with IWEB Growth Fund, LLC, a company which was recently established by Messrs. Compton, Bush, Carosi, Pirtle and Stavish and General Soyster, our independent directors. Under the terms of the Loan Agreement, IWEB Growth Fund agreed to make one or more loans to us up to the total principal amount of $1.5 million and as of the date hereof we have borrowed $186,000 from it under one year 12% secured notes. Under the terms of these loans, we granted IWEB Growth Fund a second position security interest in all of our assets and executed a confession of judgment. Any additional amounts to be lent to us under this master agreement are at the discretion of the lender and there are no assurances any additional funds will be available to us. In addition, there are no assurances that the terms of these loans are as favorable to us as we might have received from unrelated third parties. Lastly, should we fail to pay these obligations when due, the lender could seek to foreclose on our assets or otherwise obtain a judgment against us. As the principals of the lender are members of our Board of Directors, there are no assurances that these potential conflicts of interests will be settled in a manner favorable to the Company.

WE MAY NEED ADDITIONAL FINANCING WHICH IT MAY NOT BE ABLE TO OBTAIN ON ACCEPTABLE TERMS, IF AT ALL. IF WE CANNOT RAISE ADDITIONAL CAPITAL AS NEEDED, OUR ABILITY TO EXECUTE OUR GROWTH STRATEGY AND TO FUND OUR ONGOING OPERATIONS MAY 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 ongoing operations and to pay existing obligations, but capital is also necessary if we wish to acquire additional assets or companies and for the effective integration, operation and expansion of these businesses. Future capital requirements, however, depend on a number of factors, including the ability to internally grow revenues, manage the business and control expenses. At September 30, 2013, we had a working capital deficit of $693,307 as compared to a working capital deficit of $2,904,559 at September 30, 2012. We may need to raise additional capital to fund ongoing operations, pay existing obligations and fund future growth. There are no assurances that additional working capital will be available in the future upon terms acceptable to us. If we do not raise funds as needed, our ability to provide for current working capital needs, make additional acquisitions, grow the company, and continue our existing business and operations may be in jeopardy. In this event, prospective investors could lose all of their investment in our company.

THE LOSS OF KEY SENIOR MANAGEMENT PERSONNEL, INCLUDING THE RECENT DEATH OF OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER, COULD NEGATIVELY AFFECT OUR BUSINESS.

In May 2012, our Chairman and Chief Executive Officer, John R. Signorello, passed away. Hal Compton, Sr., a member of the board of directors, assumed the role as interim Chief Executive Officer, and Mark Lucky, our Chief Financial Officer, served as interim Chief Operating Officer. In July 2012 until January 14, 2014 Mr. Robert Howe III joined our company as Chief Executive Officer. Without Mr. Signorello’s participation in our company’s business and operations, we could experience negative impacts to our business, future operating profits and results of operations. In addition, we depend upon our senior management and other key personnel, including Messrs. Howe and Lucky. The loss of these individuals or any of our other current or future executive officers or key employees could harm our business, future operating prospects and results of operations. Additionally, we do not currently maintain “key person” life insurance policies on the lives of any of our executive officers. This lack of insurance means that we may not receive adequate compensation for the loss of services of these individuals.

WE RELY ON VALUE-ADDED RESELLERS AND OTHER DISTRIBUTION PARTNERS TO SELL OF OUR PRODUCTS. FAILURE TO DEVELOP AND MANAGE, OR DISRUPTIONS TO, OUR DISTRIBUTION CHANNELS WOULD ADVERSELY AFFECT OUR BUSINESS.

Our ability to maintain or increase revenue will depend in part on our ability to maintain arrangements with existing resellers and other distribution partners, which we refer to as “channel partners,” and to establish and expand arrangements with new channel partners. If we fail to do so, future revenue could be harmed. Additionally, by relying on channel partners, we have less contact with the ultimate users of our products, which may make it difficult for us to establish and increase brand awareness, ensure proper delivery and installation of our products, service ongoing customer requirements and respond to evolving customer needs.

Recruiting and retaining qualified channel partners and training them in our technology and product offerings requires significant time and resources. In order to develop and expand distribution channels, we must continue to scale and improve the processes and procedures that support these channels, including investment in systems and training. Those processes and procedures may become increasingly complex and difficult to manage as we expand our organization.

We have no minimum purchase commitments from any channel partners, and contracts with these channel partners do not prohibit them from offering products or services that compete with ours. Competitors may provide incentives to existing and potential channel partners to favor their products. Channel partners may choose not to offer our products exclusively or at all. Establishing relationships with channel partners who have a history of selling competitors' products may also prove to be difficult. Failure to establish and maintain successful relationships with channel partners would seriously harm our business and operating results.

WE RECEIVE A SUBSTANTIAL PORTION OF REVENUE FROM A LIMITED NUMBER OF CUSTOMERS AND CHANNEL PARTNERS, AND THE LOSS OF, OR A SIGNIFICANT REDUCTION IN, ORDERS FROM ONE OR MORE OF OUR MAJOR CUSTOMERS WOULD HARM OUR BUSINESS.

Our future success is highly dependent upon establishing and successfully maintaining relationships with a large number of channel partners. We market and sell our IceWEB unified data storage products through an all-channel assisted sales model and we derive substantially all of our revenue from these channel partners. We receive a substantial portion of revenue from a limited number of channel partners. We anticipate that we will continue to receive a significant portion of revenue from a limited number of channel partners for the foreseeable future and, in some cases, a portion of revenue attributable to individual channel partners may increase in the future. The loss of one or more key channel partners or a reduction in sales through any major channel partner could harm our business.

