PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
May 16, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934

For the month of May, 2012

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65
20031-912 - Rio de Janeiro, RJ
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F _______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _______ No___X____

This report on Form 6-K is incorporated by reference in the Registration Statement on Form F-3 of Petróleo Brasileiro -- Petrobras (No. 333-163665).

FIRST QUARTER OF 2012

RESULTS

Rio de Janeiro – May 15, 2012 – Petrobras today announced its consolidated results stated in U.S. dollars, prepared in accordance with International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board - IASB.

Consolidated net income attributable to the shareholders of Petrobras reached U.S.$5,212 million in the first quarter of 2012. EBITDA in the first quarter of 2012 was U.S.$9,345 million, 2% lower compared to the first quarter of 2011.

Highlights

(in millions of U.S. dollars)					
			For the first quarter of		
4Q-2011	1Q12 X 4Q11 (%)		2012	2011	2012 X 2011 (%)
2,805	86	**Consolidated net income attributable to the shareholders of Petrobras**	5,212	6,588	(21)
2,670	[redacted]	**Total domestic and international oil and natural gas production (mbbl/d)**	2,676	2,629	2
7,807	20	**EBITDA**	9,345	9,510	(2)

- Our total domestic and international oil and natural gas production increased 2% in the first quarter of 2012 compared to the first quarter of 2011, due mainly to production in the Jubarte, Marlim Sul, Caratinga, Albacora, Mexilhão and Uruguá fields, as well as to the pre-salt contribution of the Lula field.

- Start-up of production of the Cascade deep water field situated in the Gulf of Mexico.

- Discoveries in the pre-salt layer of the Santos Basin, specially in the Carioca Sela and Carcará and the one of Campos Basin called Pão de Açúcar. In addition, a new accumulation of oil and gas was discovered in the Solimões Basin situated in the Brazilian state of Amazonas.

-

A 3% increase in the production of oil products in the first quarter of 2012 compared to the first quarter of 2011.

- Capital expenditures and investments in the first quarter of 2012 amounted to U.S.$10,194 million (7% higher compared to the first quarter of 2011), 52% of which was invested in Exploration & Production.

- The raising of funds of U.S.$7,2 billion of bonds in the international capital markets with maturities of three, five, ten and thirty years.

- Payment of U.S.$1,391 million of interest on shareholders’ equity in the first quarter of 2012, which corresponds to U.S.$0.12 per share. On March 19, 2012, our shareholders approved in the annual general shareholders’ meeting the payment of dividends in the amount of U.S.$834 million. The first portion of interest on shareholders’ equity, which is estimated to be paid to our shareholders by June 30, 2012, was provisioned in the amount of U.S.$1,432 million on March 31, 2012, corresponding to U.S.$0.1 per share.

Comments from the CEO -
Mrs. Maria das Graças Silva Foster

Dear Shareholders and Investors,

This is the first time that I am addressing you as the CEO of Petrobras. I am honored to assume such a responsibility and would like to make it clear that my style of management will be based on dialog with both the controlling and minority shareholders.

I assure you that I am fully aware of the expertise of this Company's workforce and its enormous capacity for overcoming challenges, which is unquestionably the main foundation for the execution of our growth project.

My main focus, and that of the entire executive team, will be on executing the business plan, while ensuring operational efficiency and exercising control over costs. Whenever necessary, we will not hesitate to make adjustments and corrections, using the best technical and financial analysis procedures, preserving the liquidity and solvency of the Company and ensuring that it retains its investment grade status.

Petrobras is highly capitalized and has an extraordinary portfolio of oil and gas assets, ensuring a highly promising future. In order to continue growing in a sustainable and profitable manner, we are closely monitoring all phases of the projects in our portfolio, which will allow us to retain the main guidelines of the previous management, albeit with a more precise degree of supervision and the correction of any eventual deviations.

Petrobras aims to generate business growth and returns and is fully aware of its role as a partner in the development of those countries where it operates, creating the necessary scale for the prosperity of the goods and services industry, particularly in our core market, Brazil. Our results must also reflect the utmost respect for safety and the environment, and consequently, this management will be tireless in its efforts to ensure zero accident and leakage ratios in our operations.

It is in this context that I present you with our results for the first quarter of 2012, re-emphasizing that we are fully committed to and capable of applying all the available resources in a disciplined manner in order to manage one of the world's best investment portfolios, generating returns for our shareholders, investors and society as a whole.

FINANCIAL HIGHLIGHTS

Main Items and Consolidated Economic Indicators

4Q-2011	1Q12 X 4Q11 (%)	Income statement data (in millions of U.S. Dollars, except for per share data)	For the first quarter of 2012	2011	2012 X 2011 (%)
36,254	3	**Sales revenues**	37,410	32,602	15
9,614	19	**Gross profit**	11,451	11,929	(4)
4,161	60	**Net income before financial results and income taxes**	6,659	7,388	(10)
222	18	**Financial income (expenses), net**	263	1,229	(79)
2,805	86	**Consolidated net income attributable to the shareholders of Petrobras**	5,212	6,588	(21)
0.22	86	**Basic and diluted earnings per share** [1]	0.40	0.51	(21)
		Other data			
27	4	**Gross margin (%)** [2]	31	37	(6)
11	7	**Operating margin (%)** [3]	18	23	(5)
8	6	**Net margin (%)** [4]	14	20	(6)
7,807	20	**EBITDA - U.S.$ million** [5]	9,345	9,510	(2)
		Net income by business segment (in millions of U.S. dollars)			
5,788	22	**. Exploration & Production**	7,037	5,595	26
(2,289)	14	**. Refining, Transportation and Marketing**	(2,600)	(57)	
253	58	**. Gas & Power**	399	311	28
(24)	4	**. Biofuel**	(25)	(6)	317
230	(10)	**. Distribution**	207	223	(7)
166	236	**. International**	558	500	12
(466)	(59)	**. Corporate**	(190)	527	(136)
12,064	(15)	**Capital expenditures and investments (in millions of U.S.dollars)**	10,194	9,520	7

		Financial and economic indicators			
109.31	8	**Brent crude (U.S.$/bbl)**	118.49	104.97	13
1.80	(2)	**Average commercial selling rate for U.S. dollar (R$/U.S.$)**	1.77	1.67	6
1.88	(3)	**Period-end commercial selling rate for U.S. dollar (R$/U.S.$)**	1.82	1.63	12
11.32	(1)	**Selic interest rate – average (%)**	10.30	11.22	(1)
		Average Price indicators			
96.28	4	**Domestic basic oil product prices (U.S.$/bbl)**	99.97	98.19	2
		Sales price - Brazil			
103.10	8	**. Crude oil (U.S.$/bbl) [6]**	111.56	94.04	19
53.51	(3)	**. Natural gas (U.S.$/bbl) [7]**	52.12	49.27	6
		Sales price - International			
97.11	3	**. Crude oil (U.S.$/bbl)**	99.99	87.39	14
21.31	(5)	**. Natural gas (U.S.$/bbl)**	20.15	16.36	23

[1] Net income per share calculated based on the weighed average number of shares.

[2] Gross margin equals sales revenues less cost of sales divided by sales revenues.

[3] Operating margin equals net income before financial income (expenses), net, and income taxes divided by sales revenues.

[4] Net margin equals net income divided by sales revenues.

