ICEWEB INC
Form 10KSB
December 26, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-KSB

(Mark One)

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

For the fiscal year ended September 30, 2007

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

For the transition period from _____ to _____

Commission file number: 0-27865

ICEWEB, INC.

(Name of small business issuer in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-2640971 (I.R.S. Employer Identification No.)
205 Van Buren Street, Suite 150	
Herndon, VA (Address of principal executive offices)	20170 (Zip Code)

Issuer s telephone number: (703) 964-8000

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

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

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

Common stock, par value $0.001 per share

(Title of class)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

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

State issuer s revenues for its most recent fiscal year. $18,732,069 for the 12 months ended September 30, 2007.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within the past 60 days. As of November 15, 2007 the aggregate market value of the common stock held by non-affiliates at the closing price of the registrant s common stock is approximately $8,634,000.

State the number of shares outstanding of each of the issuer s class of common equity. As of December 15, 2007, 14,240,315 shares of common stock are outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 (Securities Act). None.

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

IceWEB, through our Solutions Group, is a rapidly growing provider of computer network security products and services such as access control, wide area network optimization, content filtering, email security, intrusion detection, to the Federal, State, and Local government entities. In addition we are a leading provider of Software-as-a-Service (SaaS) applications.

IceWEB s Solutions Group specializes in network infrastructure security solutions. Through our team of engineers and our partners, including RSA Security, ISS, F5 Networks, Blue Coat, and Cisco, we provide firewall, authentication, PKI, encryption, and traffic filtering products and services to protect network infrastructure. Our customers are primarily Federal, State, and Local government entities. We believe that the combination of our vendor partners/manufacturers, customers, and government contracting vehicles enables our company to be successful in providing the industry s best network security solutions to government clients and those commercial integrators who service the government. We further believe that we can, through IceWEB Solutions group, position, market, and sell our high margin hosted online subscription services to that constituency enabling us to attain a larger subscriber base for those services.

In addition to the Solutions Group, we offer small and medium sized businesses (SMBs) hosted access to enterprise-class applications delivered via the Internet for a reasonable monthly fee. These rapidly growing SaaS offerings include such hosted applications as Microsoft Exchange Server, Sharepoint, BlackBerry Enterprise Server, Good Messaging Server, SPAM and Virus protection, and advanced Email Encryption services. Our current customer base consists of nearly 900 organizations worldwide in both the public and private sectors.

The Company believes that its focus on the large rapidly growing and underserved SMB market will continue to drive significant growth. According to the US Small Business Administration there are approximately 27 million SMBs in the U.S. Most of these companies lack the funds to purchase the necessary hardware and software and the trained staff to maintain it. As these companies are realizing the benefits of Exchange Server and other value added applications and the palatable cost of using a SaaS model, they are migrating to Hosted Microsoft Exchange in large numbers this accelerating growth for the Company.

For the fiscal year ended September 30, 2007 approximately 98% of total sales were generated by our IceWEB Solutions Group s reselling of third-party hardware, software and services, and approximately 2% of our total sales were generated by online products and services.

Pending Acquisition of INLINE Corporation

On December 7, 2007 we entered into a letter of intent to acquire INLINE Corporation. Based within Northern Virginia s high-tech corridor, just outside Washington, DC, INLINE provides government, commercial customers and universities with storage, information management and infrastructure systems specifically engineered to perform within their respective IT environments. Subject to due diligence and board approvals, the closing of the acquisition is expected to occur on or before December 31, 2007.

Market and Trends

The market for network security product and solutions within the Federal government continues to be strong. IceWEB has an experienced staff of sales professionals. In order to continue our growth into the public sector and commercial markets for Information Security and Storage technologies we will need to execute on a well defined sales and marketing plan. We will be calling key decision makers at federal agencies and target commercial accounts to schedule meetings to discuss their spending initiatives for 2008; this activity helps us align our solutions and vendor partners to propose a solution. We will also be utilizing key government information portals to discover requirements; these portals include, Fed Sources, Ebuy/GSA Advantage and Fedbid. We will be partnering with vendors to do targeted agency trade shows where we present solutions in a tradeshow format. Additionally we will be doing monthly email marketing campaigns to our customers and prospects. These email campaigns will feature our products and solutions. We will also be doing call campaigns to discuss featured technologies and solutions.

