

THEGLOBE COM INC
Form 10-Q/A
November 14, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q/A

Amendment 1

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

OR

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 0-25053

THEGLOBE.COM, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

STATE OF DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

14-1782422
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

110 EAST BROWARD BOULEVARD, SUITE 1400
FORT LAUDERDALE, FL. 33301
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(954) 769 - 5900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o

Accelerated filer o

Non-accelerated filer x

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

The number of shares outstanding of the Registrant's Common Stock, \$.001 par value (the "Common Stock") as of November 9, 2007 was 172,484,838.

EXPLANTORY NOTE

This Quarterly Report on Form 10-Q/A constitutes Amendment No. 1 (the "Amendment") to theglobe.com, inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which was originally filed with the Securities and Exchange Commission ("SEC") on November 9, 2007. This Amendment is being filed solely to submit the exhibits listed below which were inadvertently omitted from the original Quarterly Report. Consistent with applicable SEC guidance, this Amendment includes the entire Quarterly Report for the quarter ended September 30, 2007.

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a).

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a).

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

THEGLOBE.COM, INC.
FORM 10-Q

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PART I - FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****THEGLOBE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	SEPTEMBER 30, 2007 (UNAUDITED)	DECEMBER 31, 2006
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 412,234	\$ 5,316,218
Accounts receivable	165,701	45,870
Prepaid expenses	213,395	358,701
Net assets of discontinued operations	8,251	960,280
Other current assets	5,624	13,001
Total current assets	805,205	6,694,070
Intangible assets	408,289	526,824
Property and equipment, net	111,061	144,216
Other assets	40,000	40,000
Total assets	\$ 1,364,555	\$ 7,405,110
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current Liabilities:		
Accounts payable	\$ 754,098	\$ 507,578
Accrued expenses and other current liabilities	1,529,409	1,484,669
Deferred revenue	1,254,540	1,222,705
Notes payable due affiliates	4,650,000	3,400,000
Net liabilities of discontinued operations	2,012,023	5,160,872
Total current liabilities	10,200,070	11,775,824
Deferred revenue	318,180	232,433
Total liabilities	10,518,250	12,008,257
Stockholders' Deficit:		
Common stock, \$0.001 par value; 500,000,000 shares authorized; 172,484,838 shares issued at September 30, 2007 and December 31, 2006	172,485	172,485
Additional paid-in capital	290,475,429	289,088,557
Accumulated deficit	(299,801,609)	(293,864,189)
Total stockholders' deficit	(9,153,695)	(4,603,147)

Total liabilities and stockholders' deficit	\$	1,364,555	\$	7,405,110
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See notes to unaudited condensed consolidated financial statements.

THEGLOBE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(UNAUDITED)			
Net Revenue	\$ 599,580	\$ 385,755	\$ 1,676,644	\$ 1,062,042
Operating Expenses:				
Cost of revenue	183,532	118,057	376,835	373,999
Sales and marketing	439,008	883,995	1,684,688	1,818,326
General and administrative	698,783	1,102,950	3,150,606	3,394,058
Depreciation	21,738	18,971	64,792	54,367
Intangible asset amortization	39,512	39,512	118,535	148,699
	1,382,573	2,163,485	5,395,456	5,789,449
Operating Loss from Continuing Operations	(782,993)	(1,777,730)	(3,718,812)	(4,727,407)
Other Income (Expense), net				
Interest income (expense), net	(861,059)	2,277	(1,475,840)	127,876
Other income, net	10,048	—	10,048	21,130
	(851,011)	2,277	(1,465,792)	149,006
Loss from Continuing Operations				
Before Income Tax	(1,634,004)	(1,775,453)	(5,184,604)	(4,578,401)
Income Tax Provision	—	124,313	—	124,313
Loss from Continuing Operations	(1,634,004)	(1,899,766)	(5,184,604)	(4,702,714)
Discontinued Operations, net of tax	251,196	(1,052,614)	(752,816)	(6,576,963)
Net Loss	\$ (1,382,808)	\$ (2,952,380)	\$ (5,937,420)	\$ (11,279,677)
Loss Per Share -				
Basic and Diluted:				
Continuing Operations	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)
Discontinued Operations	\$ —	\$ (0.01)	\$ —)	\$ (0.04)
Net Loss	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.06)
Weighted Average Common Shares Outstanding	172,485,000	174,723,000	172,485,000	174,680,000

See notes to unaudited condensed consolidated financial statements.

THEGLOBE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2007 2006 (UNAUDITED)	
Cash Flows from Operating Activities:		
Net loss	\$ (5,937,420)	\$ (11,279,677)
Add back: loss from discontinued operations	752,816	6,576,963
Net loss from continuing operations	(5,184,604)	(4,702,714)
Adjustments to reconcile net loss from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	183,327	203,066
Non-cash interest expense related to beneficial conversion features of debt	1,250,000	—
Employee stock compensation	131,076	349,406
Compensation related to non-employee stock options	5,796	107,992
Other, net	—	(21,130)
Changes in operating assets and liabilities		
Accounts receivable	(119,831)	(91,229)
Prepaid and other current assets	152,683	(25,811)
Accounts payable	246,520	(454,425)
Accrued expenses and other current liabilities	44,740	199,640
Income taxes payable	—	(806,406)
Deferred revenue	117,582	55,462
Net cash flows from operating activities of continuing operations	(3,172,711)	(5,186,149)
Net cash flows from operating activities of discontinued operations	(3,063,222)	(5,376,893)
Net cash flows from operating activities	(6,235,933)	(10,563,042)
Cash Flows from Investing Activities:		
Net cash released from escrow	—	781,764
Purchases of property and equipment	(26,345)	(52,604)
Net cash flows from investing activities of continuing operations	(26,345)	729,160
Net cash flows from investing activities of discontinued operations:		
Proceeds from the sale of property and equipment	108,294	137,626
Proceeds from the sale of the Now Playing magazine	—	130,000
Net cash flows from investing activities	(81,949)	996,786
Cash Flows from Financing Activities:		
Borrowings on notes payable	1,250,000	—
Proceeds from exercise of stock options and warrants	—	18,420
Net cash flows from financing activities of continuing operations	1,250,000	18,420
Payments on debt of discontinued operations	—	(30,218)
	1,250,000	(11,798)
Net Decrease in Cash and Cash Equivalents	(4,903,984)	(9,578,054)
Cash and Cash Equivalents, at beginning of period	5,316,218	16,480,660

Cash and Cash Equivalents, at end of period	\$	412,234	\$	6,902,606
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See notes to unaudited condensed consolidated financial statements.

THEGLOBE.COM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THEGLOBE.COM

theglobe.com, inc. (the "Company" or "theglobe") was incorporated on May 1, 1995 (inception) and commenced operations on that date. Originally, theglobe.com was an online community with registered members and users in the United States and abroad. That product gave users the freedom to personalize their online experience by publishing their own content and by interacting with others having similar interests. However, due to the deterioration of the online advertising market, the Company was forced to restructure and ceased the operations of its online community on August 15, 2001. The Company then sold most of its remaining online and offline properties. The Company continued to operate its Computer Games print magazine and the associated CGOnline website (www.cgonline.com), as well as the e-commerce games distribution business of Chips & Bits, Inc. (www.chipsbits.com). On June 1, 2002, Chairman Michael S. Egan and Director Edward A. Cespedes became Chief Executive Officer and President of the Company, respectively.

On November 14, 2002, the Company acquired certain Voice over Internet Protocol ("VoIP") assets. In exchange for the assets, the Company issued warrants to acquire 1,750,000 shares of its Common Stock and an additional 425,000 warrants as part of an earn-out structure upon the attainment of certain performance targets. The earn-out performance targets were not achieved and the 425,000 earn-out warrants expired on December 31, 2003.

On May 28, 2003, the Company acquired Direct Partner Telecom, Inc. ("DPT"), a company engaged in VoIP telephony services in exchange for 1,375,000 shares of the Company's Common Stock and the issuance of warrants to acquire 500,000 shares of the Company's Common Stock. The Company acquired all of the physical assets and intellectual property of DPT and originally planned to continue to operate the company as a subsidiary and engage in the provision of VoIP services to other telephony businesses on a wholesale transactional basis. In the first quarter of 2004, the Company decided to suspend DPT's wholesale business and dedicate the DPT physical and intellectual assets to its retail VoIP business.

On May 9, 2005, the Company exercised an option to acquire all of the outstanding capital stock of Tralliance Corporation ("Tralliance"), an entity which had been designated as the registry for the ".travel" top-level domain through an agreement with the Internet Corporation for Assigned Names and Numbers ("ICANN"). The purchase price consisted of the issuance of 2,000,000 shares of theglobe's Common Stock, warrants to acquire 475,000 shares of theglobe's Common Stock and \$40,000 in cash.

As more fully discussed in Note 4, "Discontinued Operations," in March 2007, management and the Board of Directors of the Company made the decision to cease all activities related to its computer games businesses, including discontinuing the operations of its magazine publications, games distribution business and related websites. In addition, in March 2007, management and the Board of Directors of the Company decided to discontinue the operating, research and development activities of its VoIP telephony services business and terminate all of the remaining employees of that business.

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from their respective dates of acquisition. All significant intercompany balances and transactions have been eliminated in consolidation.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited interim condensed consolidated financial statements of the Company as of September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 included herein have been prepared in accordance with the instructions for Form 10-Q under the Securities Exchange Act of 1934, as amended, and Article 10 of Regulation S-X under the Securities Act of 1933, as amended. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations relating to interim condensed consolidated financial statements.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company at September 30, 2007 and the results of its operations and its cash flows for the three and nine months ended September 30, 2007 and 2006. The results of operations and cash flows for such periods are not necessarily indicative of results expected for the full year or for any future period.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. These estimates and assumptions relate to estimates of collectibility of accounts receivable, accruals, the valuations of fair values of options and warrants, the impairment of long-lived assets and other factors. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash equivalents consist of money market funds and highly liquid short-term investments with qualified financial institutions. The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents.

COMPREHENSIVE INCOME (LOSS)

The Company reports comprehensive income (loss) in accordance with Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." Comprehensive income (loss) generally represents all changes in stockholders' equity during the year except those resulting from investments by, or distributions to, stockholders. The Company's comprehensive loss was approximately \$5.9 million and \$11.3 million for the nine months ended September 30, 2007 and 2006, respectively, which approximated the Company's reported net loss.

CONCENTRATION OF CREDIT RISK

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company maintains its cash and cash equivalents with various financial institutions and invests its funds among a diverse group of issuers and instruments. The Company performs ongoing credit evaluations of its customers' financial condition and establishes an allowance for doubtful accounts, if required, based upon factors surrounding the credit risk of customers, historical trends and other information.