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

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, 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, 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 protocols. Accordingly, changes to Microsoft application protocols such as to accelerate storage performance or reduce storage costs may reduce the need for our products, adversely affecting our business, operating results and financial condition. Changes in other application protocols or in the Transmission Control Protocol, the set of rules used to send data in the form of message units between computers over the Internet, could have a similar effect.

IF WE ARE UNABLE TO CONTINUE TO CREATE ATTRACTIVE INNOVATIONS IN SOFTWARE AND HARDWARE, WE MAY NOT BE ABLE TO GENERATE HIGH-MARGIN REVENUE THAT WILL ENABLE US TO MAINTAIN OR INCREASE GROSS PROFITS, WHICH COULD ADVERSELY AFFECT OUR BUSINESS.

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 gross profits, we will need to continue to create attractive software that is included with network storage systems and/or sold separately as licensed software applications. 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 overall gross margin. If we are unable to successfully develop or acquire and then market and sell additional software and hardware functionality, our business could be adversely affected.

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 PRODUCT SALES AND REVENUE.

After our products are deployed within our customers’ networks, customers depend on our support services organization to resolve issues relating to our products and how they perform within the customer’s environment. High-quality support services are 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 customers in deploying products, it would adversely affect our ability to sell products to existing customers and could harm prospects with potential customers. As a result, failure to maintain high-quality support services could reduce 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 CUSTOMERS, HARM TO ICEWEB’S REPUTATION AND/OR 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 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 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 the unavailability, loss or corruption of a customer’s data, 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 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 our company 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, product sales and revenue could be reduced.

MANAGEMENT MAY BE UNABLE TO EFFECTIVELY INTEGRATE ACQUISITIONS AND TO MANAGE GROWTH AND ICEWEB 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 the businesses and the business of the acquired companies or assets, and to effectively manage continued growth. There can be no assurance that efforts to integrate the operations of any acquired assets or companies acquired in the future will be successful, that we can manage 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 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 integration efforts, either of which could have a material adverse effect on operating results.

ECONOMIC CONDITIONS AND WORLD EVENTS COULD AFFECT OUR COMPANY'S OPERATING RESULTS.

We and our customers could be adversely affected by an economic downturn such as changes in consumer and investor confidence, instability in the credit and financial markets, volatile corporate profits, and reduced business and consumer spending. The economy as a whole also may be affected by future world events such as acts of terrorism, developments in the war on terrorism, conflicts in international situations, and by natural disasters. These factors may affect our results of operations by reducing sales, gross profits and/or net income as a result of a slowdown in customer orders or order cancellations. In addition, political and social turmoil related to international conflicts and terrorist acts may put further pressure on economic conditions abroad. Unstable political, social and economic conditions may make it difficult for our company, our customers, and our suppliers to accurately forecast and plan future business activities. If such conditions persist, our business, financial condition, results of operations and cash flow could be negatively affected.

THE CONDITION OF THE U.S. AND GLOBAL FINANCIAL MARKETS HAS BEEN VOLATILE AND MAY CONTINUE TO BE VOLATILE.

Prospective investors should be aware that the U.S. and global financial markets are currently quite volatile and that the condition of the financial markets has become significantly weakened and destabilized in the past few years. Continued volatility and instability could adversely affect our ability to finance our business. Further, financial market instability could result in significant regulatory changes that would have an unpredictable effect on the financial markets in general.

OUR BUSINESS HAS INHERENT OPERATIONAL RISKS THAT CANNOT BE ADEQUATELY COVERED BY INSURANCE OR INDEMNITY.

We may face unanticipated risks of legal liability for damages caused by the actual or alleged failure of technologies and products that it supplies. We sell products to a variety of large entities, and because of our size, we have limited ability to negotiate favorable commercial terms in our product purchase/sale documentation. While we have attempted to secure appropriate insurance coverage at reasonable cost it is not possible to insure against all risks inherent in the markets we serve, nor can we assure investors that our insurers will pay a particular claim, or that we will be able to maintain coverage at reasonable rates in the future. Substantial claims resulting from a failure of a product to perform in excess of or not otherwise covered by indemnity or insurance could harm our financial condition and operating results. Insurance policies also contain deductibles, limitations and exclusions which increase our costs in the event of a claim.

WE MAY HAVE DIFFICULTY SCALING PRODUCTION TO LARGE VOLUMES. IF WE ARE UNABLE TO MEET DEMAND OR TO EFFICIENTLY INCREASE PRODUCTION, CUSTOMERS MAY TURN TO PRODUCTS OFFERED BY COMPETITORS AND OUR OPERATING RESULTS COULD BE ADVERSELY AFFECTED.

We may have difficulty dealing with rapid growth. If demand for products increases rapidly, we may need to expand internal production capacity or implement outsourcing. Success in developing, manufacturing and supporting products manufactured in small volumes does not assure comparable success in operations conducted on a larger scale. It may be necessary to expand capacity beyond existing space, personnel and equipment and we may be unable to do so. Modifying our facilities and operations to increase production capacity may delay delivery of products. Manufacturing efficiencies, yields and product quality may decline as production volumes increase. In addition, component costs, overhead and other production costs may rise. If we are unable to meet the demand of customers and deliver quality products quickly and cost effectively, customers may turn to our competitors. The costs associated with implementing new manufacturing technologies, methods and processes, including the purchase of new equipment, and any resulting delays, inefficiencies and loss of sales could harm results of operations.