The market for hosted network applications, also known as both Software as a Service (SaaS) and Utility Computing, and wireless access to web content is expanding exponentially. More and more SMB customers are taking advantage of hosted applications versus purchasing and deploying internal network servers. Enterprise class customers (3,000 50,000 employees) are also paying close attention to the strong return on investment and reductions in capital expenditures and technical resource savings offered by the SaaS model. Our IceMAIL , IcePORTAL , and IceSECURE products are specifically targeted to maximize these benefits for our clients.

IDC, a global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets, predicts that the Software as a Service market will be $10.0 billion by 2008 with an annual growth rate of 25%. The hosted email market and hosted SMB mailboxes are expected also to grow at a compound annual growth rate of 25% through 2011 (according to the Radacati Group). Email has emerged as one of the most important mediums of communications for conducting business for organizations of all sizes, which has led to a demand for more functional email solutions including enterprise class collaboration with shared calendar, tasks, mobile email and instant messaging. Microsoft Exchange has emerged as the dominant product and market leader in this segment and has traditionally been used by very large organizations to improve productivity. Smaller organizations can also benefit from the use of Microsoft Exchange but have found it prohibitively expensive to purchase, install and maintain. Many of these smaller businesses that use email currently rely on simple email solutions from internet service providers. Exchange Hosting is emerging as an attractive alternative for such businesses, because it provides the enterprise-class functionality increasingly needed by organizations of all sizes, at a relatively low monthly cost on a per-user basis.

Our Products and Services

We believe that our two lines of business, IceWEB Solutions Group and our online products and services have many common technologies and permit us to better leverage our personnel and vendor/manufacturer relationships. A brief description of our two lines of business is as follows.

IceWEB Solutions Group

IceWEB s Solutions Group specializes in providing advanced network infrastructure security solutions. Through our team of engineers and our partners, some of whom include, Secure Computing, RSA Security, ISS, Blue Coat, F5 Networks, McAfee and Cisco, we provide government agencies with products and services that allow them to effectively deploy complex firewalls, wide area network optimization, user and application authentication, PKI, encryption, and traffic filtering products.

Services and Features for which we act as a reseller include:

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

The proximity of our offices to Washington, D.C., has provided a strong measure of successful sales into Federal government and civilian agencies solutions for over six years. The Company holds multiple General Services Administration contracts (GSA), and management believes it is well positioned within other avenues through which federal agencies can easily source products and services.

Online Products and Services

Starting with enterprise messaging (IceMAIL), collaboration (IcePORTAL), and web hosting (IceSECURE) services, we will continue to add additional software systems to our server farms. Each application and service has the goal of bringing enterprise-level applications, normally cost effective for only large corporations, to small business customers through a monthly/annual subscription plan. We believe that this recurring revenue business model has the ability to bring more consistent profits with a much higher customer retention rate than any other service we has ever offered. We currently have an over 95% retention rate.

IceMAIL

In December 2005, we launched IceMAIL , a packaged service that provides a network-hosted groupware, email, calendaring, and collaboration solution utilizing Microsoft Exchange, the most widely used enterprise system available. Customers are able to leverage the full capabilities of Microsoft Exchange and Microsoft Outlook without the initial implementation and maintenance costs associated with such an advanced system. In addition to providing hosted Exchange services, we focus on providing wireless PDA/smartphone synchronization services that enable our customers to have everything in Outlook/Exchange available while traveling away from their office. IceWEB customers may elect to have their business email replicated to and synchronized with virtually any smart phone or PDA available on the market. To perform this replication function we utilize Good Messaging Server, Blackberry Enterprise Server software or ActiveSync from Microsoft Corporation. The Company has established strong relationships with these software vendors and often undertakes joint marketing initiatives to create demand for these optional services.

Features of IceMAIL include:

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

IcePORTAL

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

Features of IcePORTAL include:

Provide a central location for all of employees to log into via a web browser for all of a company s company news, announcements, document libraries, and phone directories,

Enables access to a company s Intranet securely from anywhere in the world via the Internet and no VPN configuration is required,

Eliminates the need to purchase and maintain a network file server within a company which could cost $20,000 or more each year,

Stores all of a company s files and documents within multiple document libraries and directories. Assign read/write/delete permissions to some or all employees for each document library, the customer has complete control of who can access each section of their Intranet portal,

- Search for information or documents/files right from within the Intranet portal s main page,
- Post company news, announcements, calendars/events, or track tasks all via the Intranet portal,
- Create sub-portals or sections within a customer s Intranet portal for vendor/partners or customers with complete control of account and passwords so the customer controls what they can see/view/edit and what portions of the Intranet portal they can access, and
- Customize the portal layout, colors, theme, and specific modules/features to a customer s liking include company stock quotes and news that is automatically updated from the Internet.