[5] EBITDA equals income before financial results, profit sharing, income taxes and depreciation, depletion and amortization. EBITDA is not an IFRS measure and it is possible that it may not be comparable with indicators with the same name reported by other companies. EBITDA should not be considered as a substitute for operational profit or as a better measure of liquidity than operational cash flow, both of which are calculated in accordance with IFRS. We provide our EBITDA to give additional information about our capacity to pay debt, carry out investments and cover working capital needs. See Consolidated EBITDA Statement by Segment on page 21 for a reconciliation of our EBITDA.

[6] Average exports and of the internal transfer prices from Exploration & Production to Refining, Transportation and Marketing.

[7] As of September 2011, we have factored in natural gas realization prices.

FINANCIAL HIGHLIGHTS

RESULTS OF OPERATIONS FOR THE FIRST QUARTER OF 2012 COMPARED TO THE FIRST QUARTER OF 2011

Virtually all of the revenues and expenses for our Brazilian activities are denominated and payable in Reais. When the Real weakens relative to the U.S. dollar, as it did in the first quarter of 2012 with a depreciation of 5.7%, the effect is to generally decrease both revenues and expenses when expressed in U.S. dollars. However, the depreciation of the Real against the U.S. dollar affects the line items discussed below in different ways. The following comparison between our results of operations in the first quarter of 2012 and in the first quarter of 2011 was impacted by the decrease in the value of the Real against the U.S. dollar during that period.

Sales Revenues

Sales revenues increased 15% to U.S.$37,410 million in the first quarter of 2012 compared to U.S.$32,602 million in the first quarter of 2011. This increase was primarily attributable to:

- Higher exports prices and domestic oil products sales prices generated by the increase in international Brent crude oil prices (13% increase) as well as by the exchange variation effects;
- Increase in the prices of domestic gasoline (10% increase) and diesel (2% increase) from November 2011 on; and
- Higher crude oil export volume (20% increase); increase of 10% in domestic oil products sale due to higher demand, mainly of gasoline (24% increase), reflecting its higher competitive advantage compared to ethanol, naphtha (13% increase), diesel (9% increase) and jet fuel (7% increase).

Cost of Sales

Cost of sales in the first quarter of 2012 increased 26% to U.S.$25,959 million compared to U.S.$20,673 million in the first quarter of 2011. This increase was primarily attributable to:

- Increase of 10% in domestic oil products sale, mainly for diesel and gasoline, which were met mainly by imports;
- The impact of higher international prices and the exchange variation effects on crude oil, oil products imports and government participation; and
- Higher depreciation, depletion and amortization costs due to the start-up of operation of new plants.

Net income before financial results and income taxes

Net income before financial results and income taxes decreased 10% to U.S.$6,659 million in the first quarter of 2012 compared to U.S.$7,388 million in the first quarter of 2011, due to increases in operating expenses mainly as a result of:

- Higher selling expenses (U.S.$81 million increase), due to increased freight costs generated by the higher sales volume and also by the higher personnel expenses arising out of the Collective Bargaining Agreement for 2011;
- Increased administrative and general expenses (U.S.$76 million increase), generated by higher personnel expenses arising out of the Collective Bargaining Agreement for 2011, by increased workforce and by increased third-party technical services; and
- Higher other operating expenses (U.S.$152 million increase), due to increased losses from legal proceedings.

A breakdown of other operating expenses by segment is included on page 22.

FINANCIAL HIGHLIGHTS

Financial Income (Expenses), Net

Financial income (expenses), net decreased 79% to an income of U.S.$263 million in the first quarter of 2012 compared to an income of U.S.$1,229 million in the first quarter of 2011, reflecting:

- The lower exchange variation gain on net debt; and
- Decreased financial income from financial investments due to the lower investment volume and to the decreased interest rates in Brazil.

Consolidated net income attributable to the shareholders of Petrobras

Consolidated net income attributable to the shareholders of Petrobras decreased 21% to U.S.$5,212 million in the first quarter of 2012 compared to U.S.$6,588 million in the first quarter of 2011, due mainly to the decreased net income before financial results and income taxes and the lower financial income (expenses), net, as explained above.

FINANCIAL HIGHLIGHTS

NET INCOME BY BUSINESS SEGMENT

Petrobras is an integrated energy company, with the greater part of its oil and gas production in the Exploration & Production segment being transferred to other business segments of the Company.

In the computation of the results by business segment, transactions carried out with third parties and transfers between business segments are factored in. Inter-segment transactions are valued using internal transfer prices that are defined between business segments, using methodologies that are premised on market parameters.

We provide below the financial information from our different operating segments and related operating information.

EXPLORATION & PRODUCTION

(U.S.$ million)

The 26% increase in net income from E&P segment in the first quarter of 2012 compared to the first quarter of 2011 was primarily due to higher average domestic oil prices and due to an increase in oil and NGL production, partially offset by increased expenses related to government participation charges, reflecting the international oil prices trend.

The spread between the average domestic oil sale/transfer price and the average Brent price narrowed from U.S.$ 10.93/bbl in the first quarter of 2011 to U.S.$ 6.93/bbl in the first quarter of 2012.

Production – Brazil (mbbl/d) (*)	For the first quarter of 2012	2011	2012 X 2011 (%)
Crude oil and NGLs	2,066	2,044	1
Natural gas [8]	364	341	7
Total	**2,430**	**2,385**	2

(1Q-2012 X 1Q-2011): The increased production was due to the ramp-up production in platforms P-56 (Marlim Sul field), P-57 (Jubarte field), FPSO-Santos (Uruguá field) and FPSO-Angra dos Reis (Lula field), to the gas production in Mexilhão field, to the start-up of production of the new wells in Caratinga and Albacora fields and also to the extended well tests (EWT) of Sídon, Aruanã, Oliva, Iracema area and of the ESP-23 well, which were partially offset by the natural decline in crude oil and NGL production from mature fields and by the habitual campaign of scheduled stoppages on production systems started in March.

(*) Not revised.

[8] Does not include LNG. Includes reinjected gas.

FINANCIAL HIGHLIGHTS

	For the first quarter of		
Lifting Costs - Brazil (*)	**2012**	**2011**	**2012 X 2011 (%)**
U.S.$/barrel:			
Excluding production taxes	12.98	11.38	14
Including production taxes	35.68	30.48	17

Lifting Costs - Excluding production taxes

Excluding the impact of the exchange variation effects, our unit lifting costs in Brazil, excluding production taxes (consisting of royalties, special government participation charges and rental of areas) increased by 19% in the first quarter of 2012 compared to the first quarter of 2011 due to higher operational costs generated by higher water production together with oil production, higher water injection, to the higher number of maintenances in production systems of Campos Basin and to the increased well interventions in Marlim, Albacora, Albacora Leste, Cherne and Marimbá fields, besides the salary increases arising out of the Collective Bargaining Agreement for 2011.

Lifting Costs - Including production taxes

Excluding the impact of the exchange variation effects, our unit lifting costs in Brazil, including production taxes, increased by 19% in the first quarter of 2012 compared to the first quarter of 2011, primarily attributable to the increase in the reference price for domestic oil, reflecting higher international oil prices.

(*) Not revised.

FINANCIAL HIGHLIGHTS

REFINING, TRANSPORTATION AND MARKETING

(U.S.$ million)

The increase in net losses for our RTM segment in the first quarter of 2012 compared to the first quarter of 2011 was attributable to higher oil acquisition/transfer costs, where oil products are indexed to international prices, to a greater volume of imported oil products and the appreciation of U.S. dollar against the Real. These effects were partially offset by higher average price realization of exports and higher domestic prices.

