

THEGLOBE COM INC
Form 10-Q
May 11, 2007

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

FORM 10-Q

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

For the quarterly period ended March 31, 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

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The number of shares outstanding of the Registrant's Common Stock, \$.001 par value (the "Common Stock") as of May 7, 2007 was 172,484,838.

**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**

| | MARCH 31, 2007 (UNAUDITED) | DECEMBER 31, 2006 |
|---|----------------------------------|----------------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,507,052 | \$ 5,316,218 |
| Accounts receivable | 53,472 | 45,870 |
| Prepaid expenses | 351,476 | 358,701 |
| Net assets of discontinued operations | 549,050 | 960,280 |
| Other current assets | 12,142 | 13,001 |
| Total current assets | 4,473,192 | 6,694,070 |
| Intangible assets | 487,313 | 526,824 |
| Property and equipment, net | 160,581 | 144,216 |
| Other assets | 40,000 | 40,000 |
| Total assets | \$ 5,161,086 | \$ 7,405,110 |
| <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u> | | |
| Current Liabilities: | | |
| Accounts payable | \$ 657,381 | \$ 507,578 |
| Accrued expenses and other current liabilities | 1,322,492 | 1,484,669 |
| Deferred revenue | 1,444,898 | 1,222,705 |
| Notes payable due affiliates | 3,400,000 | 3,400,000 |
| Net liabilities of discontinued operations | 5,447,898 | 5,160,872 |
| Total current liabilities | 12,272,669 | 11,775,824 |
| Deferred revenue | 175,524 | 232,433 |
| Total liabilities | 12,448,193 | 12,008,257 |
| Stockholders' Deficit: | | |
| Common stock, \$0.001 par value; 500,000,000 shares authorized; 172,484,838 and 172,484,838 shares issued at March 31, 2007 and December 31, 2006, respectively | 172,485 | 172,485 |
| Additional paid-in capital | 289,193,213 | 289,088,557 |
| Accumulated deficit | (296,652,805) | (293,864,189) |
| Total stockholders' deficit | (7,287,107) | (4,603,147) |
| Total liabilities and stockholders' deficit | \$ 5,161,086 | \$ 7,405,110 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--|------------------------------|----------------|
| | 2007 | 2006 |
| | (UNAUDITED) | |
| Net Revenue | \$ 431,742 | \$ 313,613 |
| Operating Expenses: | | |
| Cost of revenue | 102,185 | 130,159 |
| Sales and marketing | 639,781 | 579,231 |
| General and administrative | 1,224,766 | 1,275,288 |
| Depreciation | 19,520 | 17,609 |
| Intangible asset amortization | 39,511 | 69,675 |
| | 2,025,763 | 2,071,962 |
| Operating Loss from Continuing Operations | (1,594,021) | (1,758,349) |
| Interest Income (Expense), net | (33,559) | 62,138 |
| Loss from Continuing Operations | | |
| Before Income Tax | (1,627,580) | (1,696,211) |
| Income Tax Provision | — | — |
| Loss from Continuing Operations | (1,627,580) | (1,696,211) |
| Discontinued Operations, net of tax | (1,161,036) | (2,848,402) |
| Net Loss | \$ (2,788,616) | \$ (4,544,613) |
| Loss Per Share - | | |
| Basic and Diluted: | | |
| Continuing Operations | \$ (0.01) | \$ (0.01) |
| Discontinued Operations | \$ (0.01) | \$ (0.02) |
| Net Loss | \$ (0.02) | \$ (0.03) |
| Weighted Average Common Shares Outstanding | 172,485,000 | 174,593,000 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|----------------|
| | 2007 | 2006 |
| | (UNAUDITED) | |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (2,788,616) | \$ (4,544,613) |
| Add back: loss from discontinued operations | 1,161,036 | 2,848,402 |
| Net loss from continuing operations | (1,627,580) | (1,696,211) |
| Adjustments to reconcile net loss from continuing operations to net cash flows from operating activities: | | |
| Depreciation and amortization | 59,031 | 87,284 |
| Employee stock compensation | 101,520 | 81,769 |
| Compensation related to non-employee stock options | 3,136 | 94,233 |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | (7,602) | — |
| Prepaid and other current assets | 8,084 | 21,581 |
| Accounts payable | 149,803 | (194,497) |
| Accrued expenses and other current liabilities | (162,177) | (351,391) |
| Income taxes payable | — | (806,406) |
| Deferred revenue | 165,284 | 103,124 |
| Net cash flows from operating activities of continuing operations | (1,310,501) | (2,660,514) |
| Net cash flows from operating activities of discontinued operations | (496,872) | (2,232,809) |
| Net cash flows from operating activities | (1,807,373) | (4,893,323) |
| Cash Flows from Investing Activities: | | |
| Net cash released from escrow | — | 780,721 |
| Purchases of property and equipment | (30,593) | — |
| Other, net | — | 5,001 |
| Net cash flows from investing activities of continuing operations | (30,593) | 785,722 |
| Proceeds from the sale of property and equipment of discontinued operations | 28,800 | — |
| Net cash flows from investing activities | (1,793) | 785,722 |
| Cash Flows from Financing Activities: | | |
| Proceeds from exercise of stock options and warrants | — | 18,420 |
| Net cash flows from financing activities of continuing operations | — | 18,420 |
| Payments on debt of discontinued operations | — | (11,598) |
| | — | 6,822 |
| Net Decrease in Cash and Cash Equivalents | (1,809,166) | (4,100,779) |
| Cash and Cash Equivalents, at beginning of period | 5,316,218 | 16,480,660 |
| Cash and Cash Equivalents, at end of period | \$ 3,507,052 | \$ 12,379,881 |