IceSECURE

IceSECURE is a stand-alone hosted email encryption service. Subscribers to IceSECURE may utilize this service to ensure total privacy (based on the PKI model) of their critical business or personal email communications.

- Provides strong encryption and email security for IceMAIL and non-IceMAIL subscribers
- Easy to implement and requires no client architecture changes
- Full and Simple Administration
- Completely brandable solution for Private Label partners

Learningstream.Com

LearningStream.com is an online business education portal that offers subscription-based online classes to consumers and corporate customers such as managers, employees, and associations. Business professionals can choose among many different subjects such as making presentations, managing people and learning software applications from training developers such as Fred Pryor Seminars, CareerTrack and Evelyn Woods. LearningStream currently hosts 2,000 online course modules. LearningStream s revenue for the years ended September 30, 2007 and 2006 were $20,565 and $16,370, respectively.

Technology

Our online products are web-based systems available from any computer in the world via the Internet. We are leveraging the Internet as the transport mechanism to deliver our services due to its wide availability and relatively low cost for connectivity. We also leverage commercial off-the-shelf (COTS) software whenever possible for its three primary advantages, including quick time to market and delivery, reduced upgrade and maintenance costs, and reduced internal development or research and development costs.

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

IceMAIL is a customized implementation of Microsoft Exchange that is specialized for multi-tenant (multiple customers and domains) use. The IceMAIL server farm consists of redundant Microsoft Windows servers, Active Directory Servers, front-end Exchange servers, SMTP servers, back-end database servers, Storage Area Networks (SANs), GoodLink, Blackberry, ActiveSync, and backup systems. Network security is provided by multiple firewalls and/or gateways and filtering systems. The online purchasing, provisioning, and web-based management consoles are based on technology from SWsoft who is a leader in software/control systems for Internet and application services providers (ASPs) such as our company.

IcePORTAL is a customized implementation of Microsoft SharePoint. The IcePORTAL data is stored using Microsoft SQL and a Storage Area Network (SAN). Services are provided to customers via the Internet and each customer s portal is available through a standard web browser such as Internet Explorer. As it is integrated with IceMAIL, the same network security and redundant servers and data center systems are leveraged. This enabled our company to deploy IcePORTAL for minimal additional costs.

IceSECURE is a robust and scalable implementation of PKI encryption. The systems hosting the IceSECURE offering are operated by IBM Global Services and in that environment IceWEB functions as the Root Certification Authority (much like Verisign), providing PKI credentials, managing key recovery and escrow and all other required functions on behalf of our clients.

LearningStream is deployed across a complex proprietary array of web servers and streaming media servers. Course content is streamed via the Internet from Real and Windows Media servers while online purchasing and the course catalog are hosted on Microsoft-based web servers. In early 2007 the Company added nearly 2,000 additional courseware modules to the LearningStream architecture, greatly broadening the offerings depth. Changes were also made to our architecture which allows the delivery and sale of on-line learning content from partners located outside of our server farms. Such content, while purchased through LearningStream, may now be streamed directly from the third party course content providers and partners.

Sales and Marketing

In order to continue our growth into the public sector and commercial markets for Information Security and Storage technologies we will need to execute on a well defined sales and marketing plan. We will be calling key decision makers at federal agencies and target commercial accounts to schedule meeting to discuss their spending initiatives for 2008; this activity helps us align our solutions and vendor partners to propose a solution. We will also be utilizing key government information portals to discover requirements; these portals include, Fed Sources, Ebuy/GSA Advantage and Fedbid.

We will be partnering with vendors to do agency shows where we present solutions in a tradeshow format. Additionally we will be doing monthly email marketing campaigns to our customers and prospects. These email campaigns will feature our products and solutions. We will also be doing call campaigns to discuss featured technologies and solutions.