Imports and Exports of Crude Oil and Oil Products (mbbl/d) (*)	For the first quarter of 2012		For the first quarter of 2011	2012 X 2011				
				Basic and diluted loss per common share	$	(0.02)	$	(0.05)
Weighted average common shares outstanding basic and diluted		28,855,635		13,305,466				

See accompanying notes to unaudited consolidated financial statements

ICEWEB, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended December 31, 2008	2007
NET CASH PROVIDED/(USED) IN OPERATING ACTIVITIES	$ (842,930)	$ 724,231
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(15,119)	(9,892)
Cash used in acquisitions, net		(1,538,407)
NET CASH USED IN INVESTING ACTIVITIES	(15,119)	(1,548,299)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of equipment financing	(26,586)	(21,480)
Proceeds from notes payable - related party		1,482
Repayment of notes payable - related party		(8,540)
Proceeds from notes payable	1,972,131	2,812,247
Proceeds from exercise of common stock options	600	
Payments on notes payable	(1,089,378)	(2,393,414)
NET CASH PROVIDED BY FINANCING ACTIVITIES	856,767	390,295
NET DECREASE IN CASH	(1,282)	(433,773)
CASH - beginning of period	4,780	1,092,470
CASH - end of period	$ 3,498	$ 658,697
Supplemental disclosure of cash flow information:		
Cash paid for :		
Interest	$ 148,647	$ 97,636
Income taxes		
Non-cash transactions affecting investing and financing activities:		
Conversion of shares of preferred stock to shares of common stock		456,667
Acquisition details:		
Fair value of assets acquired	$	$ 2,688,795
Intangible assets	$	$ 1,215,450
Liabilities assumed	$	$ (614,668)
Common stock issued in connection with acquisition	$	$ 876,846

See accompanying notes to unaudited consolidated financial statements

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 1 - NATURE OF BUSINESS

IceWEB, Inc. was originally founded to serve the commercial and federal markets with network security products and proprietary on-line software solutions. In 2008, the Company narrowed its focus and expanded its capabilities by acquiring INLINE Corporation, a data storage company specializing in custom designed, short-production run storage solutions for the Geospatial Information Systems (GIS) market.

In fiscal year 2009 the Company has three lines of business: Storage & GIS products, IT solutions and Online services. The Company plans to grow its revenues and profits in both the Storage and solutions businesses while maintaining its position in the online market.

Storage and GIS Products. These products simplify how enterprises retain, access, manage and protect their data. Demand for data storage is ever-growing and ubiquitous as data files in all market sectors have become larger and richer with video and multimedia content. This growth is particularly strong in the already billion dollar GIS market that is projected to grow ten-fold over the next decade. Therefore, IceWEB s strategic direction is to grow its share and profits in this market based upon its own proprietary designs and its strategic relationships with its GIS software OEMs such as ESRI, the world-wide leader in GIS application software.

IceWEB and ESRI have collaborated to create ultra-high performance INLINE/ESRI GIS systems that allow customers to analyze data in ways never before possible. IceWEB designs, manufactures and, in concert with its OEM partners, markets these systems to organizations all over the world.

In addition to the Company s line of hardware/software storage products, customers can choose from a broad range of warranty and service programs. INLINE products range from storage servers, to NAS (Network Attached Storage) and SAN (Storage Area Network) solutions. OEM/Custom products are focused on the GIS markets.

Core Products	**Models**	**GIS**
Servers	Enterprise & Workgroup	GIS Server, GIS Workgroup Server GIS MLP
SAN	Fibre Channel and IP	
NAS	Engines Gateways into storage subsystems.	GIS Data Appliance MLP Data Appliance

Appliances	Fully bundled NAS with storage	GIS Appliance
		GIS Database

GIS products utilize the latest storage server, SAN and NAS technology

IT Solutions. IceWEB provides IT network infrastructure security solutions to government and commercial organizations. The products come from the Company s strategic partners which include RSA Security, ISS, Blue Coat, F5 Networks, McAfee and Cisco. IceWEB will continue to invest in this business in 2009. Solutions include:

Security information management, firewall implementation, management and monitoring
Intrusion detection, intrusion, prevention, anti-virus, anti-spam
Wide area network optimization, user authentication, remote access control

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 1 - NATURE OF BUSINESS (continued)

Online Services. In December 2005, IceWEB launched IceMAIL ™ a packaged software service that provides network hosted groupware, email, calendaring and collaboration functionality. Customers are organizations wishing to use Microsoft Exchange and Outlook without having to procure, maintain and manage their own equipment and software. Online services were subsequently expanded to include IcePORTAL ™ which provides customers with a complete Intranet portal and IceSECURE ™ a hosted email encryption service. These products continue to provide predictable monthly revenues for the Company; however the Company has no plans to make new investments in this business in 2009.

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

Our interim consolidated financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the interim consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the statement of the results for the interim periods presented. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, as well as the accompanying Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 30, 2008 included in our Annual Report on Form 10-KSB. Interim financial results are not necessarily indicative of the results that may be expected for a full year.

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to fiscal 2009 amounts.

Going Concern

The Company s auditors stated in their report on the consolidated financial statements of the Company for the years ended September 30, 2008 and 2007 that the Company is dependent on outside financing and has had losses since inception that raise doubt about its ability to continue as a going concern. For the three months ended December 31, 2008, the Company incurred a net loss of $659,034 which included noncash expenses of $501,000. Cash used in operations totaled $842,930. The consolidated financial statements do not include any adjustments related to the recovery and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

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

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in 2009 and 2008 include the allowance for doubtful accounts, the valuation of stock-based compensation, the useful life of intangible assets and property and equipment, and the valuation of goodwill.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists of normal trade receivables. The Company recorded a bad debt allowance of $9,000 as of December 31, 2008. Management performs ongoing evaluations of its accounts receivable. Management believes that all remaining receivables are fully collectable. Bad debt expense amounted to $0 and $0 for the three months ended December 31, 2008 and 2007, respectively.

Intangible Assets

Intangible assets, net consists of the cost of acquired customer relationships and the value of Federal contracts that the Company acquired in the acquisition of certain assets of True North and in the acquisition of Inline Corporation. The Company capitalizes and amortizes the cost of acquired intangible assets over their estimated useful lives on a straight-line basis. The estimated useful lives of the Company s acquired customer relationships and Federal government contracts are three to five years.

Property and Equipment

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

Property and equipment also includes costs incurred in connection with development on the Company s software developed for internal use and website costs. The Company capitalized certain costs valued in connection with developing or obtaining internal use software in accordance with American Institute of Certified Public Accountants Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use . These costs, which consist of direct technology labor costs, are capitalized and amortized using the straight-line method over expected useful lives of three years.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

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

Long-lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value.

Revenue Recognition

The Company follows the guidance of the Securities and Exchange Commission s Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for the various revenues streams of the Company:

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

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

Earnings per Share

The Company computes earnings per share in accordance with Statement of Accounting Standards No. 128, Earnings per Share (SFAS No. 128). Under the provisions of SFAS No. 128, basic earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and upon the conversion of convertible preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is anti-dilutive. At December 31, 2008, there were options and warrants to purchase 6,516,983 shares of common stock and 1,253,334 shares issuable upon conversion of Series B preferred stock which could potentially dilute future earnings per share.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

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

Stock-Based Compensation

Prior to January 1, 2005, the Company accounted for stock options issued under the Plan under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123).