OUR SUCCESS AND COMPETITIVE POSITION DEPENDS ON OUR ABILITY TO OBTAIN AND PROTECT INTELLECTUAL PROPERTY. FAILURE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS WOULD IMPAIR OUR ABILITY TO COMPETE EFFECTIVELY AND DEFEND AGAINST THIRD PARTY CLAIMS THAT WE ARE INFRINGING ON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS.

We maintain our proprietary technology and know-how as trade secrets as well as through the use of patents. Some of our proprietary technology may be covered by provisional patents. Our policy is to use confidentiality agreements, licensing agreements and similar arrangements to establish and protect intellectual property. For example, our policy is to maintain confidentiality agreements with our employees, consultants, vendors and business partners and this has controlled access to, and distribution of its product design documentation and other proprietary information. We intend to continue to protect existing and new processes and technologies that are developed as trade secrets but may not be able to do so. We hold or have filed patents related to several of our products and technology, however there is no guarantee that we will be able to enforce these patents or that the applications will be issued as patents. Failure to protect our intellectual property could affect our ability to secure additional contracts or preserve market advantages as we develop and commercialize our products.

Our efforts to protect our intellectual property rights may not:

- prevent challenges to, or the invalidation or circumvention of, existing intellectual property rights;
- prevent competitors from independently developing similar products or duplicating our products;
- provide adequate protection for intellectual property rights;
- prevent disputes with third parties regarding ownership of our intellectual property rights;
- prevent disclosure of trade secrets and know-how to third parties or their release into the public domain; or
- prevent our company from being subject to claims of infringement of the intellectual property rights of third-parties.

Others may attempt to copy or otherwise obtain and use our proprietary technologies without consent. Monitoring the unauthorized use of technologies is difficult. There is a significant risk that customers or their end-user customers may attempt to copy or otherwise obtain and use our proprietary technologies without our consent.

We may find it necessary to litigate against others, including customers, to protect our intellectual property and to challenge the validity and scope of the proprietary rights asserted by others, and the company could face counterclaims. Legal disputes with customers could adversely affect relationships and sales. Litigation is inherently uncertain, and an adverse outcome could subject us to significant liability for damages or invalidate our proprietary rights. The complexity of the technology involved and inherent uncertainty and cost of intellectual property litigation increases our risks.

Third parties may claim that we are infringing on their intellectual property rights, and we may already be unknowingly infringing. We may face additional liability if we agree to indemnify customers against third party infringement claims. If a third party establishes that we are infringing upon their intellectual property rights, we may be forced to modify products or manufacturing processes and such changes may be expensive or impractical. We may be forced to seek royalty or license agreements. If we are unable to agree on acceptable terms, we may be required to discontinue products or to halt other aspects of our operations. We may also be liable for significant damages. Even if intellectual property claims brought against us are without merit, the litigation may be costly and time consuming, and may divert management and key personnel from normal business operations.

OUR EFFORTS TO PROTECT OUR INTELLECTUAL PROPERTY MAY BE LESS EFFECTIVE IN SOME FOREIGN COUNTRIES WHERE INTELLECTUAL PROPERTY RIGHTS MAY NOT BE AS STRONG AS IN THE UNITED STATES.

We have not obtained and may not obtain patent or similar protection for our proprietary technologies or registration for our trademarks in foreign countries, which may impair our ability to use or protect our technology and brand in foreign jurisdictions. The laws of some foreign countries, including countries in which we have sold and/or plan to sell products, protect proprietary rights less broadly than do the laws of the United States. Many U.S. companies have encountered substantial problems in protecting their proprietary rights in such countries, and there is a risk that we may encounter similar problems. If our competitors in these countries copy our technology without our permission, our sales and operations may be harmed.

WE HAVE BEEN ENGAGED IN VARIOUS LEGAL DISPUTES WHICH COULD IMPACT OUR COMPANY AND OUR SUPPLIER RELATIONSHIPS.

We are currently engaged in four legal proceedings. These legal proceedings relate to non-payment of vendors. Claims relating to these proceedings currently total approximately between $50,000 and $100,000. These and/or the remaining and/or future potential legal proceedings could impact our financial position and/or our relationships with customers, vendors, suppliers, distributors and/or other parties.

RISKS RELATING TO ICEWEB'S COMMON STOCK

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 13, 2014 we had outstanding:

- 473,460,779 shares of our common stock,
- 626,667 shares of Series B Convertible Preferred Stock owned by the estate of our former Chief Executive Officer which is convertible into 626,667 shares of our common stock,
- common stock purchase warrants to purchase a total of 102,820,275 shares of our common stock with exercise prices ranging from $0.028 to $0.15 per share, and
- Stock options granted under our 2012 Equity Compensation Plan and our 2013 Equity Compensation Plan which are exercisable into 3,417,970 shares of our common stock with a weighted average exercise price of $0.086 per share.

The exercise of the outstanding options and warrants or the conversion of the outstanding convertible securities will be dilutive to our security holders.

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 SECURITY HOLDERS.

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 security holders 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, including a provisions stipulating 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 security holders.

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 owned by the estate of former CEO and Chairman John R. Signorello. 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.