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

During fiscal 2007, our sales and marketing strategy relied mostly upon direct sales and marketing through internet search engines. These efforts succeeded in garnering publicity for our branded SaaS product offerings, allowed us to grow our online subscriber base to over 5,000 monthly subscriptions from approximately 100 monthly subscriptions at September 30, 2006, and assisted the Company in forming several partnerships and joint marketing agreements, including CompUSA and OfficeTalk, Ltd. The average monthly subscription fee during fiscal 2007 was $12.00 per month.

Our marketing plan for fiscal 2008 for our Solutions Group includes email marketing and direct mail campaigns, and targeted trade shows. Our marketing plan for fiscal 2008 for our online products and services includes more concise online marketing of the IceMAIL , IcePORTAL and IceSECURE products along with magazine or print advertisements in primary and secondary markets throughout the U.S. We anticipate to spend up to $150,000 per quarter on marketing our online products. We have also engaged the services of experienced professionals to further enhance our product marketing, improve our Internet search engine optimization, pay-per-click advertising, and direct marketing sales effectiveness. Our marketing efforts also produce materials in support of prospective sales to new customers, including brochures, data sheets, white papers, presentations and demonstrations.

For the fiscal years ended September 30, 2007 and 2006 we spent $192,816 and $225,338, respectively, on marketing.

Our Strategy for Fiscal 2008

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

During fiscal 2008 we plan on greater automation for IceMAIL , IcePORTAL , and IceSECURE products. By using internal and external technical resources we will seek to enable customers to manage and control their own environment (self service) or working with IceWEB Customer Service. We believe we will be one of the few companies that allow customers simple yet total control of their features via web-based account management tools. All of our service offerings will have online purchasing and automated provisioning (account creation) that reduced human intervention for these repeatable tasks. This also helps customers with the desire for immediate satisfaction by having their product or service immediately available upon purchase.

Subject to the availability of sufficient capital we also plan on continuing to pursue strategic acquisitions that will broaden our product offerings and customer base, advance and expand our technological abilities, increase our cash flow and profitability, and diversify our operations.

Research and Development

IceWEB performed software development and research and development efforts in fiscal 2007 relating to the IceMAIL and IcePORTAL products. In addition, in fiscal 2007, we added messaging encryption, sharepoint portals, and new LearningStream content.

The bulk of our research and development efforts for fiscal 2008 will focus on providing additional hosted application service offerings and improving features for our current online services.

Additional archiving and compliance management services will also be added to the new Microsoft Exchange 2007 environment for IceMAIL in fiscal 2008. Computer systems, storage, and software will be implemented to provide current and future IceMAIL customers with increased data storage options to meet industry or Government-specific regulations for data retention. These services will generate additional revenue for IceWEB and attract new customers that must have these services in order to outsource their email system to IceWEB. IceWEB will implement additional online purchasing and automated provisioning so that the IcePORTAL, IceSECURE, and IceVISTA services become visible and manageable within the current web-based control panel system. Currently, only IceMAIL has fully automated provisioning and online purchasing. Adding these capabilities to IcePORTAL, IceSECURE, and IceVISTA will reduce our operational support costs while providing current and new customers a single web-based management console to manage all of their IceWEB-based software services.

Additionally, IceWEB has an aggressive research and development strategy that includes 24/7 operations monitoring and customer support capability, disaster recovery options, the rollout of Microsoft Office Sharepoint Server 2007, Microsoft Project Server 2007, and Microsoft Live Communications Server 2007. We are also planning to expand the hosted website capabilities to include SQL server provisioning, and adding Microsoft Dynamics CRM to the list of hosted product offerings.

These goals were established in fiscal 2007, and efforts to roll out these enhancements will continue in fiscal 2008. Subject to the availability of sufficient working capital, our technology plan calls for a research and development budget of $150,000 per quarter for fiscal 2008 in order to accomplish the above goals.

Intellectual Property

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

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

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

We have also obtained the right to the Internet addresses www.iceweb.com, icemail.com, icewebsg.com, learningstream.com, fedzoo.com, and federalinbox.com. As with phone numbers, we do not have and cannot acquire any property rights in an Internet address. We do not expect to lose the ability to use these Internet addresses; however, there can be no assurance in this regard and as the Internet addresses are part of our brand and marketing the loss of one or more of these addressees may have a material adverse effect on our financial position and results of operations.