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 3, "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 March 31, 2007 and for the three months ended March 31, 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 March 31, 2007 and the results of its operations and its cash flows for the three months ended March 31, 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, the valuation of inventory, 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 \$2.8 million and \$4.5 million for the three months ended March 31, 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 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.

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 March 31:

| | 2007 | 2006 |
|---|-------------|------------|
| Options to purchase common stock | 18,923,000 | 15,699,000 |
| Common shares issuable upon exercise of warrants | 16,911,000 | 7,276,000 |
| Common shares issuable upon conversion of Convertible Notes | 68,000,000 | 68,000,000 |
| Total | 103,834,000 | 90,975,000 |

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 2006 results of their operations have been included in income 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 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 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 March 31, 2007, the Company had a net working capital deficit of approximately \$7,800,000, inclusive of a cash and cash equivalents balance of approximately \$3,500,000. Such working capital deficit included a settlement liability of \$2,550,000 owed to MySpace, Inc. ("MySpace") in connection with a lawsuit filed by MySpace against the Company on June 1, 2006 (as more fully discussed in Note 5, "Litigation") and an aggregate of \$3,400,000 in secured convertible demand notes (the "Convertible Notes") and accrued interest of approximately \$640,000 due to entities controlled by Michael Egan, the Company's Chairman and Chief Executive Officer. On April 18, 2007, the Company paid MySpace \$2,550,000 in cash in full settlement of the aforementioned lawsuit. As of May 4, 2007, the Company had a cash and cash equivalents balance of approximately \$480,000. 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 3, "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 beyond May 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 May 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 Michael Egan, the Company's Chairman and Chief Executive Officer, 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 the Company is currently in negotiations with Mr. Egan to provide additional financing, there can be no assurance that the Company will be successful in raising such capital or borrowing such funds, and any capital raised will likely result in very substantial dilution of the number of shares outstanding or which could be outstanding upon the exercise or conversion of any derivative securities issued by the Company as part of such capital raise.

In addition to raising a sufficient amount of 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) monetizing our www.search.travel website; (iii) further reducing our operating expenses; (iv) eliminating future losses incurred by our discontinued operations; and (v) 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 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 \$3,400,000 in outstanding secured debt or related accrued interest is made, there is no assurance that we will not be required to file for bankruptcy protection at that time.