PUBLIC COMPANY COMPLIANCE MAY MAKE IT MORE DIFFICULT TO ATTRACT AND RETAIN OFFICERS AND DIRECTORS.

The Sarbanes-Oxley Act of 2002, the Dodd-Frank Act and rules subsequently implemented by the Commission have required changes in corporate governance practices of public companies. As a public company, we expect these rules and regulations to continue to increase compliance costs in 2013 and beyond and to make certain activities more time consuming and costly than if we were not a public company. As a public company, we also expect that these rules and regulations may make it more difficult and expensive to obtain director and officer liability insurance in the future and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult to attract and retain qualified persons to serve on our board of directors or as executive officers.

OUR STOCK PRICE MAY BE VOLATILE IN RESPONSE TO MARKET AND OTHER FACTORS.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- competitive pricing pressures;
- ability to obtain working capital financing;
- additions or departures of key personnel;
- limited public float in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;
- sales of common stock
- ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- regulatory or legal developments;
- economic and other external factors; and
- period-to-period fluctuations in our financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

OUR COMMON STOCK IS A “PENNY STOCK,” WHICH WILL MAKE IT MORE DIFFICULT FOR INVESTORS TO SELL THEIR SHARES.

Our common stock is presently subject to the “penny stock” rules adopted under Section 15(g) of the Securities Exchange Act of 1934. The penny stock rules apply to companies whose common stock is not listed on a national securities exchange and trades at less than $5.00 per share or that have tangible net worth of less than $2,500,000, or $2,000,000 if the company has been operating for three or more years. In certain instances, these rules require, among other things, that brokers who trade penny stock to persons other than “established customers” complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. In addition, many brokers and broker-dealers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If we continue to remain subject to the penny stock rules, it could have an adverse effect on the market, if any, for our common stock, and investors will find it more difficult to dispose of their securities.

OFFERS OR AVAILABILITY FOR SALE OF A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK MAY CAUSE THE PRICE OF OUR COMMON STOCK TO DECLINE.

If security holders sell substantial amounts of our common stock in the public market, or upon the expiration of any statutory holding period, under Rule 144, or expiration of lock-up periods applicable to outstanding shares, or issued upon the exercise of outstanding options or warrants, it could create a circumstance commonly referred to as an "overhang" and in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make it more difficult to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

OUR COMMON STOCK MAY BE SUBJECT TO FURTHER DILUTION IF WE SELL ADDITIONAL SHARES OF OUR COMMON STOCK IN THE FUTURE AT PRICES BELOW THE PRICES IN ITS RECENT PRIVATE OFFERINGS.

If it becomes necessary for us to issue additional shares of common stock in the future at prices below the prices that trigger the anti-dilution protections in connection with previous private offerings, we will be required to issue such additional shares and lower the warrant exercise price of the existing warrants, in order to account for the dilutive impact of such future issuances. The anti-dilutive protections are known as "full-ratchet" protections, meaning that the additional shares of common stock to be issued, and the new exercise price of the warrants, will match the lowest price at which we issue additional shares of common stock in the future. These additional shares of common stock, and warrants to purchase additional shares of common stock, if exercised, could result in substantial future dilution to the holders of our common stock. We currently have warrants outstanding to purchase 36,088,554 shares of common stock which contain "full-ratchet" protections.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable to a smaller reporting company.

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ITEM 2. PROPERTIES.

In February 2009, we entered into a two year lease for approximately 6,978 square feet of office space in which our principal executive offices are located for annual base rental of approximately $74,400. We terminated our tenancy at this location on October 31, 2013. Our Corporate offices have been moved to Kansas City, Missouri. We currently have real estate leases at two locations, totaling 6,875 square feet. These operating leases are standard commercial leases.

ITEM 3. LEGAL PROCEEDINGS.

At September 30, 2013 we are the subject of, or party to, four known, pending or threatened, legal actions. Following is a discussion of each:

1. We were named as the defendant in a legal proceeding brought by Wolfe Axelrod Weinberger Associates, LLC (the plaintiff) in the Circuit Court of Fairfax County, Virginia (Case # 2013-4070). The plaintiff asserts that IceWEB failed to pay the full amount owed for investor relations services.

2. We were named as the defendant in a legal proceeding brought by i-Cubed Information LLC (the plaintiff) in the General District Court of Fairfax County, Virginia (Case #GV12-019582-00). The plaintiff asserts that Iceweb failed to pay for delivery of services provided by plaintiff.

3. We were named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) in the Circuit Court of Fairfax County, Virginia (Case # CL2010-7512). The plaintiff asserts that Iceweb failed to pay for delivery of services provided by plaintiff.

4. We were named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) in the General District Court of Fairfax County, Virginia (Case #GV10-023543-00). The plaintiff asserts that Iceweb failed to pay for delivery of services provided by plaintiff.

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

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable to our operations.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is quoted on the OTCBB under the symbol IWEB. The reported high and low closing prices for the common stock as reported on the OTCBB 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
Fiscal 2012		
First quarter ended December 31, 2011	$ 0.195	$ 0.010
Second quarter ended March 31, 2012	$ 0.1847	$ 0.106
Third quarter ended June 30, 2012	$ 0.181	$ 0.107
Fourth quarter ended September 30, 2012	$ 0.1399	$ 0.050
Fiscal 2013		
First quarter ended December 31, 2012	$ 0.0825	$ 0.0570
Second quarter ended March 31, 2013	$ 0.0640	$ 0.0320
Third quarter ended June 30, 2013	$ 0.0421	$ 0.0227
Fourth quarter ended September 30, 2013	$ 0.0389	$ 0.0225

As of January 13, 2014 the last sale price of our common shares as reported on the OTC Bulletin Board was $0.0135 per share. As of January 13, 2014, there were approximately 5,200 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 any 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.