Competition

Most of our competitors have more capital, longer operating histories, greater brand recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. These competitors may also engage in more extensive development of their technologies, adopt more aggressive pricing policies and establish more comprehensive marketing and advertising campaigns than we can. Our competitors may develop products and service offerings that we do not offer or that are more sophisticated or more cost effective than our own. For these and other reasons, our competitors products and services may achieve greater acceptance in the marketplace than our own, limiting our ability to gain market share and customer loyalty and to generate sufficient revenues to achieve a profitable level of operations. Our failure to adequately address any of the above factors could harm our business and operating results.

Employees

As of December 12, 2007, we employed a total of 18 employees, all of whom work full-time. We have no collective bargaining agreements with any unions and believe that the overall relations with its employees are satisfactory.

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

In June 2003, we acquired 100% of the capital stock of Interlan Communications, Inc., a privately held corporation, in exchange for 25,000 shares of our common stock. In June 2003, we also acquired 100% of the capital stock of Seven Corporation in exchange for 37,500 shares of our common stock and cash consideration of $123,000. As described later in this section, we sold Seven Corporation company in February 2007.

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

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

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On October 18, 2004, we entered into a non-binding letter of intent to acquire 100% of the issued and outstanding stock of Plan Graphics, Inc. The transaction was subject to approval by the Plan Graphics, Inc. stockholders, and certain terms and conditions, including terms and conditions which are customary to this type of transaction. On April 29, 2005 the letter of intent expired without a definitive agreement having been executed or all conditions precedent to the closing having been completed.

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, 2006 revenues from PatriotNet were approximately $316,000 and represented approximately 6% of our consolidated revenues. On December 1, 2006 we sold PatriotNet to Leros Online, Inc., a third party, for $150,000 in cash and the assumption of $60,000 in liabilities. At September 30, 2006 we recorded goodwill impairment of $180,000 related to this transaction.

On December 1, 2006 we sold 100% of the capital stock of our wholly-owned subsidiary, Integrated Power Solutions, Inc. to 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 is still pending.

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.

RISK FACTORS

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

We have an accumulated deficit of $13,721,164 at September 30, 2007. For the years ended September 30, 2007 and 2006, we had a net loss attributable to common stockholders of approximately $2,850,123 and approximately $4,370,387, respectively, and cash used in operations was approximately $1,227,637 and $1,009,521, respectively. The report of our independent registered public accounting firm on our consolidated financial statements for the fiscal year ended September 30, 2007 contains a qualification expressing substantial doubt as to our ability to continue as a going concern as a result of our net losses and cash used in operations. We reported an increase in our revenues for fiscal 2007 as compared to fiscal 2006 of approximately 293% which is primarily related to our IceWEB Solutions Group, however we cannot assure you that our revenues will increase in future periods, nor can we assure you that they will not decrease. As long as our cash flow from operations remains insufficient to fund our operations, we will continue depleting our cash and other financial resources. Our failure to achieve profitable operations in future periods will adversely affect our ability to continue as a going concern. In this event, you could lose all of your investment in our company.

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

Historically, our operations have been financed primarily through the issuance of equity and short-term loans. Capital is typically needed not only to fund our ongoing operations and to pay our existing obligations, but capital is also necessary if we wish to acquire additional assets or companies and for the effective integration, operation and expansion of these businesses. Our future capital requirements, however, depend on a number of factors, including our ability to internally grow our revenues, manage our business and control our expenses. At September 30, 2007, we had a working capital deficit of $1,989,422 as compared to a working capital deficit of $1,625,965 at September 30, 2006. This change is primarily attributable to the financing arrangement with Sand Hill Finance to factor accounts receivable. We will need to raise additional capital to fund our ongoing operations, pay our existing obligations and for future growth of our company. We cannot assure you that additional working capital is available to us 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 our company, and continue our existing business and operations is in jeopardy. In this event, you could lose all of your investment in our company.

FROM TIME TO TIME WE ENTER INTO RELATED PARTY TRANSACTIONS, THE TERMS OF WHICH MAY NOT BE AS ADVANTAGEOUS AS WE COULD OBTAIN FROM UNRELATED THIRD PARTIES.