(3) 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. The Company is currently in the process of implementing a business shutdown plan, which includes the termination of employee and vendor relationships and the collection and payment of outstanding accounts receivables and payables. We are also attempting to sell certain of the businesses' component assets; however, we do not expect the proceeds from such sales to be significant.

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. The Company is currently in the process of implementing a business shutdown plan, which includes the termination of its carrier and vendor relationships, as well as the payment and/or settlement of outstanding payables. We are also attempting to sell certain of the businesses' component assets; however, we do not expect the proceeds from such sales to be significant. 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 5, "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.

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:

| | March 31, 2007 | December 31, 2006 |
|---------------------------------------|-------------------|----------------------|
| Assets: | | |
| Computer Games | | |
| Accounts receivable, net | \$ 381,776 | \$ 518,279 |
| Inventory, net | 8,739 | 37,736 |
| Prepaid and other current assets | 10,000 | 44,111 |
| Property and equipment, net | 30,749 | 38,747 |
| | 431,264 | 638,873 |
| VoIP Telephony Services | | |
| Accounts receivable, net | 25,031 | 25,031 |
| Prepaid and other current assets | 24,751 | 113,815 |
| Property and equipment, net | 68,004 | 182,561 |
| | 117,786 | 321,407 |
| Net assets of discontinued operations | \$ 549,050 | \$ 960,280 |

| | March 31, 2007 | December 31, 2006 |
|--|-------------------|----------------------|
| Liabilities: | | |
| Computer Games | | |
| Accounts payable | \$ 345,588 | \$ 226,497 |
| Accrued expenses | 142,546 | 22,863 |
| Subscriber liability, net | 78,697 | 71,827 |
| | 566,831 | 321,187 |
| VoIP Telephony Services | | |
| Accounts payable | 1,975,116 | 2,062,562 |
| Accrued legal settlement | 2,550,000 | 2,550,000 |
| Other accrued expenses | 355,951 | 227,123 |
| | 4,881,067 | 4,839,685 |
| Net liabilities of discontinued operations | \$ 5,447,898 | \$ 5,160,872 |

Summarized financial information for the discontinued operations was as follows:

| <u>Periods Ended March 31,</u> | 2007 | 2006 |
|----------------------------------|--------------|----------------|
| Computer Games: | | |
| Net revenue | \$ 588,499 | \$ 366,920 |
| Loss from operations, net of tax | \$ (364,474) | \$ (174,213) |
| VoIP Telephony Services: | | |
| Net revenue | \$ 374 | \$ 20,624 |
| Loss from operations, net of tax | \$ (796,562) | \$ (2,674,189) |

The Company is in the process of evaluating the recoverability of its existing computer games and VoIP telephony services businesses' assets, and at this time, does not anticipate significant future impairment or other charges in this regard. Any such charges, if and when determined to be required, will be recorded by the Company when identified.

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 March 31, 2007, as follows:

| | Computer Games | VoIP Telephony Services |
|--|----------------|-------------------------|
| Total Estimated Shut-Down Costs: | | |
| Contract termination costs | \$ 115,000 | \$ 405,000 |
| Settlement of purchase commitment | 106,000 | — |
| Other costs | 20,000 | — |
| | \$ 241,000 | \$ 405,000 |
| Charged to discontinued operations through March 31, 2007: | | |
| Contract termination costs | \$ 115,000 | 405,000 |
| Settlement of purchase commitment | 106,000 | — |
| Other costs | 4,748 | — |
| | \$ 225,748 | \$ 405,000 |

Net current liabilities of discontinued operations at March 31, 2007 include accounts payable and accruals totaling approximately \$626,000 related to the estimated shut-down costs summarized above. The Company currently expects the shutdown of its computer games and VoIP telephony services businesses to be substantially completed by the end of the second quarter of 2007.

(4) 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 March 31, 2007, there were approximately 4,061,000 shares available for grant under the Company's stock option plans.