We do not anticipate that any cash dividends will be declared or paid on our common stock in the foreseeable future.

Recent Sales of Unregistered Securities

Fiscal 2013 Transactions

In November, 2012 we issued 918,919 shares at a share price of $0.074/share to our executive officers and recognized stock based compensation expense of $68,000. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In December, 2012, we issued 112,000 shares of common stock at a per share price of $0.074, valued at $8,228 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In December, 2012, we sold 500,000 shares of common stock at a per share price of $0.074, valued at $37,000 to an accredited investor. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In January, 2013 we issued 216,216 shares at a share price of $0.074/share to our executive officers and recognized stock based compensation expense of $16,000. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In January, 2013 we sold 500,000 shares of common stock at a per share price of $0.074, valued at $37,000 to an accredited investor. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In January, 2013, we issued 112,000 shares of common stock at a per share price of $0.074, valued at $8,228 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In February, 2013, we issued 175,000 shares of common stock at a per share price of $0.074, valued at $12,950 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In February, 2013 we issued 1,950,000 shares of common stock at a per share price of $0.0396, valued at $77,300 to two accredited investors for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In February, 2013, we issued 112,000 shares of common stock at a per share price of $0.039, valued at $4,368 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In March, 2013, we issued 5,000,000 shares of common stock at a per share price of $0.04, valued at $200,000 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In March, 2013 we sold 1,200,000 shares of common stock at a per share price of $0.021, valued at $25,000 to an accredited investor. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In April, 2013 we issued 8,000,000 shares at a share price of $0.033/share to our executive officers and employees and recognized stock based compensation expense of $264,000. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In April, 2013 we issued 6,750,000 shares at a price of $0.075/share valued at $506,250 as a partial conversion of principal and interest due under a convertible debenture. The recipient was an accredited investor and the issuance was exempt from registration under the Section Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In April, 2013, we issued 2,250,000 shares of common stock at a per share price of $0.0305, valued at $68,675 to two accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In April, 2013, we sold 2,500,000 shares of common stock at a per share price of $0.021, valued at $50,000 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In May, 2013, we issued 224,000 shares of common stock at a per share price of $0.028, valued at $6,272 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In June, 2013, we issued 708,333 shares of common stock at a per share price of $0.0254, valued at $18,008 to two accredited investors for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In July, 2013 we issued 6,000,000 shares at a share price of $0.0236/share to our executive officers and employees and recognized stock based compensation expense of $141,600. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In July, 2013, we issued 2,000,000 shares of common stock at a per share price of $0.0236, valued at $47,200 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In August, 2013, we issued 37,000,000 shares of our common stock in full satisfaction of $1,642,739 of principal and interest due under a convertible debenture. The recipient was an accredited investor and the issuance was exempt from registration under the Section Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

In September, 2013, we issued 5,000,000 shares of common stock at a per share price of $0.03, valued at $150,000 to an accredited investor for services rendered. The issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable for a smaller reporting company.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements and notes thereto. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs and are subject to a number of known and unknown risks and external factors that in addition to general, economic, competitive and other business conditions, could cause actual results, performance and achievements to differ materially from those described or implied in the forward-looking statements, as more fully discussed below and elsewhere in this filing.

OVERVIEW

IceWEB is a provider of high performance unified data storage solutions. Our storage systems make it possible to run and manage files and applications from a single device and consolidate file-based and block-based access in a single storage platform which supports Fibre Channel SAN, IP-based SAN (iSCSI), and NAS.

A unified storage system simultaneously enables storage of file data and handles the block-based I/O (input/output) of enterprise applications. One advantage of unified storage is reduced hardware requirements. Instead of separate storage platforms, like NAS for file-based storage and a RAID 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**.** Whether it's Microsoft Exchange, SQL Server or Oracle databases, virtualized environments, scanned images, files, video, pictures, graphics, or voice data, IceWEB maximizes the efficiency of storage by centralizing all data on one platform secured with strong data protection capabilities.

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.

With our acquisition of Computers & Telecom, Inc. and KCNAP, LLC, (collectively "CTC") in October 2013, IceWEB now provides wireless and fiber broadband service, co-location space and related services and operate a Network Access Point ("NAP") where customers directly interconnect with a network ecosystem of partners and customers. This access to Internet routes provides CTC customers improved reliability and streamlined connectivity while significantly reducing costs by reaching a critical mass of networks within a centralized physical location. In addition, through our IceWEB Storage Corporation subsidiary we deliver on-line cloud computing application services, and manufacture and market cloud-attached and network storage.

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

We leverage our NAP which allows our customers to increase information and application delivery performance while significantly reducing costs. Our platform enables scalable, reliable and cost-effective co-location, interconnection and traffic exchange thus lowering overall cost and increasing flexibility.

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

As described elsewhere herein, we experienced a significant drop in our sales following the death of our Chief Executive Officer in May 2012. Mr. Signorello was the founder of our company and the primary point of contact for many of our customers, vendors and partners. As a result of Mr. Signorello's passing, many of our customers delayed making their buying decisions until there was greater certainty about our continuing prospects. We anticipate revenues for fiscal 2014 will increase as a result of the acquisition of CTC in October, 2013 and the introduction of new products and services, including sales of our unified network storage solutions, the launch of additional cloud services offerings and other data storage products sold through our resellers and OEM partners. There are no assurances, however, that our revenues will return to historic levels.