From time to time we have borrowed operating funds from related parties, including from Bluepoint Financial, LLC, a company of which Mr. John Signorello, our Chief Executive Officer, is a 50% owner. In lieu of interest we agreed to issue 1.54 shares of common stock for each dollar lent under the loan. During fiscal 2006 we borrowed approximately $335,000 under this loan agreement, repaid approximately $157,000 and issued shares valued at $296,608 as interest. During fiscal 2007, we borrowed approximately $30,000 under this loan agreement, repaid approximately $308,080 and issued shares valued at $169,803 as interest. The value of the securities we have issued as interest far exceeds generally available commercial interest rates. While the transaction was approved by our Board of Directors, of which Mr. Signorello is a member, there are no assurances that we could not have obtained more favorable terms from third party lenders.

WHILE THE SHARES OF OUR SERIES B CONVERTIBLE PREFERRED STOCK IS OUTSTANDING WE ARE PROHIBITED FROM ENTERING INTO CERTAIN TYPES OF EQUITY AND DEBT TRANSACTIONS WHICH MAY ADVERSELY AFFECT OUR ABILITY TO RAISE WORKING CAPITAL AS NEEDED.

Under the terms of our sale of Series B Convertible Preferred Stock in December 2005, we agreed to a number of limitations on our future capital raising activities, including:

for a period of three years we will not issue any convertible debt or preferred stock, for a period of two years we will not enter into any new borrowings of more than twice as much as the sum of EBITDA (earnings before income taxes, depreciation and amortization) from recurring operations over the past four quarters,

for so long as the shares are outstanding we will not issue any debt or equity securities with a floating conversion price or reset feature, and

for so long as the shares are outstanding we cannot issue any common stock or securities which are convertible into common stock at an effective price per share less than the conversion value of the Series B Convertible Preferred Stock which is initially $0.2727 per share.

These restrictions are likely to adversely affect our ability to raise working capital as needed in future periods as the types of financing transactions generally available to us and other comparably-sized public companies often involve the sale of a convertible security with a reset feature, or the sale of common stock at a discount to market.

WHILE SHARES OF OUR SERIES A CONVERTIBLE PREFERRED STOCK ARE OUTSTANDING WE ARE PROHIBITED FROM UNDERTAKING CERTAIN CAPITAL RAISING TRANSACTIONS WHICH MAY MATERIALLY ADVERSELY EFFECT OUR ABILITY TO RAISE FUNDS IN FUTURE PERIODS.

The designations of the Series A Convertible Preferred Stock prohibit us from selling common stock or any other security which is convertible into common stock or issuing any rights, options or warrants which entitle the holder to purchase shares of our common stock at a price less than $0.60 per share, subject to adjustment. So long as shares of our Series A Convertible Preferred stock are outstanding, this prohibition will prevent us from raising additional capital at an effective offering price of less than $0.60 per share. While the market value of our common stock as of the date of this annual report is greater than $0.60 per share, we do not know if the trading price of our common stock will remain above $0.60 per share in future periods, particularly in light of the fact that we may be significantly increasing the number of shares of our common stock which will be freely tradable as a result of sales made by the selling security holders under that prospectus. If the market price of our common stock should fall to a price range which is near or below $0.60 per share we may be unable to raise capital in future periods as needed which could adversely affect our liquidity, operation of our company and ability to continue as a going concern.

In addition, under the terms of the Preferred Stock Purchase Agreement for the Series A Convertible Preferred Stock for a period of three years beginning March 30, 2005 we have contractually agreed not to issue any additional shares of preferred stock or any convertible debt, not to enter into any transactions which contain a reset provision which could result in additional shares being issued at some future date and not to enter into certain other types of financing transactions. These contractual limitations may limit our ability to raise capital as needed in future periods which could adversely affect our ability to continue our operations.

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

In December 2005 and as amended during fiscal 2006, we entered into a Finance Agreement with Sand Hill Finance, LLC for a $1.8 million accounts receivable factoring line. Under the terms of this agreement we agreed not to take certain actions including undertaking a transaction which would result in a change of control of our company or the transfer of more than 20% of our securities and incurring any indebtedness other than trade credit in the ordinary course of business. These restrictions may limit our ability to raise working capital as needed.

OUR PRIMARY ASSETS SERVE AS COLLATERAL UNDER OUR ACCOUNTS RECEIVABLE FACTORING LINE. IF WE WERE TO DEFAULT ON THIS AGREEMENT, THE LENDER COULD FORECLOSE ON OUR ASSETS.