A total of 100,000 stock options were granted during the three months ended March 31, 2007, with a weighted-average fair value of \$0.07. During the three months ended March 31, 2006, a total of 1,110,000 stock options were issued with a weighted-average fair value of \$0.27.

There were no stock option exercises during the three months ended March 31, 2007. Stock option exercises during the three months ended March 31, 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 three months ended March 31, 2006, was \$119,628.

Stock option activity during the three months ended March 31, 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 | (1,319,580) | 0.12 |
| Outstanding at March 31, 2007 | 18,923,040 | \$ 0.38 |
| Options exercisable at March 31, 2007 | 16,882,547 | \$ 0.41 |

The weighted-average remaining contractual terms of stock options outstanding and stock options exercisable at March 31, 2007 were 7.2 years and 7.0 years, respectively. The aggregate intrinsic value of both options outstanding and stock options exercisable at March 31, 2007 was approximately \$147,000.

Stock compensation cost is recognized on a straight-line basis over the vesting period. Stock compensation expense totaling \$104,656 was charged to continuing operations during the three months ended March 31, 2007, including \$3,136 of expense resulting from the vesting of non-employee stock options and approximately \$34,423 from the accelerated vesting of stock options issued to terminated employees. During the three months ended March 31, 2006, stock compensation expense of \$176,002 charged to continuing operations included \$94,233 of expense related to the vesting of non-employee stock options granted in prior years and \$5,619 from the accelerated vesting of stock options issued to terminated employees.

At March 31, 2007, there was approximately \$147,000 of unrecognized compensation expense related to unvested stock options which is expected to be recognized over a weighted-average period of 1.2 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.

(5) 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 seeks monetary penalties, damages and injunctive relief for these alleged violations. It asserts 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 provides for liquidated damages of \$50 per email message sent after March 17, 2006 in violation of such Terms. The Company estimates that approximately 110,000 of the emails in question were sent after such date, which could result in damages of approximately \$5.5 million. In addition, the CAN-SPAM Act provides for statutory damages of between \$100 and \$300 per email sent in violation of the statute. Total damages under CAN-SPAM could therefore range between about \$40 million to about \$120 million. In addition, under the California Act, statutory damages of \$1,000,000 "per incident" could be 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 is to expire and be 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. In accordance with SFAS No. 5, "Accounting for Contingencies," the payment required by the Settlement Agreement has been included in accrued liabilities in the accompanying condensed consolidated balance sheets.

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 and as of the date of this filing, the Company is aware that 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. The lawsuits were filed in the United States District Court for the Southern District of New York.

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 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 Prospectus for the Company's initial public offering was false and misleading and in violation of the securities laws because it did not disclose these arrangements. On December 5, 2001, an amended complaint was filed in one of the actions, alleging the same conduct described above in connection with the Company's November 23, 1998 initial public offering and its May 19, 1999 secondary offering. A Consolidated Amended Complaint, which is now the operative complaint, was filed in the Southern District of New York on April 19, 2002. 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 October 13, 2004, the Court certified a class in six of the approximately 300 other nearly identical actions (the "focus cases") and noted that the decision is intended to provide strong guidance to all parties regarding class certification in the remaining cases. The Underwriter Defendants appealed the decision and the Second Circuit vacated the District Court's decision granting class certification in those six cases on December 5, 2006. Plaintiffs filed a motion for rehearing. On April 6, 2007, the Second Circuit denied the

petition, but noted that Plaintiffs could ask the District Court to certify a more narrow class than the one that was rejected. Plaintiffs have not yet moved to certify a class in theglobe.com case.

Prior to the Second Circuit's December 5, 2006 ruling the Company approved a settlement agreement and related agreements which set forth the terms of a settlement between the Company, the Individual Defendants, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. These agreements were submitted to the Court for approval. The settlement would have provided, among other things, a release of the Company and of the Individual Defendants for the conduct alleged to be wrongful in the complaint in exchange for a guarantee from the Company's insurers regarding recovery from the underwriter defendants and other consideration from the Company regarding its underwriters. In light of the Second Circuit opinion, liaison counsel for the issuers informed the District Court that the settlement cannot be approved because the defined settlement class, like the litigation class, cannot be certified. We cannot predict whether we will be able to renegotiate a settlement that complies with the Second Circuit's mandate.

Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of the matter. 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.

(6) SUBSEQUENT EVENTS

On April 18, 2007, the Company paid \$2,550,000 to MySpace pursuant to a Settlement Agreement dated March 15, 2007. See Note 5, "Litigation," for further discussion.

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, product development, sales and marketing, and general and administrative expenses;
- difficulty or inability to raise additional financing, if needed, 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.

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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 March 31, 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 of approximately \$480 thousand at May 4, 2007, management does not believe the Company can operate as a going concern beyond May 2007. See "Future 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 March 31, 2007 the total number of “.travel” domain names registered approximated 25,200.

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. As of March 31, 2007, advertising net revenue attributable to the www.search.travel website has not been significant.

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. The Company is currently in the process of implementing a business shutdown plan, which includes the termination of employee and vendor relationships and the collection and payment of outstanding accounts receivables and payables. We are also attempting to sell certain of the businesses’ component assets; however, we do not expect the proceeds from such sales to be significant.

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. During November 2006, the Company entered into a license agreement with Speecho, LLC, which granted a license to use the Company's chat, VoIP and video communications technology for a monthly license fee of \$10,000 per month with an initial term of ten years. The Company's Chairman, the Company's President and the Company's Vice President of Finance, as well as certain other current and former employees of the Company, are members of a company that owns 50% of the membership interests in Speecho, LLC.

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 the Security in connection with the MySpace litigation Settlement Agreement (See Note 5, "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.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2006

CONTINUING OPERATIONS

NET REVENUE. Net revenue totaled \$432 thousand for the three months ended March 31, 2007 as compared to \$314 thousand for the three months ended March 31, 2006, an increase of approximately \$118 thousand, or 38%, from the prior year period. Net revenue attributable to domain name registrations is recognized as revenue on a straight-line basis over the term of the registrations. Total domain names registered as of the end of the first quarter of 2007 and 2006 approximated 25.2 thousand and 17.6 thousand, respectively.

COST OF REVENUE. Cost of revenue totaled \$102 thousand for the three months ended March 31, 2007, a decline of \$28 thousand, or 21%, from the \$130 thousand reported for the three months ended March 31, 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. Cost of revenue as a percent of net revenue was approximately 24% for the first quarter of 2007 as compared to 42% for the same period of 2006. The decline in cost of revenue as compared to the 2006 first quarter was due primarily to Tralliance performing more verifications of registration eligibility in-house during the first quarter of 2007.

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 \$640 thousand for the three months ended March 31, 2007 versus \$579 thousand for the same period in 2006. Beginning in the third quarter of 2006, Tralliance has 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 costs of approximately \$237 thousand as compared to the first quarter of 2006. Partially offsetting this increase in comparison to the 2006 first quarter was a decrease of approximately \$176 thousand in costs associated with attendance at trade shows and conventions and the acquisition of promotional items.

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 approximately \$1.2 million in the first quarter of 2007 as compared to \$1.3 million for the same quarter of the prior year, a decline of \$51 thousand, or approximately 4%. A \$291 thousand increase in personnel costs was more than offset by declines in the majority of other general and administrative expense categories in comparison to the first quarter of 2006. Throughout 2006 and the first quarter of 2007, we hired additional staff to accommodate the increase in authentication and registration activity experienced by Tralliance. Additionally, during 2006, certain employees of the VoIP telephony services division were reassigned to Tralliance.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense totaled \$59 thousand for the three months ended March 31, 2007 as compared to \$87 thousand for the three months ended March 31, 2006, or a decline of \$28 thousand.