Effective January 1, 2005 we adopted the fair value recognition provisions of FASB Statement No. 123 (revised 2004), *Share-Based Payment* ,(SFAS 123(R)) which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. We had previously applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related Interpretations and provided the required pro forma disclosures of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123) which was superseded by SFAS 123(R). The Company has also applied the provisions of Staff Accounting Bulletin No. 107 (SAB 107) in the adoption of SFAS 123(R).

We elected to adopt the modified prospective application transition method as provided by SFAS 123(R). In accordance with the modified prospective transition method, consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Under that transition method, compensation cost recognized in the three months ended December 31, 2008 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2008, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to October 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R).

NOTE 3 - PROPERTY AND EQUIPMENT

At December 31, 2008, property and equipment consisted of the following:

	Estimated Life	
Office equipment	5 years	$ 637,920
Computer software	3 years	719,153
Vehicles	3 years	17,330
Furniture and fixtures	5 years	261,385
Leasehold improvements	5 years	999,050

	2,634,838
Less: accumulated depreciation	(1,542,870)
	$ 1,091,968

Depreciation expense for the three months ended December 31, 2008 and 2007 was $92,519 and $74,115 respectively.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 4 - INVENTORY

Inventory consisted of the following:

	December 31, 2008	September 30, 2008
Raw materials	$ 400,174	$ 351,579
Work in progress	75,130	65,921
Finished goods	25,011	21,974
	500,217	439,474
Less: reserve for obsolescence	(39,162)	(39,162)
	$ 461,055	$ 400,312

NOTE 5 - ACQUISITION AND DISPOSITIONS

On October 31, 2006, the Company entered into an Asset Purchase Agreement (the Agreement) with True North Solutions, Inc., a Delaware corporation (True North) whereby the Company acquired all or substantially all of True North s assets used in its Government Business. Upon the terms and subject to the conditions of the Agreement, the Company agreed to purchase, accept, and acquire from True North all right, title, and interest of True North in and to the Government Business, which is hereby defined and limited to (i) certain vendor agreements and (ii) all of those rights and assets, tangible or intangible, exclusively used in the performance of day to day business operations, as owned or held True North such as certain tangible assets, websites, databases, GSA schedules and other government contracts, Federal client lists, and contracts in progress. The aggregate purchase price for these assets was $430,000 which consisted of the following:

Cash payment to seller	$ 350,000
Direct transaction fees and expenses	80,000
	$ 430,000

The following table summarizes the estimated fair values of certain assets of True North acquired at the date of the acquisition:

Property and equipment, net	$ 154,521
Intangible assets	275,479
	$ 430,000

On December 22, 2007, we acquired 100% of the outstanding stock of Inline for $2,412,731 in cash, plus 503,356 shares of IceWEB common stock valued at $276,846, the fair market value on the date of acquisition. The acquisition was accounted for using the purchase method of accounting. The results of operations are included in the financial statements of operations from the date of acquisition. Inline is a leading provider of intelligent enterprise data storage solutions and services for the geospatial intelligence marketplace. Inline s proprietary products include reliable, high performance Storage Area Network Solutions, Network Attached Storage, and Direct Attached Storage and the rapidly expanding OEM Storage Centric Appliances. Today, Inline has developed its fifth generation of advanced data storage solutions, marketed under the brands *TruEnterprise* and *FileStorm* . All Inline systems function in a heterogeneous operating system environment, including Windows, UNIX and Linux. The purchase of Inline Corporation included the acquisition of assets of $3,904,245, and liabilities of $614,668. The aggregate purchase price consisted of the following:

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 5 - ACQUISITION AND DISPOSITIONS (continued)

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

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

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

Intangible assets acquired from Inline were assigned the following values: value of manufacturing GSA schedule with an assigned valued of $750,000 amortized straight line over five years; value of customer relationships with an assigned value of $465,450 amortized straight line over five years. Intangible assets acquired from Inline had the following unamortized values at December 31, 2008: value of manufacturing GSA schedule of $600,000; value of customer relationships of $372,360.

In November 2006, the Company sold PatriotNet to a third party for $150,000 in cash and the assumption of approximately $60,000 in liabilities by the purchaser. At September 30, 2006, the Company recorded an impairment to goodwill of $180,000 to reflect the net realizable value of goodwill based on the subsequent sale of PatriotNet.

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 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.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 6 - NOTES PAYABLE

Sand Hill Finance, LLC

On December 19, 2005, the Company entered into a Financing Agreement with Sand Hill Finance, LLC pursuant to which, together with related amendments, the Company may borrow up to 80% on the Company s accounts receivable balances up to a maximum of $1,800,000. In conjunction with the acquisition of Inline Corporation in December, 2007, the lending limit on the credit facility was increased to $2,750,000. In addition, the Company and Sand Hill Finance, LLC entered into a 36 month term note agreement in the amount of $1,000,000. Amounts borrowed under the Financing Agreement are secured by a first security interest in substantially all of the Company s assets. At December 31, 2008, the principal amount due under the Financing Agreement amounted to $1,776,834.

In November, 2008, in connection with the term note the Company executed a convertible debenture agreement with Sand Hill Finance, LLC in the amount of $1,170,767. The debenture bears interest at 18% and will allow Sand Hill Finance, LLC to convert the outstanding obligation into shares of IceWEB common stock at a fixed floor conversion price of $0.30 per share. The principal amount due under the convertible debenture amounted to $1,145,921 at December 31, 2008.

Interest on the accounts receivable-based borrowings is payable at a rate of 2% per month on the average loan balance outstanding during the year, equal to an annual interest of approximately 24% per year. The Company also agreed to pay an upfront commitment fee of 1% of the credit line upon signing the Financing Agreement, half of which was due and paid upon signing (amounting to $9,000) and half of which is due on the first anniversary of the Financing Agreement. In addition, the Company is obligated to pay a commitment fee of 1% of the credit limit annually, such amounts are payable on the anniversary of the agreement.

In connection with the Financing Agreement, the Company issued Sand Hill Finance, LLC, a seven-year common stock purchase warrant to purchase 25,000 shares of our common stock at an exercise price of $1.00 per share. The exercise price was subsequently reduced to $0.50 per share pursuant to Warrant Amendment Agreement which was executed in conjunction with the convertible debenture. The warrant contains a cashless exercise provision which means that at the option of the holder, the warrant is convertible into a number of shares of our common stock as determined by dividing the aggregate fair market value of the Company s common stock minus the aggregate exercise price of the warrant by the fair market value of one share of common stock. The number of shares issuable upon the exercise of the warrant and the exercise price are subject to adjustment in the event of stock dividends, stock splits and reclassifications. The fair value of the warrant of $16,250 has been recorded as an addition to paid-in capital and interest expense during the year ended September 30, 2007.