REVENUE RECOGNITION

Continuing Operations

INTERNET SERVICES

Internet services revenue consists of registration fees for Internet domain registrations, which generally have terms of one year, but may be up to ten years. Such registration fees are reported net of transaction fees paid to an unrelated third party which serves as the registry operator for the Company. Payments of registration fees are deferred when initially received and recognized as revenue on a straight-line basis over the registrations' terms.

Advertising on the Company's www.search.travel website is generally sold at a flat rate for a stated time period and is recognized on a straight-line basis over the term of the advertising contract.

Discontinued Operations**COMPUTER GAMES BUSINESSES**

Advertising revenue from the sale of print advertisements under short-term contracts in the Company's magazine publications was recognized at the on-sale date of the magazines.

Newsstand sales of the Company's magazine publications were recognized at the on-sale date of the magazines, net of provisions for estimated returns. Subscription revenue, net of agency fees, was deferred when initially received and recognized as income ratably over the subscription term.

Sales of games and related products from the Company's online store were recognized as revenue when the product was shipped to the customer. Amounts billed to customers for shipping and handling charges were included in net revenue. The Company provided an allowance for returns of merchandise sold through its online store.

VOIP TELEPHONY SERVICES

VoIP telephony services revenue represented fees charged to customers for voice services and was recognized based on minutes of customer usage or as services were provided. The Company recorded payments received in advance for prepaid services as deferred revenue until the related services were provided.

SEGMENT REPORTING

Effective with the March 2007 decision by management and the Board of Directors of the Company to cease all activities related to its computer games and VoIP telephony services businesses, the Company is now involved in one operating segment, the Internet services business.

NET LOSS PER SHARE

The Company reports net loss per common share in accordance with SFAS No. 128, "Computation of Earnings Per Share." In accordance with SFAS 128 and the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 98, basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Common equivalent shares consist of the incremental common shares issuable upon the conversion of convertible preferred stock and convertible notes (using the if-converted method), if any, and the shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Common equivalent shares are excluded from the calculation if their effect is anti-dilutive or if a loss from continuing operations is reported.

Due to the Company's net losses from continuing operations, the effect of potentially dilutive securities or common stock equivalents that could be issued was excluded from the diluted net loss per common share calculation due to the anti-dilutive effect. Such potentially dilutive securities and common stock equivalents consisted of the following for the periods ended September 30:

	2007	2006
Options to purchase common stock	17,792,000	20,049,000
Common shares issuable upon exercise of warrants	16,911,000	6,911,000
Common shares issuable upon conversion of Convertible Notes	193,000,000	68,000,000
Total	227,703,000	94,960,000

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 expands the scope of what entities may carry at fair value by offering an irrevocable option to record many types of financial assets and liabilities at fair value. Changes in fair value would be recorded in an entity’s income statement. This accounting standard also establishes presentation and disclosure requirements that are intended to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company on January 1, 2008. Earlier application is permitted under certain circumstances. We are currently evaluating the requirements of SFAS No. 159 and have not yet determined the impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 applies to other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the requirements of SFAS No. 157 and have not determined the impact on our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the “dual approach” had always been used or (ii) recording the cumulative effect of initially applying the “dual approach” as adjustments to the carrying value of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the “cumulative effect” transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The adoption of this standard did not have a material impact on the Company’s financial condition, results of operations or liquidity.

In June 2006, the FASB issued Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of FASB Statement No. 109, “Accounting for Income Taxes,” which clarifies accounting for and disclosure of uncertainty in tax positions. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation is effective for fiscal years beginning after December 15, 2006. We have evaluated the impact of adopting FIN No. 48 on our consolidated financial statements, and the adoption of FIN No. 48 did not have a material effect on our consolidated financial position, cash flows and results of operations.

RECLASSIFICATIONS

Certain 2006 amounts have been reclassified to conform to the 2007 presentation. In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the operations of the Company’s games and VoIP telephony services divisions have been accounted for in accordance with the provisions of SFAS No. 144 and the 2007 results of their operations have been included in income (loss) from discontinued operations. Prior periods have been reclassified for comparability, as required.

(2) GOING CONCERN CONSIDERATIONS AND MANAGEMENT’S PLAN

The Company received a report from its independent accountants, relating to its December 31, 2006 audited financial statements containing an explanatory paragraph stating that its recurring losses from operations and its accumulated deficit raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. However, for the reasons described below, Company management does not believe that cash on hand and cash flow generated internally by the Company will be adequate to fund the operation of its businesses beyond a short period of time. These reasons raise significant doubt about the Company's ability to continue as a going concern.

As of September 30, 2007, the Company had a net working capital deficit of approximately \$9,395,000, inclusive of a cash and cash equivalents balance of approximately \$412,000. Such working capital deficit included an aggregate of \$4,650,000 in secured convertible demand notes and accrued interest of approximately \$838,000 due to entities controlled by Michael Egan, the Company's Chairman and Chief Executive Officer (See Note 3, "Debt," for further details).

Notwithstanding previous cost reduction actions taken by the Company and its recent decision to shutdown its unprofitable computer games and VoIP telephony services businesses in March 2007 (see Note 4, "Discontinued Operations"), the Company continues to incur substantial consolidated operating losses, although reduced in comparison with prior periods, and management believes that the Company will continue to be unprofitable in the foreseeable future. Based upon the Company's current financial condition, as discussed above, and without the infusion of additional capital, management does not believe that the Company will be able to fund its operations, including making the \$225,000 payment to its Registry Operator which is contractually due on November 15, 2007 (see Note 7. "Subsequent Event" for further discussion), beyond the middle of November 2007.

It is our preference to avoid filing for protection under the U.S. Bankruptcy Code. However, in order to continue operating as a going concern for any length of time beyond November 2007, we believe that we must quickly raise capital. Although there is no commitment to do so, any such funds would most likely come from Dancing Bear Investments, Inc., an entity controlled by Michael Egan, the Company's Chairman and Chief Executive Officer, under a Note Purchase Agreement entered into on May 29, 2007 or otherwise from Michael Egan or affiliates of Mr. Egan or the Company, as the Company currently has no access to credit facilities with traditional third parties and has historically relied on borrowings from related parties to meet short-term liquidity needs. Any such capital raised would not be registered under the Securities Act of 1933 and would not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Although, until November 25, 2007, Dancing Bear Investments, Inc. still has the right to purchase an additional \$1,750,000 under the Note Purchase Agreement, there can be no assurance that Dancing Bear Investments, Inc. will elect to purchase additional 2007 Convertible Notes. Further, the conversion of any of the convertible debt securities outstanding as of the current date, or issued in the future, will likely result in very substantial dilution of the number of outstanding shares of the Company's Common Stock.

In addition to our immediate need to raise capital, we believe that our long-term financial viability will be determined mainly by our ability to successfully execute our current and future business plans, including (i) achieving net growth in the number of ".travel" domain name registrations; (ii) improving and monetizing our www.search.travel website; (iii) further reducing our operating expenses and (iv) successfully settling disputed and other outstanding liabilities related to our discontinued operations. The amount of capital required to be raised by the Company will be dependent upon the Company's performance in executing its current and future business plans, as measured principally by the time period needed to begin generating positive internal cash flow. There can be no assurance that the Company will be successful in raising a sufficient amount of capital (including selling any additional 2007 Convertible Notes) or in executing its business plans. Further, even if we raise capital and are successful in achieving each of the aforementioned objectives, if demand for repayment of any or all of the \$4,650,000 in outstanding secured debt as of the current date or related accrued interest is made, there is no assurance that we will not, and it is likely that we will, be required to file for bankruptcy protection at that time.

(3) DEBT

On May 29, 2007, Dancing Bear Investments, Inc. (the "Noteholder"), an entity which is controlled by the Company's Chairman and Chief Executive Officer, entered into a Note Purchase Agreement (the "Agreement") with the Company pursuant to which it acquired a convertible promissory note (the "2007 Convertible Note") in the principal amount of \$250,000. Under the terms of the Agreement, the Noteholder was granted the optional right, for a period of 180 days from the date of the Agreement, to purchase additional 2007 Convertible Notes such that the aggregate principal

amount issued under the Agreement could total \$3,000,000 (the "Option") On June 25, 2007, July 19, 2007 and September 6, 2007, the Noteholder acquired additional 2007 Convertible Notes in the principal amounts of \$250,000, \$500,000 and \$250,000 respectively. At September 30, 2007 the aggregate outstanding principal amount of 2007 Convertible Notes totaled \$1,250,000.

The 2007 Convertible Notes are convertible at anytime prior to payment into shares of the Company's Common Stock at the rate of \$0.01 per share. The conversion price of the 2007 Convertible Notes is subject to adjustment upon the occurrence of certain events, including with respect to stock splits or combinations. Assuming the Option is fully exercised and all 2007 Convertible Notes are thereafter converted at the initial conversion rate, and without regard to potential anti-dilutive adjustments resulting from stock splits and the like, approximately 300,000,000 shares of Common Stock could be issued. To the extent that the Company does not have a number of authorized shares of Common Stock (after taking into account outstanding options, warrants and other convertible securities of the Company) sufficient to permit conversion of the 2007 Convertible Notes in full, then the 2007 Convertible Notes shall, until additional shares have been authorized, be convertible only to the extent of available shares. At the present time (after taking into account outstanding options, warrants and other convertible securities of the Company), if the Option was fully exercised, approximately \$803,800 of the resulting \$3,000,000 aggregate amount of 2007 Convertible Notes (equal to approximately 80,380,000 shares) could not be converted into shares until the Company's authorized capital stock is increased. The Company anticipates that it will seek to amend its Certificate of Incorporation so as to increase its authorized shares of Common Stock at its next annual meeting of shareholders. The 2007 Convertible Notes are due five days after demand for payment by the Noteholder and are secured by a pledge of all of the assets of the Company and its subsidiaries, subordinate to existing liens on such assets. The 2007 Convertible Notes bear interest at the rate of ten percent per annum. Additionally, under the terms of the Agreement, the Noteholder was granted certain demand and certain "piggy-back" registration rights in the event that the Noteholder exercises its option to convert any of the 2007 Convertible Notes.