INTEREST INCOME (EXPENSE), NET. Net interest expense of \$34 thousand was reported for the first quarter of 2007 compared to net interest income of \$62 thousand reported for the first quarter of the prior year. As a result of the Company's net loss incurred during 2006, the Company had a lower level of funds available for investment during the first 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 first quarter of 2007 or the first 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.

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DISCONTINUED OPERATIONS

The loss from discontinued operations, net of income taxes totaled approximately \$1.2 million in the first quarter of 2007 as compared to a net loss of \$2.8 million during the first quarter of 2006 and is summarized as follows:

| | Computer Games | VoIP Telephony Services | Total |
|------------------------------------|----------------|----------------------------|----------------|
| Three months ended March 31, 2007: | | | |
| Net revenue | \$ 588,499 | \$ 374 | \$ 588,873 |
| Operating expenses | (952,973) | (830,529) | (1,783,502) |
| Other income, net | — | 33,593 | 33,593 |
| | \$ (364,474) | \$ (796,562) | \$ (1,161,036) |

| | Computer Games | VoIP Telephony Services | Total |
|------------------------------------|----------------|----------------------------|----------------|
| Three months ended March 31, 2006: | | | |
| Net revenue | \$ 366,920 | \$ 20,624 | \$ 387,544 |
| Operating expenses | (671,133) | (2,693,731) | (3,364,864) |
| Other income (expense), net | 130,000 | (1,082) | 128,918 |
| | \$ (174,213) | \$ (2,674,189) | \$ (2,848,402) |

Net revenue of the computer games division increased \$222 thousand compared to the first quarter of 2006 primarily due to increased advertising revenue in our magazine focused on PC gaming. Operating expenses of the computer games division increased \$282 thousand in comparison to the first quarter of 2006, principally due to charges related to the shutdown of the business, including estimated contract termination charges. Other income, net recorded during the first quarter of 2006 represented the \$130 thousand gain on the sale of Now Playing magazine.

Operating expenses of the VoIP telephony services division declined approximately \$1.9 million in comparison to the first quarter of 2006. Throughout 2006, the Company placed significant emphasis on the reduction of costs of the VoIP telephony services division. Efforts included the renegotiation, non-renewal and/or termination of certain network agreements, as well as reduction of network personnel costs. The Company also significantly reduced its sales and marketing spending throughout 2006. In connection with the cut backs in spending within the VoIP telephony services business implemented during 2006, the Company also reassigned certain personnel to fill open positions within the Tralliance registry business. These factors were the principal contributors to the decline in operating expenses incurred by the VoIP telephony services division as compared to the first quarter of 2006.

LIQUIDITY AND CAPITAL RESOURCES**CASH FLOW ITEMS**

As of March 31, 2007, we had approximately \$3.5 million 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 \$1.3 million and \$2.7 million, for the three months ended March 31, 2007 and 2006, respectively, or a decrease of approximately \$1.4 million. The impact of the payment of \$806 thousand in income tax liabilities during the first quarter of 2006, coupled with a reduction in the payment of accounts payables, accrued liabilities and other current liabilities during the first quarter of 2007 as compared to the same quarter 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 \$497 thousand in net cash flows were used in the operating activities of discontinued operations during the first quarter of 2007 as compared to a use of approximately \$2.2 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 \$1.7 million in net losses of the businesses as compared to the first quarter of 2006.

Net cash flows of \$786 thousand were provided by investing activities of continuing operations during the first three 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.

FUTURE 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 March 31, 2007, the Company had a net working capital deficit of approximately \$7.8 million, inclusive of a cash and cash equivalents balance of approximately \$3.5 million. Such working capital deficit included a settlement liability of approximately \$2.6 million owed to MySpace, Inc. ("MySpace") in connection with a lawsuit filed by MySpace against the Company on June 1, 2006 (as more fully discussed in Note 5, "Litigation") and an aggregate of \$3.4 million in secured convertible demand notes (the "Convertible Notes") and accrued interest of approximately \$640 thousand due to entities controlled by Michael Egan, the Company's Chairman and Chief Executive Officer. On April 18, 2007, the Company paid MySpace approximately \$2.6 million in cash in full settlement of the aforementioned lawsuit. As of May 4, 2007, the Company had a cash and cash equivalents balance of approximately \$480 thousand. 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 3, "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 beyond May 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 May 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 Michael Egan, the Company's Chairman and Chief Executive Officer, 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 the Company is currently in negotiations with Mr. Egan to provide additional financing, there can be no assurance that the Company will be successful in raising such capital or borrowing such funds, and any capital raised will likely result in very substantial dilution of the number of shares outstanding or which could be outstanding upon the exercise or conversion of any derivative securities issued by the Company as part of such capital raise.