Results of Operations

FISCAL YEAR 2013 AS COMPARED TO FISCAL YEAR 2012

The following table provides an overview of certain key factors of our results of operations for fiscal year 2013 as compared to fiscal year 2012:

	Fiscal Year ended September 30, 2013	2012	$ Change	% Change
Net Revenues	$ 977,368	$ 2,640,520	$ (1,663,152)	(63.0)%
Cost of sales	555,228	1,780,246	(1,225,018)	(68.8)%
Operating Expenses:				
Sales and marketing	841,625	1,116,340	(274,715)	(24.6)%
Depreciation	215,237	202,130	13,107	6.5 %
Research and development	1,246,060	1,046,026	(200,033)	(19.1)%
General and administrative	5,283,363	2,722,048	2,561,315	94.1%
Total operating expenses	7,586,285	5,086,545	2,499,740	49.1 %
Loss from operation	(7,164,145)	(4,226,271)	(2,937,874)	69.5 %
Total other income (expense)	55,326	(2,258,777)	2,314,103	(102.4)%
Net loss	$ (7,108,819)	$ (6,485,048)	$ 623,771	9.6%

Other Key Indicators:

	Fiscal 2013	Fiscal 2012
Cost of sales as a percentage of sales	56.81%	67.42%
Gross profit margin	43.19%	32.58%
	86.11%	42.28%

Sales and marking expense as a percentage of sales		
General and administrative expenses as a percentage of sales	540.57%	103.09%
Total operating expenses as a percentage of sales	776.20%	192.63%

Sales

The decrease in fiscal 2013 net sales from fiscal 2012 is primarily due to the impact of economic uncertainty on our customers' budgets and IT spending capacity, as well as the uncertainty caused by the untimely passing of John Signorello, our Chief Executive Officer, in May, 2012.

Cost of Sales and Gross Profit

Our cost of sales consists primarily of products purchased to manufacture our storage products. The decrease in costs of sales as a percentage of sales and the corresponding increase in our gross profit margin for fiscal 2013 as compared to fiscal 2012 was the result of a decrease in the cost of certain components that go into our systems in fiscal 2013. We anticipate that our cost of sales as a percentage of revenue will remain in the 55% to 60% range in fiscal 2014, as we introduce new higher margin products and solutions to augment our storage business.

Total Operating Expenses

Our total operating expenses increased approximately 49% for fiscal 2013 as compared to fiscal 2012. The increase is primarily due to increased merger and acquisition activity and the related consulting expense. The changes include:

- *Sales and Marketing*. Sales and marketing expense includes salaries, commission, occupancy, telephone, travel, and entertainment expenses for direct and indirect sales personnel. For the fiscal year 2013, sales and marketing decreased approximately 25% from fiscal year 2012. The decrease was due primarily to decreased sales and marketing headcount during fiscal 2013.

- *Depreciation expense*. For fiscal 2013, depreciation expense increased approximately 6.5% from fiscal 2012.

- *Research and development expense.* For fiscal 2013, research and development expenses increased approximately 19% from fiscal 2012. This increase is related to research and development efforts related to our storage products.

- *General and administrative expense*. For fiscal 2013, general and administrative expenses increased approximately 94% from fiscal 2012. This increase is primarily attributable to higher consulting expense related to our mergers and acquisition activity, and higher stock based compensation for our employees and consultants. For fiscal 2013 and 2012, general and administrative expenses consisted of the following:

		Fiscal 2013		**Fiscal 2012**
Occupancy	$	33,144	$	37,311
Consulting		1,712,926		76,730
Employee compensation		2,106,373		874,719
Professional fees		238,480		452,904
Internet/Phone		9,672		7,916
Travel/Entertainment		37,603		46,493
Investor Relations		737,323		978,332
Insurance		22,259		18,727
Other		385,583		228,915
	$	5,283,363	$	2,722,047

The principal changes in fiscal 2013 as compared to fiscal 2012 include:

- For fiscal 2013, occupancy expense decreased approximately 11.2% from fiscal 2012.

- For fiscal 2013, employee compensation and related taxes and benefits increased $1,231,654, or approximately 141% from fiscal 2012. The increase was primarily attributable to a decrease in salary expense of $120,124, offset by an increase 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 2013 of $1,351,778, an increase of 677%.

- For fiscal 2013, professional fees decreased $214,424, or approximately 47.3% from fiscal 2012. The decrease was primarily attributable to a decrease in legal fees incurred and the settlement of lawsuits against us in fiscal 2013 versus 2012.

- For fiscal 2013, other expense increased approximately $156,668 or 68.4% from fiscal 2012. The increase is primarily due to an increase in bad debt expense of $114,918.

- For fiscal 2013, consulting expense increased by approximately 2,132% from fiscal 2012. The increase was primarily due to non-recurring stock-based consulting fees related to merger and acquisition activity in fiscal 2013.

- For fiscal 2013, internet and telephone expense increased approximately 22.2%. The increase was attributable to non-recurring costs incurred during the fiscal 2013.

- For fiscal 2013, investor relations expense decreased $241,009, or approximately 25% from fiscal 2012. We expect that in fiscal 2014 our investor relations activity and related expense should experience a decrease from fiscal 2013.