As the 2007 Convertible Notes were immediately convertible into common shares of the Company at issuance, an aggregate of \$750,000 and \$1,250,000 of non-cash interest expense was recognized and credited to additional paid-in capital during the three and nine months ended September 30, 2007, respectively, as a result of the beneficial conversion features of the 2007 Convertible Notes. The value attributable to the beneficial conversion features was calculated by comparing the fair value of the underlying common shares of the 2007 Convertible Notes on the date of issuance based on the closing price of theglobe's Common Stock as reflected on the OTCBB to the conversion price and was limited to the aggregate proceeds received from the issuance of the 2007 Convertible Notes.

(4) DISCONTINUED OPERATIONS

In March 2007, management and the Board of Directors of the Company made the decision to cease all activities related to its computer games businesses, including discontinuing the operations of its magazine publications, games distribution business and related websites. The Company's decision to shutdown its computer games businesses was based primarily on the historical losses sustained by these businesses during the recent past and management's expectations of continued future losses. As of September 30, 2007, all significant elements of its computer games business shutdown plan have been completed by the Company, except for the collection and payment of remaining outstanding accounts receivables and payables.

In addition, in March 2007, management and the Board of Directors of the Company decided to discontinue the operating, research and development activities of its VoIP telephony services business and terminate all of the remaining employees of the business. The Company's decision to discontinue the operations of its VoIP telephony services business was based primarily on the historical losses sustained by the business during the past several years, management's expectations of continued losses for the foreseeable future and estimates of the amount of capital required to attempt to successfully monetize its business. On April 2, 2007, theglobe agreed to transfer to Michael Egan all of its VoIP intellectual property in consideration for his agreement to provide the Security in connection with the MySpace litigation Settlement Agreement (See Note 6, "Litigation," for further discussion). The Company had previously written off the value of the VoIP intellectual property as a result of its evaluation of the VoIP telephony services business' long-lived assets in connection with the preparation of the Company's 2004 year-end consolidated financial statements. As of September 30, 2007, all significant elements of its VOIP telephony services business shutdown plan have been completed by the Company, except for the resolution of certain vendor disputes and the

payment of remaining outstanding vendor payables.

Results of operations for the computer games and VoIP telephony services businesses have been reported separately as “Discontinued Operations” in the accompanying condensed consolidated statements of operations for all periods presented. The assets and liabilities of the computer games and VoIP telephony services businesses have been included in the captions, “Assets of Discontinued Operations” and “Liabilities of Discontinued Operations” in the accompanying condensed consolidated balance sheets.

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The following is a summary of the assets and liabilities of the discontinued operations of the computer games and VoIP telephony services businesses as included in the accompanying condensed consolidated balance sheets:

	September 30, 2007	December 31, 2006
Assets:		
Computer Games		
Accounts receivable, net	\$ 7,750	\$ 518,279
Inventory, net	—	37,736
Prepaid and other current assets	501	44,111
Property and equipment, net	—	38,747
	8,251	638,873
VoIP Telephony Services		
Accounts receivable, net	—	25,031
Prepaid and other current assets	—	113,815
Property and equipment, net	—	182,561
		321,407
Net assets of discontinued operations	\$ 8,251	\$ 960,280
	September 30, 2007	December 31, 2006
Liabilities:		
Computer Games		
Accounts payable	\$ 37,771	\$ 226,497
Accrued expenses	3,999	22,863
Subscriber liability, net	19,017	71,827
	60,787	321,187
VoIP Telephony Services		
Accounts payable	1,704,816	2,062,562
Accrued legal settlement	—	2,550,000
Other accrued expenses	246,420	227,123
	1,951,236	4,839,685
Net liabilities of discontinued operations	\$ 2,012,023	\$ 5,160,872

Summarized financial information for the results of operations of discontinued operations was as follows:

Three Months Ended September 30,	2007	2006
Computer Games:		
Net revenue	\$ —	\$ 517,604
Income (loss) from operations, net of tax	\$ 3,009	\$ (139,975)
VoIP Telephony Services:		
Net revenue	\$ —	\$ 6,579
Income (loss) from operations, net of tax	\$ 248,187	\$ (912,639)
Nine Months Ended September 30,		
Computer Games:		
Net revenue	\$ 608,415	\$ 1,344,441
Loss from operations, net of tax	\$ (143,247)	\$ (497,827)
VoIP Telephony Services:		
Net revenue	\$ 630	\$ 34,385
Loss from operations, net of tax	\$ (609,569)	\$ (6,079,136)

The Company has estimated the costs expected to be incurred in shutting down its computer games and VoIP telephony services businesses and has accrued charges as of September 30, 2007, as follows:

Computer Games Division	Contract Termination Costs	Purchase Commitment	Other Costs	Total
Shut-Down costs expected to be incurred	\$ —	\$ —	\$ 24,235	\$ 24,235
Included in liabilities:				
Charged to discontinued operations	\$ 115,000	\$ 106,000	\$ 22,902	\$ 243,902
Payment of costs	—	—	(22,902)	(22,902)
Settlements credited to discontinued operations	(115,000)	(106,000)	—	(221,000)
	\$ —	\$ —	\$ —	\$ —

<u>VoIP Telephony Services</u> <u>Division</u>	Contract Termination Costs
Shut-Down costs expected to be incurred	\$ 416,466
Included in liabilities:	
Charged to discontinued operations	428,966
Payment of costs	\$ (37,667)
Settlements credited to discontinued operations	(12,500)
	\$ 378,799

Net current liabilities of discontinued operations at September 30, 2007 include accounts payable and accruals totaling \$378,799 related to the estimated shut-down costs summarized above.

(5) STOCK OPTION PLANS

We have several stock option plans under which nonqualified stock options may be granted to officers, directors, other employees, consultants and advisors of the Company. In general, options granted under the Company's stock option plans expire after a ten-year period and generally vest no later than three years from the date of grant. Incentive options granted to stockholders who own greater than 10% of the total combined voting power of all classes of stock of the Company must be issued at 110% of the fair market value of the stock on the date the options are granted. As of September 30, 2007, there were approximately 5,192,000 shares available for grant under the Company's stock option plans.

A total of 100,000 stock options were granted during the nine months ended September 30, 2007, with a weighted-average fair value of \$0.07. During the nine months ended September 30, 2006, a total of 6,030,000 stock options were issued, including 550,000 stock options which would vest only upon the achievement of certain performance targets. The performance targets were not achieved and the 550,000 stock options were cancelled in the first quarter of 2007. The weighted-average fair value of stock options granted during the first nine months of 2006, excluding the performance stock option grant, was \$0.15.

There were no stock option exercises during the nine months ended September 30, 2007. Stock option exercises during the nine months ended September 30, 2006 resulted in cash inflows to the Company of \$18,420. The corresponding intrinsic value as of exercise date of the 349,474 stock options exercised during the nine months ended September 30, 2006, was \$119,628.

Stock option activity during the nine months ended September 30, 2007 was as follows:

	Total Options	Weighted Average Exercise Price
Outstanding at December 31, 2006	20,142,620	\$ 0.36
Granted	100,000	0.08
Exercised	—	—
Canceled	(2,450,190)	0.16
Outstanding at September 30, 2007	17,792,430	\$ 0.39

Options exercisable at September 30, 2007	16,572,753	\$	0.41
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The weighted-average remaining contractual terms of stock options outstanding and stock options exercisable at September 30, 2007 were 6.6 years and 6.5 years, respectively. The aggregate intrinsic value of both options outstanding and stock options exercisable at September 30, 2007 was approximately \$38,400.

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Stock compensation cost is recognized on a straight-line basis over the vesting period. Stock compensation expense totaling \$136,872 was charged to continuing operations during the nine months ended September 30, 2007, including \$5,796 of expense resulting from the vesting of non-employee stock options and approximately \$35,468 from the accelerated vesting of stock options issued to terminated employees. During the nine months ended September 30, 2006, stock compensation expense of \$457,398 charged to continuing operations included \$107,992 of expense related to the vesting of non-employee stock options and \$5,619 from the accelerated vesting of stock options issued to terminated employees.

At September 30, 2007, there was approximately \$64,000 of unrecognized compensation expense related to unvested stock options which is expected to be recognized over a weighted-average period of 1.7 years.

The Company estimates the fair value of each stock option at the grant date by using the Black Scholes option-pricing model with the following weighted-average assumptions used for grants in 2007: no dividend yield; an expected life of approximately six years; 115% expected volatility and a risk free interest rate of 4.85%. The risk free interest rate is based on the U.S. Treasury yield in effect at the time of grant; the expected life is based on historical and expected exercise behavior; and expected volatility is based on the historical volatility of the Company's stock price, over a time period that is consistent with the expected life of the option.

(6) LITIGATION

On June 1, 2006, MySpace, Inc. ("MySpace"), a Delaware corporation, filed a lawsuit in the United States District Court for the Central District of California against theglobe.com, inc. (the "Company"). We were served with the lawsuit on June 6, 2006. MySpace alleged that the Company sent at least 100,000 unsolicited and unauthorized commercial email messages to MySpace members using MySpace user accounts improperly established by the Company, that the user accounts were used in a false and misleading fashion and that the Company's alleged activities constituted violations of the CAN-SPAM Act, the Lanham Act and California Business & Professions Code § 17529.5 (the "California Act"), as well as trademark infringement, false advertising, breach of contract, breach of the covenant of good faith and fair dealing, and unfair competition. MySpace sought monetary penalties, damages and injunctive relief for these alleged violations. It asserted entitlement to recover "a minimum of" \$62.3 million of damages, in addition to three times the amount of MySpace's actual damages and/or disgorgement of the Company's purported profits from alleged violations of the Lanham Act, punitive damages and attorneys' fees. Subsequent discovery in the case disclosed that the total number of unsolicited messages was approximately 400,000.

On February 28, 2007, the Court entered an order (the "Order") granting in part MySpace's motion for summary judgment, finding that the Company was liable for violation of the CAN-SPAM Act and the California Business & Professions Code, and for breach of contract (as embodied in MySpace's "Terms of Service" contract). The Order also upheld as valid that portion of MySpace's Terms of Service contract which provided for liquidated damages of \$50 per email message sent after March 17, 2006 in violation of such Terms. The Company estimated that approximately 110,000 of the emails in question were sent after such date, which could have resulted in damages of approximately \$5.5 million. In addition, the CAN-SPAM Act provided for statutory damages of between \$100 and \$300 per email sent in violation of the statute. Total damages under CAN-SPAM could therefore have ranged between about \$40 million to about \$120 million. In addition, under the California Act, statutory damages of \$1,000,000 "per incident" could have been assessed.