In connection with the term note, the Company issued Sand Hill Finance, LLC a seven-year common stock purchase warrant to purchase 120,000 shares of our common stock at an exercise prices $1.00 per share. The exercise price was subsequently reduced to $0.50 per share pursuant to Warrant Amendment Agreement which was executed in conjunction with the convertible debenture. The warrant contains a cashless exercise provision which means that at the option of the holder, the warrant is convertible into a number of shares of our common stock as determined by dividing the aggregate fair market value of the Company s common stock minus the aggregate exercise price of the warrant by the fair market value of one share of common stock. The number of shares issuable upon the exercise of the warrant and the exercise price are subject to adjustment in the event of stock dividends, stock splits and reclassifications. The fair value of the warrant of $13,589 has been recorded as an addition to paid-in capital and deferred finance costs during the year ended September 30, 2008.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 6 - NOTES PAYABLE (continued)

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

The terms of the Financing Agreement also restrict the Company from undertaking certain transactions without the written consent of the creditor including (i) permit or suffer a change in control involving 20% of its securities, (ii) acquire assets, except in the ordinary course of business, involving payment of $100,000 or more, (iii) sell, lease, or transfer any of its property except for sales of inventory and equipment in the ordinary course of business, (iv) transfer, sell or license any intellectual property, (v) declare or pay a dividend on stock, except payable in the form of stock dividends (vi) incur any indebtedness other than trade credit in the ordinary course of business and (vii) permit any lien or security interest to attach to any collateral.

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

In August, 2008, the Company borrowed $187,500 from an accredited investor. The note bears interest at 16% and had a term of four months, and can be repaid in either cash or IceWEB common stock. As of December 31, 2008 the Company had repaid the full amount of the note through the sale of 2,226,101 shares of Iceweb common stock.

NOTE 7 - EQUIPMENT FINANCING PAYABLE

On July 6, 2006, the Company entered into what is in essence a sale and leaseback agreement with respect to certain computer and office equipment. The Company received gross proceeds of $300,000 from the sale of the equipment to a third party. As part of the same transaction, the Company entered into an agreement to lease the equipment back from the third party for 36 monthly rent payments of $10,398 until August 2009. The Company is accounting for this equipment financing arrangement as a capital lease. In connection with the agreement, the Company made an initial security deposit of $30,000 and is included in deposits in the balance sheet at December 31, 2008. The equipment had a net book value of $37,846 on the date of the transaction. In connection with the financing, the Company did not record any gain or loss. Imputed interest on this financing is 20% per annum. At December 31, 2008, the amount due under this equipment financing arrangement amounted to $65,221, which is reflected as a current liability on the accompanying balance sheet.

NOTE 8 - CONCENTRATION OF CREDIT RISK

Bank Balances

The Company maintains its cash bank deposits at various financial institutions which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2008, the Company had no balances in excess of FDIC insured limits. The Company has not experienced any losses in such accounts.

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 9 - STOCKHOLDERS DEFICIT

During the three months ended December 31, 2008 in connection with the payment on a note payable discussed in Note 6, the Company issued 1,959,601 shares of common stock. The shares were valued at $152,273, the fair market value in the date of issuance.

During the three months ended December 31, 2008, in connection with the exercise of 600,000 stock options, the Company issued 600,000 shares of common stock for cash proceeds of $600.

During the three months ended December 31, 2008, Sand Hill Finance, LLC converted $45,000 of their outstanding convertible debenture into 300,000 shares of common stock.

During the three months ended December 31, 2008 the Company issued 3,431,680 shares of common stock to employees, valued at $137,267. The shares were issued at $0.04 per share, the fair market value at the time of issuance, as compensation in lieu of salary.

Common Stock Warrants

A summary of the status of the Company s outstanding common stock warrants as of December 31, 2008 and changes during the period ending on that date is as follows:

	Number of Warrants		**Weighted Average Exercise Price**
Common Stock Warrants			
Balance at beginning of year	300,000	$	1.94
Granted			
Exercised			
Forfeited			
Balance at end of period	300,000	$	1.94
Warrants exercisable at end of period	300,000	$	1.94
Weighted average fair value of warrants granted or re-priced during the period		$	0.50

The following table summarizes information about common stock warrants outstanding at December 31, 2008:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Price	**Number Outstanding at September 30, 2008**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at September 30, 2008**	**Weighted Average Exercise Price**
0.50	145,000	5.79 Years	0.50	145,000	0.50
0.65	75,000	0.67 Years	0.65	75,000	0.65
2.00	5,000	2.55 Years	2.00	5,000	2.00
4.00	37,500	1.00 Years	4.00	37,500	4.00
8.00	37,500	1.00 Years	8.00	37,500	8.00
	300,000		$1.94	300,000	$1.94

- 16 -

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 10 - STOCK OPTION PLAN

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

The purpose of the Plan is to advance the Company s interests and those of its stockholders by providing a means of attracting and retaining key employees, directors and consultants. In order to serve this purpose, the Company believes the Plan encourages and enables key employees, directors and consultants to participate in its future prosperity and growth by providing them with incentives and compensation based on its performance, development and financial success. Participants in the Plan may include the Company s officers, directors, other key employees and consultants who have responsibilities affecting our management, development or financial success.

Awards may be made under the Plan in the form of Plan options, shares of the Company s common stock subject to a vesting schedule based upon certain performance objectives (Performance Shares) and shares subject to a vesting schedule based on the recipient s continued employment (restricted shares). Plan options may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended or options that do not so qualify. Any incentive stock option granted under the Plan must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our common stock must be at least 110% of such fair market value as determined on the date of the grant. Only persons who are officers or other key employees are eligible to receive incentive stock options and performance share grants. Any non-qualified stock option granted under the Plan must provide for an exercise price of not less than 50% of the fair market value of the underlying shares on the date of such grant.

As amended in April, 2007, the Plan permits the grant of options and shares for up to 10,000,000 shares of the Company s common stock. The Plan terminates 10 years from the date of the Plan s adoption by the Company s stockholders.

The term of each Plan option and the manner in which it may be exercised is determined by the Board of Directors, provided that no Plan option may be exercisable more than three years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of the Company s common stock, no more than five years after the date of the grant. The exercise price of the stock options may be paid in either cash, or delivery of unrestricted shares of common stock having a fair market value on the date of delivery equal to the exercise price, or surrender of shares of common stock subject to the stock option which has a fair market value equal to the total exercise price at the time of exercise, or a combination of the foregoing methods.

The fair value of stock options granted was estimated at the date of grant using the Black-Scholes options pricing model. The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option pricing model:

	December 31,	
	2008	**2007**
Expected volatility	87% - 198%	76% - 107%
Expected term	1 - 5 Years	3 - 5 Years
Risk-free interest rate	2.34% - 2.45%	4.39% - 4.96%
Forfeiture Rate	0% - 45%	0% - 35%
Expected dividend yield	0%	0%

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 10 - STOCK OPTION PLAN (continued)

The expected volatility was determined with reference to the historical volatility of the Company s stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate in effect at the time of grant.

For the three months ended December 31, 2008, total stock-based compensation charged to operations for option-based arrangements amounted to $155,220. At December 31, 2008, there was approximately $810,654 of total unrecognized compensation expense related to non-vested option-based compensation arrangements under the Plan.