- For fiscal 2013, travel and entertainment expense decreased approximately 19.1%. The decrease was attributable to a decrease in general business travel-related activity.

- For fiscal 2013, insurance expense increased approximately 18.9% from fiscal 2012. The increase was attributable to higher premiums paid for general business and directors and officer’s insurance.

LOSS FROM OPERATIONS

Our loss from operations increased approximately $2,937,874, or 69% in fiscal year 2013 as compared to fiscal year 2012.

TOTAL OTHER INCOME (EXPENSES)

Interest Expense. For fiscal 2013, interest expense decreased approximately 84.5%. The decrease in interest expense is primarily attributable to the lower amortization of loan fees, debt discount, and derivative discount in fiscal 2013, versus fiscal 2012.

Loss on extinguishment of debt. For fiscal 2013 we had a loss on extinguishment of debt related to the payoff of our outstanding convertible debenture payable to Sand Hill Finance, LLC of $481,588.

Gain on change in derivative liability. For fiscal 2013 we had a gain on the change in derivative liability of $987,075, which represents the change in the value of the derivative liability based on the Black-Scholes value of our outstanding variably-priced warrants.

NET LOSS

Our net loss was $7,108,819 for fiscal 2013 compared to $6,485,048 for fiscal 2012, an increase of $623,771 or approximately 10%.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of a company to generate adequate amounts of cash to meet its needs for cash. At September 30, 2013, we had a working capital deficit of $693,307 compared to a working capital deficit of $2,904,559 at September 30, 2012, an improvement of $2,211,252. The decrease in the deficit is primarily attributable to the decrease in the note payable to Sand Hill Finance of $2,059,582, the decrease in derivative liability of $987,075, a non-cash liability, a decrease in accounts payable and accrued liabilities of $174,834, offset by an increase in our related-party notes payable of $186,000. Also contributing was the decrease in accounts receivable of $505,152, and a decrease in inventory of $119,063.

Net cash used in operating activities was $2,700,609 for fiscal 2013 as compared to net cash used in operating activities of $4,067,538 for fiscal 2012, a decrease of $1,366,929. For fiscal 2013, our cash used in operations of $2,700,609 consisted of a net loss of $7,108,819 offset by non-cash items totaling $4,201,005 including items such as depreciation of $215,237, stock based compensation of $969,600, the amortization of deferred compensation of $762,677, the loss on extinguishment of debt OF $481,588, and the issuance of common stock for services of

$2,532,773, offset by the change in fair value of derivative liability of $987,075, and other non-cash items of $226,205. Additionally, during fiscal 2013 we had a decrease in operating liabilities offset by a decrease in operating assets which incremented our net loss. This change in operating assets and liabilities primarily consisted of a decrease in accounts receivable of $505,152, and a decrease in inventory of $119,063, offset by an increase in prepaid expenses of $17,223, a decrease in accounts payable and accrued liabilities of $174,835, a decrease in other assets of $175,551, and a decrease in deferred revenue of $21,901.

For fiscal 2012, our cash used in operations of $4,067,538 consisted of a net loss of $6,485,048 offset by non-cash items totaling $3,386,088 including items such as depreciation and amortization of $202,130, stock based compensation of $310,250, the amortization of deferred compensation of $62,228, shares issued for services of $533,628, interest on the amortization of debt discount of $2,315,337, the change in fair value of derivative liability of $645,501, and other non-cash items of $608,016. Additionally, during fiscal 2012 we had a decrease in operating liabilities and an increase in operating assets which incremented our net loss. This change in operating assets and liabilities primarily consisted of a decrease in accounts receivable of $618,740, and a decrease in prepaid expenses of $10,545, offset by an increase in net inventory of $226,250, a decrease in accounts payable and accrued liabilities of $1,362,562 and an increase in deferred revenue of $19,993.

Net cash used in investing activities for fiscal 2013 was $23,319 as compared to net cash used in investing activities of $482,082 for fiscal 2012. During fiscal 2013 we used cash of $23,319 for property and equipment purchases. During fiscal 2012 we used cash of $449,082 for property and equipment purchases, and $33,000 for the purchase of VOIS common stock.

Net cash provided by financing activities for fiscal 2013 was $2,463,986 as compared to $4,815,094 for fiscal 2012, a decrease of $2,351,109. In fiscal 2013, we received proceeds from the sale of convertible notes of $168,000, proceeds from notes payable from a related party of $186,000, proceeds from the conversion of warrants of $53,480, proceeds from the exercise of common stock options of $1,726,360, the proceeds from the sale of common stock of $245,000, and proceeds from note payable of $297,940, offset by payments on notes payable of $212,794.

In fiscal 2012, we received proceeds from the sale of convertible notes of $1,750,000, proceeds from subscriptions receivable of $1,171,520, proceeds from the conversion of warrants of $275,001, proceeds from the exercise of common stock options of $255,717, the proceeds from the sale of common stock of $2,249,860, and proceeds from note payable of $395,233, offset by payments on notes of $406,225, and the payment of deferred financing costs of $876,012.

At September 30, 2013 we had an accumulated deficit of $47,921,946 and the report from our independent registered public accounting firm on our audited financial statements at September 30, 2013 contained an explanatory paragraph regarding doubt as to our ability to continue as a going concern as a result of our net losses in operations. In spite of our sales, there is no assurance that we will be able to maintain or increase our sales in fiscal 2013 or that we will report net income in any future periods.