On March 15, 2007, the Company entered into a Settlement Agreement with MySpace whereby it agreed to pay MySpace \$2,550,000 on or before April 5, 2007 in exchange for a mutual release of all claims against one another, including any claims against the Company's directors and officers. As part of the settlement, Michael Egan, the Company's CEO, who is also an affiliate of the Company, agreed to enter into an agreement with MySpace on or before April 5th pursuant to which he would, among other things, provide a letter of credit, cash or other equivalent security (collectively, "Security") in form and substance satisfactory to MySpace. Such Security was to expire and be

released (and in fact did expire and was released) on the 100th day following the Company's payment of the foregoing \$2,550,000 so long as no bankruptcy petition, assignment for the benefit of creditors or like liquidation, reorganization or insolvency proceeding is instituted or filed related to the Company during such 100-day period.

On April 2, 2007, theglobe agreed to transfer to Michael Egan all of its VoIP intellectual property in consideration for his agreement to provide the Security in connection with the Settlement Agreement. On April 13, 2007, Michael Egan and an entity wholly-owned by Michael Egan, and MySpace entered into a Security Agreement, an Indemnity Agreement and an Escrow Agreement (the "Security Agreements") providing for the Security. On April 18, 2007, theglobe paid MySpace \$2,550,000 in cash as settlement of the claims. MySpace and theglobe filed a consent judgment and stipulated permanent injunction with the Court on April 19, 2007, which among other things, dismissed all claims alleged in the lawsuit with prejudice.

On and after August 3, 2001 six putative shareholder class action lawsuits were filed against the Company, certain of its current and former officers and directors (the "Individual Defendants"), and several investment banks that were the underwriters of the Company's initial public offering and secondary offering. The lawsuits were filed in the United States District Court for the Southern District of New York. A Consolidated Amended Complaint, which is now the operative complaint, was filed in the Southern District of New York on April 19, 2002.

The lawsuits purport to be class actions filed on behalf of purchasers of the stock of the Company during the period from November 12, 1998 through December 6, 2000. Plaintiffs allege that the underwriter defendants agreed to allocate stock in the Company's initial public offering and its secondary offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the Prospectuses for the Company's initial public offering and its secondary offering were false and misleading and in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. On February 19, 2003, a motion to dismiss all claims against the Company was denied by the Court. On December 5, 2006, the Second Circuit vacated a decision by the district court granting class certification in six of the coordinated cases, which are intended to serve as test, or "focus," cases. The plaintiffs selected these six cases, which do not include the Company. On April 6, 2007, the Second Circuit denied a petition for rehearing filed by the plaintiffs, but noted that the plaintiffs could ask the district court to certify more narrow classes than those that were rejected.

Prior to the Second Circuit's December 5, 2006 ruling, the majority of issuers, including the Company, and their insurers had submitted a settlement agreement to the district court for approval. In light of the Second Circuit opinion, the parties agreed that the settlement could not be approved because the defined settlement class, like the litigation class, could not be certified. On June 25, 2007, the district court approved a stipulation filed by the plaintiffs and the issuers terminating the proposed settlement. On August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. The amended complaints include a number of changes, such as changes to the definition of the purported class of investors, and the elimination of the individual defendants as defendants. On September 27, 2007, the plaintiffs filed a motion for class certification in the six focus cases. If the plaintiffs are successful in obtaining class certification, they are expected to amend the complaint against the Company and the other non-focus case issuers in the same manner that they amended the complaints against the focus case issuers and to seek certification of a class in the Company's case. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. We cannot predict whether we will be able to renegotiate a settlement that complies with the Second Circuit's mandate. If the Company is found liable, we are unable to estimate or predict the potential damages that might be awarded, whether such damages would be greater than the Company's insurance coverage, and whether such damages would have a material impact on our results of operations or financial condition in any future period.

The Company is currently a party to certain other claims and disputes arising in the ordinary course of business. The Company currently believes that the ultimate outcome of these other matters, individually and in the aggregate, will not have a material adverse affect on the Company's financial position, results of operations or cash flows. However, because of the nature and inherent uncertainties of legal proceedings, should the outcome of these matters be unfavorable, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

(7) SUBSEQUENT EVENT

In October 2007, the Company entered into a new registry operator agreement (the "New Agreement") with its existing registry operator (the "Registry Operator"). The New Agreement was effective on October 1, 2007 and has an initial term of three (3) years excluding optional renewal periods. The Registry Operator has provided and continues to provide registry operation services to the Company since the start-up of its ".travel" internet services business in October 2005 under a predecessor Master Services Agreement dated as of October 11, 2005. Under the New Agreement, the Company paid the Registry Operator a start-up fee of \$37,500 on November 8, 2007 and is obligated to pay additional fees of \$225,000 on November 15, 2007 and \$112,500 on October 15, 2008. The additional fees to be paid to the Registry Operator represent pre-payments of registry operator fees related to the Company's planned purchase of ".travel" domain names. Additionally, the Registry Operator is also entitled to receive a certain percentage of future revenue related to ".travel" domain names purchased under the New Agreement. Further, under the New Agreement the Company committed to ensuring that a pre-determined number of ".travel" websites are launched by no later than September 30, 2008. See Note 2, "Going Concern Considerations and Management's Plan" and the "Immediate and Critical Need for Capital" section of Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the Company's ability to pay the additional fees due to the Registry Operator under the New Agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of the federal securities laws that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology, such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "intend," "potential" or "continue" or the negative of such terms or other comparable terminology, although not all forward-looking statements contain such terms. In addition, these forward-looking statements include, but are not limited to, statements regarding:

- implementing our business plans;
- marketing and commercialization of our products and services;
- plans for future products and services and for enhancements of existing products and services;
- our ability to implement cost-reduction programs;
- potential governmental regulation and taxation;
- the outcome of pending litigation;
- our intellectual property;
- our estimates of future revenue and profitability;
- our estimates or expectations of continued losses;
-

our expectations regarding future expenses, including cost of revenue, sales and marketing, and general and administrative expenses;

- difficulty or inability to raise additional financing on terms acceptable to us;
- our estimates regarding our capital requirements and our needs for additional financing;
- attracting and retaining customers and employees;
- rapid technological changes in our industry and relevant markets;
- sources of revenue and anticipated revenue;
- implementation of our shutdown of certain businesses and our estimate of the associated costs;
- our ability to sell and/or recover certain business assets;
- competition in our market; and
- our ability to continue to operate as a going concern.

These statements are only predictions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are not required to and do not intend to update any of the forward-looking statements after the date of this Form 10-Q or to conform these statements to actual results. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Form 10-Q might not occur. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. A description of risks that could cause our results to vary appears under "Risk Factors" and elsewhere in this Form 10-Q. The following discussion should be read together in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes thereto and the audited consolidated financial statements and notes to those statements contained in the Annual Report on Form 10-K for the year ended December 31, 2006.

OVERVIEW

As of September 30, 2007, theglobe.com, inc. (the "Company" or "theglobe") managed a single line of business, Internet services, consisting of Tralliance Corporation ("Tralliance") which is the registry for the ".travel" top-level Internet domain. We acquired Tralliance on May 9, 2005. Prior to the end of the 2007 first quarter, management and the Board of Directors of the Company made the decision to cease all activities related to its computer games and VoIP telephony services businesses. Results of operations for the computer games and VoIP telephony services businesses have been reported separately as "Discontinued Operations" in the accompanying condensed consolidated statements of operations for all periods presented. The assets and liabilities of the computer games and VoIP telephony services businesses have been included in the captions, "Assets of Discontinued Operations" and "Liabilities of Discontinued Operations" in the accompanying condensed consolidated balance sheets.

BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We received a report from our independent accountants, relating to our December 31, 2006 audited financial statements, containing a paragraph stating that our recurring losses from operations and our accumulated deficit raise substantial doubt about our ability to continue as a going concern. The Company continues to incur substantial consolidated net losses and management believes the Company will continue to be unprofitable and use cash in its operations for the foreseeable future. Based upon our current cash resources and without the infusion of additional capital management does not believe the Company can operate as a going concern beyond the middle of November 2007. See "Immediate and Critical Need for Capital" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations for further details.

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, our condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should we be unable to continue as a going concern.

DESCRIPTION OF BUSINESS—CONTINUING OPERATIONS

OUR INTERNET SERVICES BUSINESS

Tralliance was incorporated in 2002 to develop products and services to enhance online commerce between consumers and the travel and tourism industries, including administration of the ".travel" top-level domain. In February 2003, theglobe entered into a Loan and Purchase Option Agreement, as amended, with Tralliance in which theglobe agreed to fund, in the form of a loan, at the discretion of theglobe, Tralliance's operating expenses and obtained the option to acquire all of the outstanding capital stock of Tralliance. On May 5, 2005, the Internet Corporation for Assigned Names and Numbers ("ICANN") and Tralliance entered into a contract whereby Tralliance was designated as

the exclusive registry for the “.travel” top-level domain for an initial period of ten years. Renewal of the ICANN contract beyond the initial ten year term is conditioned upon the negotiation of renewal terms reasonably acceptable to ICANN. Additionally, we have agreed to engage in good faith negotiations at regular intervals throughout the term of our contract (at least once every three years) regarding possible changes to the provisions of the contract, including changes in the fees and payments that we are required to make to ICANN. In the event that we materially and fundamentally breach the contract and fail to cure such breach within thirty days of notice, ICANN has the right to immediately terminate our contract. Effective May 9, 2005, theglobe exercised its option to purchase Tralliance.

The establishment of the “.travel” top-level domain enables businesses, organizations, governmental agencies and other enterprises that operate within the travel and tourism industry to establish a unique Internet domain name from which to communicate and conduct commerce. An Internet domain name is made up of a top-level domain and a second-level domain. For example, in the domain name “companyX.travel”, “companyX” is the second-level domain and “.travel” is the top-level domain. As the registry for the “.travel” top-level domain, Tralliance is responsible for maintaining the master database of all second-level “.travel” domain names and their corresponding Internet Protocol (“IP”) addresses.

To facilitate the “.travel” domain name registration process, Tralliance has entered into contracts with a number of registrars. These registrars act as intermediaries between Tralliance and customers (referred to as registrants) seeking to register “.travel” domain names. The registrars handle the billing and collection of registration fees, customer service and technical management of the registration database. Registrants can register “.travel” domain names for terms of one year (minimum) up to 10 years (maximum). The registrars retain a portion of the registration fee collected by them as their compensation and remit the remainder, presently \$80 per domain name per year, of the registration fee to Tralliance.