A summary of the status of the Company s outstanding stock options as of December 31, 2008 and changes during the period ending on that date is as follows:

	Number of Options		Weighted Average Exercise Price
Stock options			
Balance at beginning of year	6,583,827	$	0.45
Granted	740,000		0.07
Exercised	(600,000)		0.001
Forfeited	(506,844)		0.17
Balance at end of period	6,216,983	$	0.45
Options exercisable at end of period	4,067,300	$	0.47
Weighted average fair value of options granted during the year		$	0.07

The following table summarizes information about employee stock options outstanding at December 31, 2008:

Range of Exercise Price	Options Outstanding Number Outstanding at December 31,	Weighted Average Remaining	Weighted Average Exercise	Options Exercisable Number Exercisable at December 31,	Weighted Average Exercise

	2008	**Contractual Life**	**Price**	**2008**	**Price**
$0.001-0.25	1,790,000	3.68 Years	$0.10	1,064,100	$0.17
0.30-0.48	745,000	3.57 Years	0.46	521,550	0.46
0.54-0.60	2,531,608	3.56 Years	0.58	1,574,608	0.58
0.61-0.80	1,137,500	2.86 Years	0.70	894,167	0.72
1.44-3.80	12,875	0.06 Years	1.51	12,875	1.51
	6,216,983		$0.45	4,067,300	$0.49

ICEWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 11 - SEGMENT REPORTING

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, establishes standards for the reporting by business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method for determining what information to report is based on the way that management organizes the operating segments with IceWEB for making operational decisions and assessments of financial performance.

IceWEB s chief operating decision-maker is considered to be the chief executive officer (CEO). The CEO reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The financial information reviewed by the CEO is identical to the information presented in the accompanying consolidated statements of operations. Therefore, IceWEB has determined that it operates in a single operating segment, specifically, reselling hardware and software. For the three months ended December 31, 2008 and 2007 all material assets and revenues of IceWEB were in the United States.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following analysis of our consolidated financial condition and results of operations for the three months ended December 31, 2008 and 2007 should be read in conjunction with the consolidated financial statements, including footnotes, appearing elsewhere in this quarterly report.

OVERVIEW

IceWEB, through our Inline Corporation subsidiary is a leading provider of high-performance storage products that simplify the way enterprises retain, access, manage and protect their data. Our products are designed specifically for mid-sized enterprises that have complex storage needs but cannot justify the high procurement and ongoing management costs of other storage area network, or SAN, alternatives. Our products are offered in an integrated, all-inclusive package that combines resilient disk storage with a comprehensive suite of intelligent storage management software.

In addition, 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.

Also, 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.

Our storage product architecture employs innovative, proprietary virtualization software that severs the traditional tie between stored data and disk drive hardware. This virtualization software masks the complexity of the underlying storage configuration and enables our storage arrays to cooperate with one another to automatically share resources and balance workloads. Our products are based on the iSCSI network protocol, which utilizes widely-deployed Internet Protocol, or IP, networks. As a result, our customers can cost-effectively install, expand and modify their data storage resources.

Beginning in 2001, we began a series of strategic acquisitions and divestitures which have resulted in our current business and operations and impacted our financial statements for fiscal 2008 and 2007, including:

- in June 2001, we acquired the assets of Learning Stream, Inc., a provider of digital content streaming services, which coincided with the transition of our business model to a focus on e-learning. Learning Stream had developed custom streaming solutions which we believed were more efficient and effective than the solutions we had implemented at that time. We considered the software we acquired to be competitive because it helped remove the complexity and unnecessary cost from the implementation of the streaming technology, in June 2003, we acquired all of the outstanding stock of Interlan Corporation, a provider of data communications and networking solutions for business, government, and education. Interlan provided technical services including presales design and consulting, installation, troubleshooting, and long term maintenance and support contracts, in June 2003, we also acquired all of the outstanding stock of The Seven Corporation, a provider of network engineering services to commercial and government customers throughout the United States,

in October 2003, we acquired the software ownership rights and customers of Iplicity, Inc. of Virginia. Iplicity had developed a complete content management software platform based on open source architecture to run in any operating environment. In this transaction we acquired software licenses, source code, potential patents and trademarks,

in May 2004 we acquired substantially all of the assets of DevElements, Inc. of Virginia, a professional IT consultancy firm that designs, develops and implements web-based productivity solutions for its customers. In this transaction we acquired software licenses, source code, potential patents and trademarks, as well as some cash and tangible assets, and

in March 2006, the Company, through its wholly-owned subsidiary, IceWEB Online, Inc., completed the acquisition of substantially all of the assets and some liabilities of PatriotNet, Inc.

In August 2006, after multiple quarters of collapsing revenue and higher than anticipated losses in fiscal 2006, our Board of Directors and senior management implemented a strategy of re-focusing the Company on hosted software services and network security sales. The Company determined, through a detailed analysis of operations, that the PatriotNet and Integrated Power Solutions activities were not profitable or in line with the company s core focus and competencies. In addition, the Company believes we can focus our limited sales and marketing budgets on the remaining core business activities to achieve more success.

On November 15, 2006, the Company acquired the assets of True North Federal Solutions Group for $350,000 of which $250,000 was paid in cash and $100,000 due upon future terms of the agreement. Under the terms of the agreement, IceWEB acquired the customer database, forecast, contract renewals, and GSA schedule of True North Federal. The revenue generated to IceWEB from this division since the acquisition, exceeded the revenue from the discontinued PatriotNet and IPS operations.

On December 1, 2006, we sold the assets of PatriotNet to Leros Technologies, a third party, for $150,000 in cash and the assumption of $60,000 in liabilities. On September 30, 2007 we recorded goodwill impairment of $180,000 related to this transaction. The PatriotNet services constituted 9.5% of revenue in fiscal 2006.

On December 1, 2006, we sold 100% of the capital stock of our wholly-owned subsidiary, Integrated Power Solutions, Inc. to John Younts, a related party, for the assumption of approximately $200,000 in liabilities. In fiscal 2006, revenues for Integrated Power Solutions accounted for approximately $400,000 or 7% of our total IceWEB revenues.

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 IceWEB common stock valued at $276,846, the fair market value on the date of acquisition. The acquisition was accounted for using the purchase method of accounting. The results of operations are included in the financial statements from the date of acquisition. Inline is a leading provider of intelligent enterprise data storage solutions and services for the geospatial intelligence marketplace. Inline s proprietary products include reliable, high performance Storage Area Network Solutions, Network Attached Storage, and Direct Attached Storage and the rapidly expanding OEM Storage Centric Appliances. Today, Inline has developed its fifth generation of advanced data storage solutions, marketed under the brands *TruEnterprise* and *FileStorm* . All Inline systems function in a heterogeneous operating system environment, including Windows, UNIX and Linux. The purchase of Inline Corporation included the acquisition of assets of $2,688,795, and liabilities of $614,668.

We generate revenues from the manufacture and sale of data storage appliances and servers, the sale of software services, application development, network integrated technology, and third party hardware sales. We believe that the key factors to our continued growth and profitability include the following:

Continued focus on the GIS market and expanding our channels of distribution with OEM partners

Continued investment in product development and research efforts

Raising approximately $3 million of additional working capital to expand our marketing, research and development, and restructure our debt.

Hiring additional qualified, technical employees, and

Improving our internal financial reporting systems and processes.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of significant accounting policies is included in Note 1 to the audited consolidated financial statements included for the year ended September 30, 2008 and notes thereto contained on Form 10-KSB of the Company as filed with the Securities and Exchange Commission. Management believes that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about the company s operating results and financial condition.

Financial Reporting Release No. 60, which was released by the U.S. Securities and Exchange Commission, encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our consolidated financial statements include a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the financial statements.

Use of Estimates - Management s Discussion and Analysis or Plan of Operations is based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates, including those related to allowances for doubtful accounts receivable, the carrying value of property and equipment and long-lived assets, and the value of stock-option based compensation. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Accounting for Stock Based Compensation - Effective October 1, 2005, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* (SFAS No. 123R). SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, we recognize the cost resulting from all stock-based payment transactions including shares issued under our stock option plans in the financial statements. The adoption of SFAS No. 123R will have a negative impact on our future results of operations.