The revolving line with Sand Hill Finance, LLC is collateralized by a blanket security interest in our assets. If we should default under the terms of this agreement, the lender could seek to foreclose on our primary assets. If the lender was successful, we would be unable to conduct our business as it is presently conducted and our ability to generate revenues and fund our ongoing operations would be materially adversely affected.

WE ARE A PARTY TO A SALES/LEASBACK AGREEMENT. IF THE LESSOR SHOULD DECLARE US IN DEFAULT UNDER THE AGREEMENT, WE COULD BE FORCED TO PAY ALL AMOUNTS OWED THEREUNDER OR LOSE THE BENEFIT OF THE EQUIPMENT.

In July 2006, we entered into what is in essence a sale and leaseback agreement with respect to certain computer and office equipment. We received gross proceeds of $300,000 from the sale of the equipment to a third party. As part of the same transaction, we entered into a 36 month agreement to lease the equipment back from the third party for monthly rent payments of $10,398. Imputed interest on this financing is 20% per annum. At September 30, 2007, amount due under this equipment financing arrangement amounted to $185,045. The equipment which is subject to this arrangement is material in the operation of our business. From time to time we have failed to make the monthly payments due under this agreement on a timely basis. Should the lessor declare us in default, it would be entitled to accelerate all amounts due under the agreement which are approximately $200,000 at September 30, 2007. If we were unable to satisfy such amount, the lessor could retake the equipment thereby depriving us of its use which could materially affect our business and operations.

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

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

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

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

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

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

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

At September 30, 2007 we had outstanding:

- 12,940,315 shares of our common stock,

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456,667 shares of Series A Convertible Preferred Stock which is convertible into 456,667 shares of our common stock,

1,833,334 shares of Series B Convertible Preferred Stock which is convertible into 1,833,334 shares of our common stock,

common stock purchase warrants to purchase a total of 6,055,000 shares of our common stock with exercise prices ranging from $0.45 to $8.00 per share, and

options granted under our 2000 Management and Director Equity Incentive and Compensation Plan which are exercisable into 2,295,527 shares of our common stock with a weighted average exercise price of $0.63 per share.

The conversion of the Series A Convertible Preferred Stock and Series B Convertible Preferred Stock and/or the exercise of outstanding options and warrants may materially adversely affect the market price of our common stock and will have a dilutive effect on our existing stockholders.

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

In March 2005 and December 2005, we issued common stock purchase warrants to purchase an aggregate of 6,925,000 shares of our common stock with exercise prices ranging from $2.00 to $9.60 per share in connection with the sales of shares of our Series A Convertible Preferred Stock and Series B Convertible Preferred Stock. The exercise price of each these warrants was subsequently amended to be $1.00 per share. At September 30, 2007, 5,200,000 of these warrants remain outstanding. In December 2005, we also issued a seven year common stock purchase warrant to purchase 25,000 shares of our common stock with an exercise price of $1.00 per share in connection with our accounts receivable financing agreement with Sand Hill Finance, LLC.

All of these five-year warrants are exercisable on a cashless basis which means that the holders, rather than paying the exercise price in cash, may surrender a number of warrants equal to the exercise price of the warrants being exercised. The utilization of this cashless exercise feature will deprive us of additional capital which might otherwise be obtained if the warrants did not contain a cashless feature.

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

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

In addition, our certificate of incorporation authorizes the issuance of up to 10,000,000 shares of preferred stock with such rights and preferences as may be determined from time to time by our Board of Directors. We presently have outstanding 456,667 shares of our Series A Convertible Preferred Stock and 1,833,333 shares of Series B Convertible Preferred Stock. Our Board of Directors may, without stockholder approval, issue additional series of preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our common stock.

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

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

ITEM 2. DESCRIPTION OF PROPERTY

In November 2005, we entered into a three year lease for approximately 7,900 square feet of office space located in the same building in which our principal executive offices had been located. This new lease provides for annual base rental of approximately $202,000 which escalates to approximately $215,000 annually in the third year of the lease term. We are also responsible for our pro rata share of certain pass through costs. We have the option to renew this lease for one additional five year term and we have a right of first refusal to lease as additional approximately 7,200 square feet of adjoining office space should it become available.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the OTCBB under the symbol IWEB. The reported high and low bid 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 2006		
First quarter ended December 31, 2005	$ 1.05	