In order to register a “.travel” domain name, a registrant must first be verified as being eligible (“authenticated”) by virtue of being a valid participant in the travel industry. Additionally, eligibility data is required to be updated and reviewed annually, subsequent to initial registration. Once authenticated, a registrant is only permitted to register “.travel” domain names that are associated with the registrant’s business or organization. Tralliance has entered into contracts with a number of travel associations or other independent organizations (“authentication providers”) whereby, in consideration for the payment of fixed and/or variable fees, all required authentication procedures are performed by such authentication providers. Tralliance has also outsourced various other registry operations, database maintenance and policy formulation functions to certain other independent businesses or organizations in consideration for the payment of certain fixed and/or variable fees.

In launching the “.travel” top-level domain registry, Tralliance adopted a phased approach consisting of three distinct stages. During the third quarter of 2005, Tralliance implemented phase one, which consisted of a pre-authentication of a limited group of potential registrants. During the fourth quarter of 2005, Tralliance implemented phase two, which involved the registration of the limited group of registrants who had been pre-authenticated. It was during this limited registration phase that Tralliance initially began collecting registration fees from its “.travel” registrars. Finally, in January 2006, Tralliance commenced the final phase of its launch, which culminated in live “.travel” registry operations. As of September 30, 2007 the total number of “.travel” domain names registered was approximately 27,800.

On August 15, 2006, the Company introduced its online search engine dedicated to the travel industry, www.search.travel. The search engine was developed by Tralliance to benefit both consumers at large and “.travel” domain name registrants, as the search engine delivers qualified search results from the entire World Wide Web, giving priority to destinations and businesses that are authenticated “.travel” registrants. During August 2006, the Company launched a national television campaign to promote the new search engine and website. The Company has begun marketing the www.search.travel website to potential advertisers interested in targeting the travel consumer and plans to seek additional net revenue through the sale of advertising sponsorships. During 2007, the Company completed a number of website enhancements and, subject to the availability of cash resources, plans to continue to make additional improvements to its www.search.travel website in the future.

DESCRIPTION OF BUSINESS—DISCONTINUED OPERATIONS

COMPUTER GAMES BUSINESS

In February 2000, the Company entered the computer games business by acquiring Computer Games Magazine, a print publication for personal computer (“PC”) gamers; CGOnline, the online counterpart to Computer Games magazine; and Chips & Bits, an e-commerce games distribution business. Historically, content of Computer Games Magazine and CGOnline focused primarily on the PC games market niche.

During 2004, the Company developed and began to implement plans to expand its business beyond games and into other areas of the entertainment industry. In Spring 2004, a new magazine, Now Playing began to be delivered within Computer Games Magazine and in March 2005, Now Playing began to be distributed as a separate publication. Now Playing covered movies, DVD’s, television, music, games, comics and anime, and was designed to fulfill the wider pop culture interests of readers and to attract a more diverse group of advertisers: autos, television, telecommunications and film to name a few. During 2005, the Now Playing online website (www.nowplaying.com), the online counterpart for Now Playing magazine, was implemented and costs were also incurred to develop a new corporate website (www.theglobe.com), also targeted at the broader entertainment marketplace.

In August 2005, based upon a re-evaluation of the capital requirements and risks/rewards related to completing the transition to a broader-based entertainment business, the Company decided to abort its diversification efforts and refocus its strategy back to operating and improving its traditional games-based businesses. During the remainder of 2005, the Company implemented a number of revenue enhancement programs, including establishing a used game auction website (www.gameswapzone.com), introducing a digital version of its Computer Games Magazine, and entering into several marketing partnership affiliate programs. Additionally, during the latter part of 2005, the Company completed the implementation of a number of cost-reduction programs related to facility consolidations, headcount reductions, and decreases in magazine publishing and sales costs. In January 2006, the Company completed the sale of all assets related to Now Playing Magazine and the Now Playing Online website for approximately \$130,000.

The premiere issue of a new quarterly print publication, Massive Magazine (renamed MMOGames Magazine in 2007), was released in September 2006. The new magazine was dedicated solely to “massively multiplayer online” games (“MMO” games) and included features on the culture of MMO games, focusing on players, guilds and communities. The editorial staff of Computer Games Magazine produced the content for the new magazine. The new magazine was also accompanied by a complementary website (www.mmogamesmag.com).

In March 2007, management and the Board of Directors of the Company made the decision to cease all activities related to its Computer Games businesses, including discontinuing the operations of its magazine publications, games distribution business and related websites. The Company’s decision to shutdown its Computer Games businesses was based primarily on the historical losses sustained by these businesses during the recent past and management’s expectations of continued future losses. As of September 30, 2007, all significant elements of its computer games business shutdown plan have been completed by the Company, except for the collection and payment of remaining outstanding accounts receivables and payables.

VOIP TELEPHONY BUSINESS

During the third quarter of 2003, the Company launched its first suite of consumer and business level VoIP services. The Company launched its browser-based VoIP product during the first quarter of 2004. These services allowed customers to communicate using VoIP technology for dramatically reduced pricing compared to traditional telephony networks. The services also offered traditional telephony features such as voicemail, caller ID, call forwarding, and call waiting for no additional cost to the customer, as well as incremental services that were not then supported by the

public switched telephone network ("PSTN") like the ability to use numbers remotely and voicemail to email services. In the fourth quarter of 2004, the Company announced an "instant messenger" or "IM" related application which enabled users to chat via voice or text across multiple platforms using their preferred instant messenger service. During the second quarter of 2005, the Company released a number of new VoIP products and features which allowed users to communicate via mobile phones, traditional land line phones and/or computers. From the initial launch of its VoIP services in 2003 through 2005, the Company continued to expand its VoIP network, which was comprised of switching hardware and software, servers, billing and inventory systems, and telecommunication carrier contractual relationships. Throughout this period, the capacity of our VoIP network greatly exceeded usage.

The Company's retail VoIP service plans had included both "peer-to-peer" plans, for which subscribers were able to place calls free of charge over the Internet to other subscribers' Internet connections, and "paid" plans which involved interconnection with the PSTN and for which subscribers were charged certain fixed and/or variable service charges.

During 2003 through 2005, the Company attempted to market and distribute its VoIP retail products through various direct and indirect sales channels including Internet advertising, structured customer referral programs, network marketing, television infomercials and partnerships with third party national retailers. None of the marketing and sales programs implemented during these years were successful in generating a significant number of "paid" plan customers or revenue. The Company's marketing efforts during this period of time achieved only limited success in developing a "peer-to-peer" subscriber base of free service plan users.

During 2006, the Company re-focused its efforts on VoIP product development. During the first quarter of 2006, the Company developed a plan to reconfigure, phase out and eliminate certain components of its existing VoIP network. During the second quarter of 2006, the Company discontinued offering service to its small existing "paid" plan customer base and completed the implementation of its plan to significantly reduce the excess capacity and operating costs of its VoIP network.

In March 2007, management and the Board of Directors of the Company decided to discontinue the operating, research and development activities of its VoIP telephony services business and terminate all of the remaining employees of the business. On April 2, 2007, theglobe agreed to transfer to Michael Egan all of its VoIP intellectual property in consideration for his agreement to provide certain Security in connection with the MySpace litigation Settlement Agreement (See Note 6, "Litigation," in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements for further discussion). The Company had previously written off the value of the VoIP intellectual property as a result of its evaluation of the VoIP telephony services business' long-lived assets in connection with the preparation of the Company's 2004 year-end consolidated financial statements. The Company's decision to discontinue the operations of its VoIP telephony services business was based primarily on the historical losses sustained by the business during the past several years, management's expectations of continued losses for the foreseeable future and estimates of the amount of capital required to attempt to successfully monetize its business. As of September 30, 2007, all significant elements of its VOIP telephony services business shutdown plan have been completed by the Company, except for the resolution of certain vendor disputes and the payment of remaining outstanding vendor payables.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2006

CONTINUING OPERATIONS

NET REVENUE. Net revenue totaled \$600 thousand for the three months ended September 30, 2007 as compared to \$386 thousand for the three months ended September 30, 2006, an increase of approximately \$214 thousand, or 55%, from the prior year period. Approximately \$87 thousand, or 41%, of the total increase in net revenue as compared to the third quarter of 2006 resulted from net revenue attributable to the sale of advertising on our www.search.travel website. The www.search.travel website was introduced in August 2006. Total domain names registered as of the end of the third quarter of 2007 and 2006 approximated 27.8 thousand and 20.9 thousand, respectively.

COST OF REVENUE. Cost of revenue totaled \$184 thousand for the three months ended September 30, 2007, an increase of \$66 thousand, or 56%, from the \$118 thousand reported for the three months ended September 30, 2006. Cost of revenue consists primarily of fees paid to third party service providers which furnish outsourced services, including verification of registration eligibility, maintenance of the ".travel" directory of consumer-oriented registrant

travel data, as well as other services. Fees for some of these services vary based on transaction levels or transaction types. Fees for outsourced services are generally deferred and amortized to cost of revenue over the term of the related domain name registration. The increase in cost of revenue was due primarily to higher registration eligibility verification costs expensed during the current quarter as compared to the third quarter of 2006. Cost of revenue as a percent of net revenue was approximately 31% for both the third quarter of 2007 and 2006.

SALES AND MARKETING. Sales and marketing expenses consist primarily of salaries and related expenses of sales and marketing personnel, commissions, consulting, advertising and marketing costs, public relations expenses and promotional activities. Sales and marketing expenses totaled \$439 thousand for the three months ended September 30, 2007 versus \$884 thousand for the same period in 2006, a decrease of \$445 thousand or 50%. In August of 2006 Tralliance introduced its travel related search engine, search .travel, with television and internet advertising campaigns expenses of approximately \$311 thousand recognized during the third quarter of 2006, compared to advertising costs of \$46 thousand during the same period of 2007. Also in the third quarter of 2006 Tralliance recognized expenses totaling \$125 thousand in connection with promoting our registry operations and search engine in China.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of salaries and other personnel costs related to management, finance and accounting functions, facilities, outside legal and professional fees, information-technology consulting, directors and officers insurance, and general corporate overhead costs. General and administrative expenses totaled \$699 thousand in the third quarter of 2007 as compared to approximately \$1.1 million for the same quarter of the prior year, a decrease of \$404 thousand, or 37%. Stock compensation expense decreased approximately \$160 thousand, executive officer personnel costs decreased approximately \$142 thousand, and travel and entertainment expense decreased by approximately \$77 thousand in 2007 in comparison to the third quarter of 2006.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense totaled \$61 thousand for the three months ended September 30, 2007 as compared to \$58 thousand for the three months ended September 30, 2006, or an increase of \$3 thousand.