Revenue Recognition - The Company follows the guidance of the Securities and Exchange Commission s Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for the various revenues streams of the Company:

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

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

Amounts billed in advance of services being provided are recorded as deferred revenues and recognized in the consolidated statement of operations as services are provided.

THREE MONTHS ENDED DECEMBER 31, 2008 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2007

The following table provides an overview of certain key factors of our results of operations for the three months ended December 31, 2008 as compared to the three months ended December 31, 2007:

	Three months ended December 31, 2008	**2007**	**$ of Change**	**% Change**
Net Revenues	1,740,588	4,212,732	(2,472,144)	(58.7%)
Cost of sales	1,267,675	3,613,816	(2,346,141)	(64.9%)
Operating Expenses:				
Marketing and selling	11,244	29,405	(18,161)	61.8%
Depreciation and amortization	176,248	75,831	(100,417)	132.4%
Research and development	81,665		81,665	100.0%
General and administrative	667,059	1,006,948	(339,889)	(33.8%)
Total operating expenses	936,216	1,112,184	(175,968)	(15.8%)
Loss from operation	(463,303)	(513,268)	(49,965)	(9.7%)
Total other income (expense)	(195,731)	(96,712)	99,019	102.4%
Net loss	$(659,034)	$(609,980)	49,054	8.0%

- 23 -

Other Key Indicators:

	Three months ended December 31,		
	2008	2007	% Change
Cost of sales as a percentage of revenues	72.8%	85.8%	(13.0%)
Gross profit margin	27.2%	14.2%	13.0%
General and administrative expenses as a percentage of revenues	38.3%	23.9%	14.4%
Total operating expenses as a percentage of revenues	53.8%	26.4%	27.4%

Revenues

For the three months ended December 31, 2008, we reported revenues of $1,740,588 as compared to revenues of $4,212,732 for the three months ended December 31, 2007, a decrease of $2,472,144 or approximately 59%. The decrease is primarily due to the Company s focus on our high margin data storage business unit and the related decrease in our third party product sales through IceWEB Solutions Group. Storage revenue accounted for approximately 24% of our revenue. Revenues from the Solutions Group business accounted for 71% of our revenue and our online services accounted for 5% of our revenue during the three months ended December 31, 2008.

Cost of Sales

Our cost of sales consists of products purchased for resale, and component parts for the manufacture of our storage products. For the three months ended December 31, 2008, cost of sales was $1,267,675, or approximately 72.8% of revenues, compared to $3,613,816, or approximately 85.8% of revenues, for the three months ended December 31, 2007. The decrease in costs of sales as a percentage of revenue and the corresponding increase in our gross profit margin for the three months ended December 31, 2008 as compared to the three months ended December 31, 2007 was the result of improved mix of higher margin storage products during the three months ended December 31, 2008 as a percentage of total revenue. We anticipate that our gross profit margins will continue to improve through the balance of fiscal 2009, as IceWEB storage product revenue will make up a larger percentage of total revenue, primarily through sales of Inline storage products.

Total Operating Expenses

Our total operating expenses decreased approximately 16% to $936,216 for the three months ended December 31, 2008 as compared to $1,112,184 for the three months ended December 31, 2007. These changes include:

Marketing and Selling. For the three months ended December 31, 2008, marketing and selling costs were $11,244 as compared to $29,405 for the three months ended December 31, 2007, a decrease of $18,161 or approximately 62%. The decrease was due to a decrease in IceWEB Online web marketing, advertising and print advertising during the three months ended December 31, 2008.

Depreciation and amortization expense. For the three months ended December 31, 2008, depreciation and amortization expense amounted to $176,248 as compared to $75,831 for the three months ended December 31, 2007, an increase of $100,417 or 132%. The increase in depreciation and amortization was primarily attributable to the amortization of leasehold improvements, manufacturing GSA schedule, and other fixed assets acquired as part of the acquisition of Inline Corporation in December, 2007.

General and administrative expense. For the three months ended December 31, 2008, general and administrative expenses were $667,059 as compared to $1,006,948 for the three months ended December 31, 2007, a decrease of $339,889 or approximately 34%. For the three months ended December 31, 2008 and 2007 general and administrative expenses consisted of the following:

	Fiscal Q1 2008	**Fiscal Q1 2007**
Occupancy	5,770	52,032
Consulting	18,483	38,505
Employee compensation	554,625	655,597
Professional fees	11,448	24,496
Internet/Phone	23,970	22,313
Travel/Entertainment	5,071	30,770
Investor Relations	3,158	45,199
Licenses	465	1,173
Insurance	14,489	15,316
Other	28,114	104,897
Leased Equipment	1,466	16,650
	667,059	1,006,948

For the three months ended December 31, 2008, Occupancy expense decreased to $5,770 as compared to $52,032. Occupancy expense is lower due to the Company s relocation to its manufacturing facility in Dulles, Virginia.

For the three months ended December 31, 2008, Consulting expense decreased to $18,483 as compared to $38,505. Consulting expense decreased as a result of general cost-cutting measures put in place by the Company.

For the three months ended December 31, 2008, salaries and related expenses decreased to $554,625 as compared to $655,597. Employee compensation is lower due to lower headcount and the resulting lower salaries paid, offset by higher expense related to the amortization of deferred compensation related to employee stock options of $155,220.

For the three months ended December 31, 2008, Professional fee expense decreased to $11,448 as compared to $24,496. Professional fee expense decreased as a result of general cost-cutting measures put in place by the Company.

For the three months ended December 31, 2008, travel and entertainment expense decreased to $5,071 as compared to $30,770. Travel and entertainment expense decreased as a result of limited travel by sales and marketing and general cost-cutting measures put in place by the Company.

For the three months ended December 31, 2008, Other expense amounted to $28,114 as compared to $104,897 for the three months ended December 31, 2007, a decrease of 76,783. The decrease was due to a one-time charge for credit card fees of $20,817 and $23,375 of miscellaneous tax and auto expense related to the acquisition of Inline in the three months ended December 31, 2007. In addition, web development expense was lower in the three months ended December 31, 2008 versus the year-ago period by $13,080.

For the three months ended December 31, 2008 Investor relations expense decreased to $3,158 as compared to $45,199 for the three months ended December 31, 2007. The decrease is due to a decreased number of road shows and a general decrease in investor relations activity.

We anticipate that general and administrative expenses will continue to remain flat during the balance of fiscal 2009, with the exception of share-based payments that the Company may incur from time to time.

LOSS FROM OPERATIONS

We reported a loss from operations of $463,303 for the three months ended December 31, 2008 as compared to a loss from operations of $513,268 for the three months ended December 31, 2007, an improvement of $49,965 or approximately 10%.

OTHER INCOME (EXPENSES)

Interest Income. Interest income for the three months ended December 31, 2008 amounted to $483 and represented interest earned on interest bearing cash accounts. This compares to $924 in interest income in the comparable period in fiscal 2007.

Interest Expense. For the three months ended December 31, 2008, interest expense amounted to 196,214 as compared to $97,636 for the three months ended December 31, 2007, an increase of $98,578 or 101%. The increase in interest expense is primarily attributable to the increase in borrowings and certain interest bearing liabilities related to the acquisition of Inline Corporation. Also, during the three months ended December 31, 2008, we amortized deferred financing costs of $32,264, as compared to $0 during the three months ended December 31, 2007.