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

Between November 9, 2012 and July 11, 2013, IWEB Growth Fund lent us an aggregate of $186,000 under the terms of 9 separate Confession of Judgment Promissory Notes. These notes, which are identical in their terms other than the dates and principal amounts, are for a one year term and bear interest at 12% per annum payable at maturity. Embodied in each of the notes is a confession of judgment which means that should we default upon the payment of the note, we have agreed to permit IWEB Growth Fund to enter a judgment against us in the appropriate court in Virginia before filing suit against us for collection of the amounts. Pursuant to the terms of the Loan Agreement, we paid IWEB Growth Fund’s expenses of $1,500 for the preparation of the Loan Agreement and related documents. We are using the net proceeds from these initial loans for general working capital.

Historically, our sales have not been sufficient to fund our operations and we have relied on capital provided through the sale of equity securities, and various financing arrangements and loans from related parties. At September 30, 2013 we had cash on hand of $9,652. In addition to the cash necessary to fund our operating losses, research and development, marketing and general growth, we will need cash to satisfy certain obligations.

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

As long as our cash flow from operations remains insufficient to completely fund operations, we will continue depleting our financial resources and seeking additional capital through equity and/or debt financing. There can be no assurance that acceptable financing can be obtained on suitable terms, if at all. Our ability to continue our existing operations and to fund our working capital needs will suffer if we are unable to raise the additional funds on acceptable terms which will have the effect of adversely affecting our ongoing operations and limiting our ability to increase our sales and maintain profitable operations in the future. If we are unable to secure the necessary additional working capital as needed, we may be forced to curtail some or all of our operations.

Off Balance Sheet Arrangements.

None.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that requires that an entity net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The Company will adopt this guidance effective at the beginning of its 2015 fiscal year. The Company is currently evaluating the impact of this pronouncement on its financial statements.

In February 2013, the FASB issued authoritative guidance that amends the presentation of accumulated other comprehensive income and clarifies how to report the effect of significant reclassifications out of accumulated other comprehensive income. The guidance, which becomes effective for the Company on a prospective basis at the beginning of its 2014 fiscal year, requires footnote disclosures regarding the changes in accumulated other comprehensive income by component and the line items affected in the statements of operations. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In December 2011, the FASB issued updated authoritative guidance to amend the presentation of comprehensive income in financial statements. This new guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Under both alternatives, companies are required to present each component of net income and comprehensive income. The amendment is effective for fiscal years and interim periods beginning on or after December 15, 2011 on a retrospective basis. The adoption of this guidance will not change the previously reported amounts of comprehensive income. The Company has presented other comprehensive income on the face of the condensed consolidated statements of operations for all periods presented. The adoption of this updated authoritative guidance had no effect on our financial condition, results of operations or cash flow.

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

Not applicable to a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

IceWEB, Inc. and Subsidiaries

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

IceWEB, Inc.

We have audited the accompanying consolidated balance sheets of IceWEB, Inc. and Subsidiaries as of September 30, 2013 and 2012 and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for each of the two years in the period ended September 30, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IceWEB, Inc. and Subsidiaries, as of September 30, 2013 and 2012 and the consolidated results of their operations and their cash flows for each of the two years in the period ended September 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company had net losses and net cash used in operating activities of $7,108,819 and $2,700,609, respectively, for the year ended September 30, 2013. The Company also had an accumulated deficit of $47,921,946 at September 30, 2013. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ D'Arelli Pruzansky, P.A.
Certified Public Accountants

Boca Raton, Florida

January 13, 2014

IceWEB, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30, 2013	September 30, 2012
ASSETS:		
CURRENT ASSETS:		
Cash	$ 9,652	$ 269,594
Other receivable	28	-
Accounts receivable	58,140	563,320
Inventory	163,168	282,231
Marketable securities, current	820	72,000

GAMCO ASSET MANAGEMENT INC.

1/29/09	1,397	10.8000
1/28/09	603	11.1638
1/26/09	2,200	11.1000
1/26/09	4,300	11.1000
1/26/09	1,000	11.1100
1/23/09	700	11.0932
1/23/09	300	11.0932
1/21/09	1,000	11.2200
1/20/09	1,000	11.4200
1/20/09	2,000	11.2500
1/12/09	700	13.5236
1/07/09	1,000	13.8700
1/06/09	800	14.0000
1/05/09	100	14.0000
12/31/08	600	14.2316
12/23/08	600	11.0000
12/19/08	1,000	12.0000
12/16/08	2,000	13.8554
12/15/08	100-	14.4000
12/12/08	100-	14.2000
12/09/08	503	12.4000
12/08/08	497	12.6541

TETON ADVISORS, INC.

1/26/09	5,700	11.1000
1/06/09	300	14.4000
12/23/08	310	11.0000
12/08/08	200	10.9750

GABELLI FUNDS, LLC.

GABELLI SMALL CAP GROWTH FUND

1/28/09	2,000	11.1500
1/26/09	2,500	11.1000
1/23/09	400	11.0932
12/30/08	100	12.8800
12/26/08	2,000	13.1500
12/24/08	2,000	12.7485

12/19/08	1,000	12.7754

(1) UNLESS OTHERWISE INDICATED, ALL TRANSACTIONS WERE EFFECTED ON THE NASDAQ GLOBAL MARKET.

(2) PRICE EXCLUDES COMMISSION.

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