OTHER INCOME (EXPENSE), NET. During the third quarter of 2007, \$750 thousand of non-cash interest expense was recorded related to the beneficial conversion features of the \$750 thousand in convertible promissory notes acquired by an entity controlled by our Chairman and Chief Executive Officer. See "Capital Transactions" and Note 3, "Debt," of the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion. Additional net interest expense of \$111 thousand was reported for the third quarter of 2007 compared to total net interest income of \$2 thousand reported for the same quarter of the prior year. As a result of the Company's net losses incurred during the second half of 2006 and the nine months ended September 30, 2007, the Company had a lower level of funds available for investment and generated less interest income during the third quarter of 2007 as compared to the same quarter of the prior year.

INCOME TAXES. No tax benefit was recorded for the losses incurred during the third quarter of 2007 or the third quarter of 2006 as we recorded a 100% valuation allowance against our otherwise recognizable deferred tax assets due to the uncertainty surrounding the timing or ultimate realization of the benefits of our net operating loss carryforwards in future periods. As of December 31, 2006, we had net operating loss carryforwards which may be potentially available for U.S. tax purposes of approximately \$162 million. These carryforwards expire through 2026. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Due to various significant changes in our ownership interests, as defined in the Internal Revenue Code of 1986, as amended, we have substantially limited the availability of our net operating loss carryforwards. There can be no assurance that we will be able to utilize any net operating loss carryforwards in the future.

DISCONTINUED OPERATIONS

Discontinued operations generated net income of approximately \$251 thousand for the third quarter of 2007 as compared to a net loss of \$1.1 million during the third quarter of 2006 and is summarized as follows:

	Computer Games	VoIP Telephony Services	Total
Three months ended September 30, 2007:			
Net revenue	\$ —	\$ —	\$ —
Operating (expenses) credit	(2,288)	231,385	229,097
Other income, net	5,297	16,802	22,099
	\$ 3,009	\$ 248,187	\$ 251,196

	Computer Games	VoIP Telephony Services	Total
Three months ended September 30, 2006:			
Net revenue	\$ 517,604	\$ 6,579	\$ 524,183
Operating (expenses)	(657,579)	(918,819)	(1,576,398)
Other income (expense), net	—	(399)	(399)
	\$ (139,975)	\$ (912,639)	\$ (1,052,614)

The operations of both the computer games division and the VOIP telephony services division were shutdown effective March 2007 which contributed to the overall decline in both net revenue and operating expenses in the third quarter of 2007 as compared to the same quarter of the prior year. The net credit in operating expenses reported by the VOIP telephony services division for the third quarter of 2007 resulted principally from the favorable settlement of a disputed vendor contract during the quarter.

**NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO
THE NINE MONTHS ENDED SEPTEMBER 30, 2006**

CONTINUING OPERATIONS

NET REVENUE. Net revenue totaled \$1.7 million for the nine months ended September 30, 2007 as compared to \$1.1 million for the nine months ended September 30, 2006, an increase of approximately \$615 thousand, or 58%, from the prior year period. Approximately \$250 thousand, or 41%, of the total increase in net revenue as compared to nine months ended September 30, 2006 resulted from net revenue attributable to the sale of advertising on our www.search.travel website. The www.search.travel website was introduced in August 2006. Total domain names registered as of the end of the third quarter of 2007 and 2006 approximated 27.8 thousand and 20.9 thousand, respectively. During 2007, stock compensation expense decreased \$321 thousand, and legal accounting and professional fees decreased \$246 thousand, in comparison with 2006.

COST OF REVENUE. Cost of revenue totaled \$377 thousand for the nine months ended September 30, 2007, an increase of \$3 thousand, or 1%, from the \$374 thousand reported for the nine months ended September 30, 2006. Cost of revenue as a percent of net revenue was approximately 22% for the nine months ended September 30, 2007 as compared to 35% for the same period of 2006. The decline in cost of revenue as a percent of net revenue was due primarily to Tralliance performing more verifications of registration eligibility in-house during 2007 compared to 2006 and the lower fee rate payable to verify a domain name subsequent to its initial year of registration.

SALES AND MARKETING. Sales and marketing expenses totaled \$1.7 million for the nine months ended September 30, 2007 versus \$1.8 million for the same period in 2006. Beginning in the third quarter of 2006, Tralliance engaged several outside parties to promote our registry operations and the www.search.travel website internationally, which resulted in an increase in sales and marketing personnel costs of approximately \$272 thousand as compared to the nine months ended September 30, 2006. Offsetting these increases in comparison to the nine months ended September 30, 2006 were decreases of approximately \$366 thousand in costs associated with advertising, promotion, and public relations.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses totaled approximately \$3.2 million in the first nine months of 2007 as compared to \$3.4 million for the same period of the prior year, a decrease of \$243 thousand, or approximately 7%. During 2007, stock compensation expenses decreased \$321 thousand, and legal, accounting and professional fees decreased \$246 thousand, in comparison with 2006. Personnel costs in 2007 increased \$351 thousand in comparison to 2006 as throughout 2006 and into 2007 we hired additional staff to accommodate the increase in authentication and registration activity experienced by Tralliance and additionally during 2006 reassigned certain employees of the VOIP telephony services division to Tralliance.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense totaled \$183 thousand for the nine months ended September 30, 2007 as compared to \$203 thousand for the nine months ended September 30, 2006, or a decline of \$20 thousand.

OTHER INCOME (EXPENSE), NET. As mentioned in the discussion of the three months ended September 30, 2007 compared to the three months ended September 30, 2006, during the the first nine months of 2007, \$1.25 million of non-cash interest expense was recorded related to the beneficial conversion features of the \$1.25 million in convertible promissory notes acquired by an entity controlled by our Chairman and Chief Executive Officer. See "Capital Transactions" and Note 3, "Debt," of the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion. Additional net interest expense of \$226 thousand was reported for the nine months ended September 30, 2007 compared to total net interest income of \$128 thousand reported for the same period of the prior year. As a result of the Company's net losses incurred during 2006 and the first nine months of 2007, the Company had a lower level of funds available for investment and generated less interest income during the 2007 period as compared to the same period of the prior year.

INCOME TAXES. No tax benefit was recorded for the losses incurred during the first nine months of 2007 or the same period of 2006 as we recorded a 100% valuation allowance against our otherwise recognizable deferred tax assets due to the uncertainty surrounding the timing or ultimate realization of the benefits of our net operating loss carryforwards in future periods. As of December 31, 2006, we had net operating loss carryforwards which may be potentially available for U.S. tax purposes of approximately \$162 million. These carryforwards expire through 2026. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Due to various significant changes in our ownership interests, as defined in the Internal Revenue Code of 1986, as amended, we have substantially limited the availability of our net operating loss carryforwards. There can be no assurance that we will be able to utilize any net operating loss carryforwards in the future.

DISCONTINUED OPERATIONS

The loss from discontinued operations, net of income taxes totaled approximately \$753 thousand in the first nine months of 2007 as compared to a net loss of \$6.6 million during the first nine months of 2006 and is summarized as follows:

	Computer Games	VoIP Telephony Services	Total
Nine months ended September 30, 2007:			
Net revenue	\$ 608,415	\$ 630	\$ 609,045
Operating (expenses)	(786,218)	(702,634)	(1,488,852)
Other income, net	34,556	92,435	126,991
	\$ (143,247)	\$ (609,569)	\$ (752,816)

	Computer Games	VoIP Telephony Services	Total
Nine months ended September 30, 2006:			
Net revenue	\$ 1,344,441	\$ 34,385	\$ 1,378,826
Operating (expenses)	(1,972,268)	(5,980,086)	(7,952,354)
Other income (expense), net	130,000	(133,435)	(3,435)
	\$ (497,827)	\$ (6,079,136)	\$ (6,576,963)

Net revenue and operating expenses of the computer games division declined as compared to the first nine months of 2006 primarily due to the shutdown of the business' operations effective March 2007. Operating expenses of the VoIP telephony services division for the first nine months of 2007 declined in comparison to the same period of the prior year principally as a result of the shutdown of the business in March 2007, as well as the cost reduction efforts implemented by the Company during 2006.

LIQUIDITY AND CAPITAL RESOURCES**CASH FLOW ITEMS**

As of September 30, 2007, we had approximately \$412 thousand in cash and cash equivalents as compared to \$5.3 million as of December 31, 2006. Net cash flows used in operating activities of continuing operations totaled \$3.2 million and \$5.2 million for the nine months ended September 30, 2007 and 2006, respectively, or a decrease of approximately \$2.0 million. The impact of the payment of \$806 thousand in income tax liabilities during the first nine months of 2006, coupled with a favorable accounts payables balance change during the first nine months of 2007 as compared to the same period of the prior year, were the primary factors contributing to the lower level of cash used in operating activities of continuing operations.

A total of \$3.1 million in net cash flows were used in the operating activities of discontinued operations during the first nine months of 2007 as compared to a use of approximately \$5.4 million of cash in operating activities of discontinued operations during the same period of the prior year. The lower level of cash used by operating activities of our discontinued businesses was primarily the result of the decrease of approximately \$5.8 million in net losses of the businesses as compared to the first nine months of 2006. Partially offsetting the impact of the lower losses as compared to the 2006 period was the \$2.6 million settlement payment made in connection with the MySpace litigation during March 2007.

Net cash flows of \$26 thousand were used for capital expenditures by continuing operations during the first nine months of 2007. Net cash flows of \$729 thousand were provided by investing activities of continuing operations during the first nine months of 2006. As a result of the October 2005 sale of our SendTec, Inc. marketing services business, we were required to place \$1.0 million of cash in an escrow account to secure our indemnification obligations. On March 31, 2006, pursuant to the related escrow agreement, \$750 thousand of the escrow funds were released to the Company.

Discontinued operations provided \$108 thousand in net cash flows during the first nine months of 2007 as a result of the sale of property and equipment. During the first nine months of 2006, net cash flows of \$138 thousand from the sale of property and equipment and \$130 thousand from the sale of our Now Playing magazine were provided by discontinued operations.

We received \$1.25 million in proceeds from the issuance of convertible notes during the first nine months of 2007. See Note 3, "Debt," of the Notes to Unaudited Condensed Consolidated Financial Statements for further information.