NET LOSS

Our net loss was $659,034 for the three months ended December 31, 2008 compared to $609,980 for the three months ended December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. The following table provides an overview of certain selected balance sheet comparisons between December 31, 2008 and September 30, 2008:

	December 31, 2008		**September 30, 2008**		**$ Change**		**% Change**	
Working Capital	(5, 390,812	)	(5,572,671	)	181,859		3.3	%
Cash	3,498		4,780		(1,282	)	(26.8	%)
Accounts receivable, net	3,794,162		3,094,110		700,052		22.6	%
Inventory	461,055		400,312		60,743		15.2	%
Total current assets	4,330,830		3,575,930		754,900		21.1	%
Property and equipment, net	1,091,968		1,169,369		(77,401	)	(6.6	%)
Intangibles, net	1,048,882		1,132,612		(83,730	)	(7.4	%)

Total assets	6,533,098	5,939,327	593,771	10.0 %
Accounts payable and accrued liabilities	7, 865,191	7,762,872	102,319	1.3 %
Notes payable-current	1,842,055	1,372,565	469,491	34.2 %
Deferred revenue	14,396	13,164	1,232	9.4 %
Total current liabilities	9,721,642	9,148,601	573,410	6.3 %
Notes payable-long term	1,145,921	956,519	189,402	19.8 %
Total liabilities	10,867,563	10,105,120	762,443	7.5 %
Accumulated deficit	(20,790,990)	(20,131,957)	(659,033)	3.3 %
Stockholders deficit	(4,334,465)	(4,165,793)	(168,672)	4.0 %

Net cash used in operating activities was $842,930 for the three months ended December 31, 2008 as compared to net cash provided by operating activities of $742,231 for the three months ended December 31, 2007, a decrease of $1,567,161. For the three months ended December 31, 2008, we used cash to fund our net loss of $659,033 offset by non-cash items such as depreciation and amortization expense of $176,248, share-based compensation expense of $292,488, and offset by changes in assets and liabilities of $684,897. Also during the three months ended December 31, 2008 we experienced increases in billings of accounts receivable of $700,052, which was offset by an increase in accounts payable during the period of $102,338. For the three months ended December 31, 2007, we used cash to fund our net loss of $609,980 offset by non-cash items such as depreciation expense of $74,115, share-based compensation expense of $106,444, and offset by changes in assets and liabilities of $183,175. Also during the three months ended December 31, 2007 we experienced increases in collections of accounts receivable of $2,179,632, which was offset by a decrease in accounts payable during the period of $842,805.

Net cash used in investing activities for the three months ended December 31, 2008 was $15,118 as compared to net cash used in investing activities of $1,548,299 for the three months ended December 31, 2007. During the three months ended December 31, 2008, we used cash of $15,118 for property and equipment purchases. During the three months ended December 31, 2007, we used net cash of $1,538,407 as partial consideration in our acquisition of Inline. Additionally, we used cash of $9,892 for property and equipment purchases.

Net cash provided by financing activities for the three months ended December 31, 2008 was $856,767 as compared to net cash provided of $390,295 for the three months ended December 31, 2007. For the three months ended December 31, 2008, net cash provided by financing activities related to proceeds received from notes payable of $1,972,131 which were advances under our factoring line with Sand Hill Finance LLC, proceeds from the exercise of common stock options of $600, and the payment of notes payable with common stock of $197,275, offset by repayments on notes payable of $1,286,653 which were to pay down the balance on the Sand Hill Finance LLC factoring line, and repayments of equipment financing of $26,586. For the three months ended December 31, 2007, net cash provided by financing activities related to proceeds received from notes payable of $2,812,247 which were advances under our factoring line with Sand Hill Finance LLC, proceeds received from related party notes and advances of $1,482 offset by repayments on notes payable of $2,393,415 which were to pay down the balance on the Sand Hill Finance LLC factoring line, payments on related party advances of $8,540 and repayments of equipment financing of $21,480.

At December 31, 2008 we had a working capital deficit of $5,390,812 and an accumulated deficit of $20,790,990. The report from our independent registered public accounting firm on our audited financial statements for the fiscal year ended September 30, 2008 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. While our sales decreased significantly during the three months ended December 31, 2008, our gross profit margin was approximately 27% and our sales were not sufficient to pay our operating expenses. We reported a net loss of $659,034 for the three months ended December 31, 2008. There are no assurances that we will report income from operations in any future periods.

Historically, our revenues 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 December 31, 2008 we had cash on hand of $3,498. In fiscal 2006, we entered into a receivable factoring agreement with Sand Hill Finance, LLC under which we can sell certain accounts receivable to the lender on a full recourse basis at 80% of the face amount of the receivable up to an aggregate of $3.0 million. At December 31, 2008 we owed Sand Hill Finance, LLC $1,776,834 under this accounts receivable line.

We do not have any commitments for capital expenditures. In connection with our annual report for our fiscal year ending September 30, 2009 our management will be required to provide an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not internal control over financial reporting is effective. In order to comply with this requirement we will need to engage a consulting firm to undertake an analysis of our internal controls. We have yet to engage such a consulting firm and are unable at this time to predict the costs associated with our compliance with Section 404 of Sarbanes-Oxley Act of 2002. We do not presently have any external sources of working capital other than what may be available under the factoring agreement with Sand Hill Finance and loans from related parties. Our working capital needs in future periods are dependent primarily on the rate at which we can increase our revenues 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. In March 2005 we sold shares of our Series A Convertible Preferred Stock and in December 2005 we sold shares of our Series B Convertible Preferred Stock to the same purchaser. The designations of these shares included a restriction that so long as the shares are outstanding, we cannot sell or issue any common stock, rights to subscribe for shares of common stock or securities which are convertible or exercisable into shares of common stock at an effective purchase price of less than the then conversion value which is presently $0.60 per share for the Series A Convertible Preferred Stock and $0.2727 for the Series B Convertible Preferred Stock. Under the terms of the Series B Convertible Preferred Stock transaction, we also agreed not to issue any convertible debt or preferred stock. Finally, under the terms of the financing agreement with Sand Hill Finance, LLC we agreed not to incur any additional indebtedness other than trade credit in the ordinary course of business. These covenants may limit our ability to raise capital in future periods.

There can be no assurance that acceptable financing can be obtained on suitable terms, if at all. Our ability to continue our existing operations and to continue growth strategy could 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 revenues 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.

Recent Accounting Pronouncements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

None

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by the Quarterly Report (the evaluation date). They have concluded that, as of the evaluation date, these disclosure controls and procedures were effective to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis.

Changes in internal control over financial reporting. There were no changes to internal controls over financial reporting that occurred during the three months ended December 31, 2008, that have materially affected, or are reasonably likely to materially impact, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under the heading Risk Factors in our Annual Report on Form 10-K/A filed on January 9, 2009, which could materially affect our business operations, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business operations and/or financial condition. There have been no material changes to our risk factors since the filing of our Form 10-K/A.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

* Filed herein

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ICEWEB, INC.
February 13, 2009	By: /s/ John R. Signorello John R. Signorello, Chief Executive Officer, principal executive officer
February 13, 2009	By: /s/ Mark B. Lucky Mark B. Lucky Chief Financial Officer, principal financial and accounting officer