CAPITAL TRANSACTIONS

On May 29, 2007, Dancing Bear Investments, Inc. (the "Noteholder"), an entity which is controlled by the Company's Chairman and Chief Executive Officer, entered into a Note Purchase Agreement (the "Agreement") with the Company pursuant to which it acquired a convertible promissory note (the "2007 Convertible Note") in the principal amount of \$250,000. Under the terms of the Agreement, the Noteholder was granted the optional right, for a period of 180 days from the date of the Agreement, to purchase additional 2007 Convertible Notes such that the aggregate principal amount issued under the Agreement could total \$3,000,000 (the "Option"). On June 25, 2007, July 19, 2007 and September 6, 2007, the Noteholder acquired additional 2007 Convertible Notes in the principal amounts of \$250,000, \$500,000 and \$250,000 respectively. At September 30, 2007 the aggregate outstanding principal amount of 2007 Convertible Notes totaled \$1,250,000.

The 2007 Convertible Notes are convertible at anytime prior to payment into shares of the Company's Common Stock at the rate of \$0.01 per share. Assuming the Option is fully exercised and all 2007 Convertible Notes are thereafter converted at the initial conversion rate, and without regard to potential anti-dilutive adjustments resulting from stock splits and the like, approximately 300,000,000 shares of Common Stock could be issued. To the extent that the Company does not have a number of authorized shares of Common Stock (after taking into account outstanding options, warrants and other convertible securities of the Company) sufficient to permit conversion of the 2007 Convertible Notes in full, then the 2007 Convertible Notes shall, until additional shares have been authorized, be convertible only to the extent of available shares. At the present time (after taking into account outstanding options, warrants and other convertible securities of the company), if the Option was fully exercised, approximately \$804 thousand of the resulting \$3.0 million aggregate amount of 2007 Convertible Notes (equal to approximately 80,380,000 shares) could not be converted into shares until the Company's authorized capital stock is increased. The Company anticipates that it will seek to amend its Certificate of Incorporation so as to increase its authorized shares of Common Stock at its next annual meeting of shareholders. The 2007 Convertible Notes are due five days after demand for payment by the Noteholder and are secured by a pledge of all of the assets of the Company and its subsidiaries, subordinate to existing liens on such assets. The 2007 Convertible Notes bear interest at the rate of ten percent per annum.

The 2007 Convertible Notes were not registered under applicable securities laws and were sold in reliance on an exemption from such registration. The Noteholder is entitled to certain demand and piggy-back registration rights in connection with its investment. The conversion price of the 2007 Convertible Notes is subject to adjustment upon the occurrence of certain events, including with respect to stock splits or combinations.

IMMEDIATE AND CRITICAL NEED FOR CAPITAL

For the reasons described below, Company management does not believe that cash on hand and cash flow generated internally by the Company will be adequate to fund the operation of its businesses beyond a short period of time. Additionally, we have received a report from our independent accountants, relating to our December 31, 2006 audited financial statements, containing an explanatory paragraph stating that our recurring losses from operations and our accumulated deficit raise substantial doubts about our ability to continue as a going concern.

As of September 30, 2007, the Company had a net working capital deficit of approximately \$9.4 million, inclusive of a cash and cash equivalents balance of approximately \$412 thousand. Such working capital deficit included an aggregate of \$4.65 million in secured convertible demand notes and accrued interest of approximately \$838 thousand due to entities controlled by Michael Egan, the Company's Chairman and Chief Executive Officer. (See Note 3, "Debt," for further details).

Notwithstanding previous cost reduction actions taken by the Company and its recent decision to shutdown its unprofitable computer games and VoIP telephony services businesses in March 2007 (see Note 4, "Discontinued Operations" in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements), the Company continues to incur substantial consolidated operating losses, although reduced in comparison with prior periods, and management believes that the Company will continue to be unprofitable in the foreseeable future. Based upon the Company's current financial condition, as discussed above, and without the infusion of additional capital, management does not believe that the Company will be able to fund its operations, including making the \$225 thousand payment to its Registry Operator, which is contractually due on November 15, 2007 (See Note 7, "Subsequent Event" in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements for further discussion), beyond the middle of November 2007.

It is our preference to avoid filing for protection under the U.S. Bankruptcy Code. However, in order to continue operating as a going concern for any length of time beyond November 2007, we believe that we must quickly raise capital. Although there is no commitment to do so, any such funds would most likely come from Dancing Bear Investments, Inc., an entity controlled by Michael Egan, the Company's Chairman and Chief Executive Officer, under a Note Purchase Agreement entered into on May 29, 2007 or otherwise from Michael Egan or affiliates of Mr. Egan or the Company, as the Company currently has no access to credit facilities with traditional third parties and has historically relied on borrowings from related parties to meet short-term liquidity needs. Any such capital raised would not be registered under the Securities Act of 1933 and would not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Although, until November 25, 2007, Dancing Bear Investments, Inc. still has the right to purchase an additional \$1.75 million under the Note Purchase Agreement, there can be no assurance that Dancing Bear Investments, Inc. will elect to purchase additional 2007 Convertible Notes. Further, the conversion of any of the convertible debt securities outstanding as of the current date, or issued in the future, will likely result in very substantial dilution of the number of outstanding shares of the Company's Common Stock.

In addition to our immediate need to raise capital, we believe that our long-term financial viability will be determined mainly by our ability to successfully execute our current and future business plans, including (i) achieving net growth in the number of ".travel" domain name registrations; (ii) improving and monetizing our www.search.travel website; (iii) further reducing our operating expenses; and (iv) successfully settling disputed and other outstanding liabilities related to our discontinued operations. The amount of capital required to be raised by the Company will be dependent upon the Company's performance in executing its current and future business plans, as measured principally by the time period needed to begin generating positive internal cash flow. There can be no assurance that the Company will be successful in raising a sufficient amount of capital (including selling any additional 2007 Convertible Notes) or in executing its business plans. Further, even if we raise capital and are successful in achieving each of the aforementioned objectives, if demand for repayment of any or all of the \$4.65 million in outstanding secured debt or related accrued interest is made, there is no assurance that we will not, and it is likely that we will, be required to file for bankruptcy protection at that time.

Tralliance, the Company's Internet services business, began collecting fees related to its ".travel" registry business in October 2005. In August 2006, we introduced our online search engine dedicated to the travel industry, www.search.travel, and launched a national television campaign to promote the new search engine and website. During the third quarter of 2006, we also expanded Tralliance's domestic and international sales and marketing infrastructure, principally by entering into a number of arrangements with third party consultants and travel-related

organizations. At this time, our primary objective is to quickly and substantially increase Tralliance's revenue levels. In this regard, we are focused on accelerating the rate of new ".travel" domain name registrations, both in the U.S. and in international markets, in order to generate current revenue and to also provide a base for future registration renewal revenue. Additionally, we are focused on generating sponsorship and search advertising revenue streams from our newly established www.search.travel search engine and website. We are currently working on developing certain new marketing programs (including programs related to our October 2007 agreement with our Registry Operator as discussed in Note 7. "Subsequent Event" of our accompanying financial statements) to accelerate ".travel" domain name registration revenue growth and plan to make certain improvements to our www.search.travel website, however, the implementation of these marketing programs and website improvements are dependent upon the availability of sufficient cash resources. In addition to the factors set forth in the preceding paragraph, management presently believes that its success in quickly and substantially increasing Tralliance's revenue levels will be a critical factor in the Company's ability to continue as a going concern.

In March 2007 management and the Board of Directors of the Company made the decision to cease all activities related to its Computer Games businesses, including discontinuing the operations of its magazine publications, e-commerce games distribution business and related websites. The Company's decision to shutdown its Computer Games businesses was based primarily on the historical losses sustained by these businesses during the recent past and management's expectations of continued future losses. As of September 30, 2007, all significant elements of its computer games business shutdown plan have been completed by the Company, except for the collection and payment of remaining outstanding accounts receivables and payables.

In addition, in March 2007, management and the Board of Directors of the Company decided to discontinue the operating, research and development activities of its VoIP telephony services business and terminate all of the remaining employees of the business. The Company's decision to discontinue the operations of its VoIP telephony services business was based primarily on the historical losses sustained by the business during the past several years, management's expectations of continued losses for the foreseeable future and estimates of the amount of capital required to attempt to successfully monetize its business. As of September 30, 2007, all significant elements of its VOIP telephony services business shutdown plan have been completed except for the resolution of certain vendor disputes and the payment of remaining outstanding vendor payables.

We have estimated the total amount of costs expected to be incurred in shutting down our computer games and VoIP telephony services businesses. The amount of these shutdown costs, related principally to the termination of VOIP telephony service contracts, are not yet certain. However, at the present time, we believe that total cash expenditures for shutdown costs will approximate \$24 thousand for our computer games business and will not exceed \$416 thousand for our VoIP telephony services business.

The shares of our Common Stock were delisted from the NASDAQ national market in April 2001 and are now traded in the over-the-counter market on what is commonly referred to as the electronic bulletin board or OTCBB. Since the trading price of our Common Stock is less than \$5.00 per share, trading in our Common Stock is subject to the requirements of Rule 15g-9 of the Exchange Act. Under Rule 15g-9, brokers who recommend penny stocks to persons who are not established customers and accredited investors, as defined in the Exchange Act, must satisfy special sales practice requirements, including requirements that they make an individualized written suitability determination for the purchaser; and receive the purchaser's written consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosures in connection with any trades involving a penny stock, including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated with that market. Such requirements may severely limit the market liquidity of our Common Stock and the ability of purchasers of our equity securities to sell their securities in the secondary market. We may also incur additional costs under state blue sky laws if we sell equity due to our delisting.

EFFECTS OF INFLATION

Due to relatively low levels of inflation in 2007 and 2006, inflation has not had a significant effect on our results of operations since inception.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Certain of our accounting policies require higher degrees of judgment than others in their application. These include revenue recognition, valuation of receivables, valuation of goodwill, intangible assets and other long-lived assets and capitalization of computer software costs. Our accounting policies and procedures related to these areas are summarized below.

REVENUE RECOGNITION

Continuing Operations -

INTERNET SERVICES

Internet services net revenue consists principally of registration fees for Internet domain registrations, which generally have terms of one year, but may be up to ten years. Such registration fees are reported net of transaction fees paid to an unrelated third party which serves as the registry operator for the Company. Net registration fee revenue is recognized on a straight line basis over the registrations' terms.

Advertising on our www.search.travel website is generally sold at a flat rate for a stated time period and is recognized on a straight-line basis over the term of the advertising contract.

Discontinued Operations -

COMPUTER GAMES BUSINESSES

Advertising revenue for the Company's magazine publications was recognized at the on-sale date of the magazines.

Newsstand sales of the Company's magazine publications were recognized at the on-sale date of the magazines, net of provisions for estimated returns. Subscription revenue, net of agency fees, was deferred when initially received and recognized as income ratably over the subscription term.

Sales of games and related products from the online store were recognized as revenue when the product was shipped to the customer. Amounts billed to customers for shipping and handling charges were included in net revenue. The Company provided an allowance for returns of merchandise sold through its online store.

VOIP TELEPHONY SERVICES

VoIP telephony services revenue represented fees charged to customers for voice services and was recognized based on minutes of customer usage or as services were provided. The Company recorded payments received in advance for prepaid services as deferred revenue until the related services were provided.

VALUATION OF CUSTOMER RECEIVABLES

Provisions for the allowance for doubtful accounts are made based on historical loss experience adjusted for specific credit risks. Measurement of such losses requires consideration of the Company's historical loss experience, judgments about customer credit risk, and the need to adjust for current economic conditions.

GOODWILL AND INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that certain acquired intangible assets in a business combination be recognized as assets

separate from goodwill. SFAS No. 142 requires that goodwill and other intangibles with indefinite lives should no longer be amortized, but rather tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value.

Our policy calls for the assessment of the potential impairment of goodwill and other identifiable intangibles with indefinite lives whenever events or changes in circumstances indicate that the carrying value may not be recoverable or at least on an annual basis. Some factors we consider important which could trigger an impairment review include the following:

- significant under-performance relative to historical, expected or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- significant negative industry or economic trends.

When we determine that the carrying value of goodwill or other identified intangibles with indefinite lives may not be recoverable, we measure any impairment based on a projected discounted cash flow method.

LONG-LIVED ASSETS

The Company's long-lived assets primarily consist of property and equipment, capitalized costs of internal-use software, and values attributable to covenants not to compete.

Long-lived assets held and used by the Company and intangible assets with determinable lives are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We evaluate recoverability of assets to be held and used by comparing the carrying amount of the assets, or the appropriate grouping of assets, to an estimate of undiscounted future cash flows to be generated by the assets, or asset group. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair values are based on quoted market values, if available. If quoted market prices are not available, the estimate of fair value may be based on the discounted value of the estimated future cash flows attributable to the assets, or other valuation techniques deemed reasonable in the circumstances.

CAPITALIZATION OF COMPUTER SOFTWARE COSTS

The Company capitalizes the cost of internal-use software which has a useful life in excess of one year in accordance with Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Subsequent additions, modifications, or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized computer software costs are amortized using the straight-line method over the expected useful life, or three years.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 expands the scope of what entities may carry at fair value by offering an irrevocable option to record many types of financial assets and liabilities at fair value. Changes in fair value would be recorded in an entity's income statement. This accounting standard also establishes presentation and disclosure requirements that are intended to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company on January 1, 2008. Earlier application is permitted under certain circumstances. We are currently evaluating the

requirements of SFAS No. 159 and have not yet determined the impact on our consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 applies to other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the requirements of SFAS No. 157 and have not determined the impact on our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the "dual approach" had always been used or (ii) recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying value of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the "cumulative effect" transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The adoption of this standard did not have a material impact on the Company's financial condition, results of operations or liquidity.

In June 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109, "Accounting for Income Taxes," which clarifies accounting for and disclosure of uncertainty in tax positions. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation is effective for fiscal years beginning after December 15, 2006. We have evaluated the impact of adopting FIN No. 48 on our consolidated financial statements, and the adoption of FIN No. 48 did not have a material effect on our consolidated financial position, cash flows and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. Interest rate risk refers to fluctuations in the value of a security resulting from changes in the general level of interest rates. Investments that we classify as cash and cash equivalents have original maturities of three months or less and therefore, are not affected in any material respect by changes in market interest rates. At September 30, 2007, debt outstanding was composed of \$4.65 million of fixed rate instruments due on demand with an aggregate average interest rate of 10.00%.

Foreign Currency Risk. We transact business in U.S. dollars. Foreign currency exchange rate fluctuations do not have a material effect on our results of operations.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure (1) that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms, and (2) that this information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply

its judgment in evaluating the cost benefit relationship of possible controls and procedures.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2007. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in alerting them in a timely manner to material information regarding us (including our consolidated subsidiaries) that is required to be included in our periodic reports to the SEC.

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Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated any change in our internal control over financial reporting that occurred during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, and have determined there to be no reportable changes.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 6, "Litigation," of the Financial Statements included in this Report.

ITEM 1A. RISK FACTORS

In addition to the other information in this report, the following factors should be carefully considered in evaluating our business and prospects.

RISKS RELATING TO OUR BUSINESS GENERALLY

WE MAY NOT BE ABLE TO CONTINUE AS A GOING CONCERN.

We have received a report from our independent accountants, relating to our December 31, 2006 audited financial statements containing an explanatory paragraph stating that our recurring losses from operations and our accumulated deficit raise substantial doubt about our ability to continue as a going concern. For the reasons described below, Company management does not believe that cash on hand and cash flow generated internally by the Company will be adequate to fund the operation of its businesses beyond a short period of time. These reasons raise significant doubt about the Company's ability to continue as a going concern.

As of September 30, 2007, the Company had a net working capital deficit of approximately \$9.4 million, inclusive of a cash and cash equivalents balance of approximately \$412 thousand. Such working capital deficit included an aggregate of \$4.65 million in secured convertible demand notes and accrued interest of approximately \$838 thousand due to entities controlled by Michael Egan, the Company's Chairman and Chief Executive Officer.

(See Note 3, "Debt," in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements for further details).

Notwithstanding previous cost reduction actions taken by the Company and its recent decision to shutdown its unprofitable computer games and VoIP telephony services businesses in March 2007 (see Note 4, "Discontinued Operations" of the Notes to Unaudited Condensed Consolidated Financial Statements), the Company continues to incur substantial consolidated operating losses, although reduced in comparison with prior periods, and management believes that the Company will continue to be unprofitable in the foreseeable future. Based upon the Company's current financial condition, as discussed above, and without the infusion of additional capital, management does not believe that the Company will be able to fund its operations, including making the \$225 thousand payment to our Registry Operator which is contractually due on November 15, 2007 (See Note 7. "Subsequent Event" in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements for further discussion), beyond the middle of November 2007.

It is our preference to avoid filing for protection under the U.S. Bankruptcy Code. However, in order to continue operating as a going concern for any length of time beyond November 2007, we believe that we must quickly raise capital. Although there is no commitment to do so, any such funds would most likely come from Dancing Bear Investments, Inc., an entity controlled by Michael Egan, the Company's Chairman and Chief Executive Officer, under a Note Purchase Agreement entered into on May 29, 2007 or otherwise from Michael Egan or affiliates of Mr. Egan or

the Company, as the Company currently has no access to credit facilities with traditional third parties and has historically relied on borrowings from related parties to meet short-term liquidity needs. Any such capital raised would not be registered under the Securities Act of 1933 and would not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Although, until November 25, 2007, Dancing Bear Investments, Inc. still has the right to purchase an additional \$1.75 million under the Note Purchase Agreement, there can be no assurance that Dancing Bear Investments, Inc. will elect to purchase additional 2007 Convertible Notes. Further, the conversion of any of the convertible debt securities outstanding as of the current date, or issued in the future, will likely result in very substantial dilution of the number of outstanding shares of the Company's Common Stock.

In addition to our immediate need to raise capital, we believe that our long-term financial viability will be determined mainly by our ability to successfully execute our current and future business plans, including (i) achieving net growth in the number of “.travel” domain name registrations; (ii) improving and monetizing our www.search.travel website; (iii) further reducing our operating expenses; and (iv) successfully settling disputed and other outstanding liabilities related to our discontinued operations. The amount of capital required to be raised by the Company will be dependent upon the Company’s performance in executing its current and future business plans, as measured principally by the time period needed to begin generating positive internal cash flow. There can be no assurance that the Company will be successful in raising a sufficient amount of capital (including selling any additional 2007 Convertible Notes) or in executing its business plans. Further, even if we raise capital and are successful in achieving each of the aforementioned objectives, if demand for repayment of any or all of the approximately \$4.65 million in outstanding secured debt as of the current date or related accrued interest is made, there is no assurance that we will not, and it is likely that we will, be required to file for bankruptcy protection at that time.

WE HAVE A HISTORY OF OPERATING LOSSES AND EXPECT TO CONTINUE TO INCUR LOSSES.

Since our inception, we have incurred net losses each year and we expect that we will continue to incur net losses for the foreseeable future. We had losses from continuing operations, net of applicable income tax benefits, of approximately \$5.9 million for the first nine months of 2007 and \$17.0 million, \$13.3 million and \$24.9 million for the years ended December 31, 2006, 2005 and 2004, respectively. The principal causes of our losses are likely to continue to be:

- costs resulting from the operation of our business;
- failure to generate sufficient revenue; and
- selling, general and administrative expenses.

Although we have restructured our businesses, we still expect to continue to incur losses as we attempt to improve the performance and operating results of our Internet services business and while we attempt to complete the shutdown of our recently discontinued computer games and VoIP telephony services businesses.

WE ARE A PARTY TO LITIGATION MATTERS AND OTHER CLAIMS THAT MAY SUBJECT US TO SIGNIFICANT LIABILITY AND BE TIME CONSUMING AND EXPENSIVE.

We are currently a party to litigation and other claims and/or disputes arising in the ordinary course of business. At this time, we cannot reasonably estimate the range of any loss or damages resulting from any of the pending lawsuits or claims due to uncertainty regarding the ultimate outcome. The defense of any litigation or the process required to resolve outstanding claims and/or disputes may be expensive and divert management's attention from day-to-day operations. An adverse outcome in any of these matters could materially and adversely affect our results of operations and financial position and may utilize a significant portion of our cash resources. See Note 6, “Litigation,” in the Notes to Unaudited Condensed Consolidated Financial Statements for further details regarding outstanding legal matters.

OUR NET OPERATING LOSS CARRYFORWARDS MAY BE SUBSTANTIALLY LIMITED.

As of December 31, 2006, we had net operating loss carryforwards which may be potentially available for U.S. tax purposes of approximately \$162 million. These carryforwards expire through 2026. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Due to various significant changes in our ownership interests, as defined in the Internal Revenue Code of 1986, as amended, we have substantially limited the availability of our net operating loss carryforwards. There can be no assurance that we will be able to utilize any net operating loss carryforwards in the

future.

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WE DEPEND ON THE CONTINUED GROWTH IN THE USE AND COMMERCIAL VIABILITY OF THE INTERNET.

Our business is substantially dependent upon the continued growth in the general use of the Internet. Internet and electronic commerce growth may be inhibited for a number of reasons, including:

- inadequate network infrastructure;
- security and authentication concerns;
- inadequate quality and availability of cost-effective, high-speed service;