In addition to raising a sufficient amount of 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) monetizing our www.search.travel website; (iii) further reducing our operating expenses; (iv) eliminating future losses incurred by our discontinued operations; and (v) 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 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 \$3.4 million in outstanding secured debt or related accrued interest is made, there is no assurance that we will not 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. 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. The Company is currently in the process of implementing a business shutdown plan, which includes the termination of employee and vendor relationships and the collection and payment of outstanding accounts receivables and payables. We are also attempting to sell certain of the businesses’ component assets; however, we do not expect the proceeds from such sales to be significant.

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. The Company is currently in the process of implementing a business shutdown plan, which includes the termination of its existing carrier and vendor relationships, as well as the payment and/or settlement of outstanding payables. We are also attempting to sell certain of the businesses’ component assets; however, we do not expect the proceeds from such sales to be significant.

We are in the process of evaluating the recoverability of our existing computer games and VoIP telephony services businesses’ assets, and at this time, we do not anticipate significant future impairment or other charges in this regard. Any such charges, if and when determined to be required, will be recorded when identified. We are also in the process of evaluating the amount of costs expected to be incurred in shutting down our computer games and VoIP telephony services businesses. The amount of these shutdown costs, including costs related to employee termination benefits and

vendor contract termination costs are not yet certain, however, at the present time, we believe that total cash expenditures for shutdown costs will range between \$20 thousand and \$241 thousand for our computer games business and between zero and \$405 thousand for our VoIP telephony services business. We currently expect the shutdown of our computer games and VoIP telephony services businesses to be substantially completed by the end of the second quarter of 2007.

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 15c-9 of the Exchange Act. Under Rule 15c-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.

Discontinued Operations -

COMPUTER GAMES BUSINESSES

Advertising revenues 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.

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.

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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 March 31, 2007, debt outstanding was composed of \$3.4 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 March 31, 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.

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 March 31, 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 5, "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.

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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 March 31, 2007, the Company had a net working capital deficit of approximately \$7.8 million, inclusive of a cash and cash equivalents balance of approximately \$3.5 million. Such working capital deficit included a settlement liability of approximately \$2.6 million owed to MySpace, Inc. ("MySpace") in connection with a lawsuit filed by MySpace against the Company on June 1, 2006 (as more fully discussed in Note 5, "Litigation") and an aggregate of \$3.4 million in secured convertible demand notes (the "Convertible Notes") and accrued interest of approximately \$640 thousand due to entities controlled by Michael Egan, the Company's Chairman and Chief Executive Officer. On April 18, 2007, the Company paid MySpace approximately \$2.6 million in cash in full settlement of the aforementioned lawsuit. As of May 4, 2007, the Company had a cash and cash equivalents balance of approximately \$480 thousand. 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 3, "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 beyond May 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 May 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 Michael Egan, the Company's Chairman and Chief Executive Officer, 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 the Company is currently in negotiations with Mr. Egan to provide additional financing, there can be no assurance that the Company will be successful in raising such capital or borrowing such funds, and any capital raised will likely result in very substantial dilution of the number of shares outstanding or which could be outstanding upon the exercise or conversion of any derivative securities issued by the Company as part of such capital raise.

In addition to raising a sufficient amount of 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) monetizing our www.search.travel website; (iii) further reducing our operating expenses; (iv) eliminating future losses incurred by our discontinued operations; and (v) 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 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 \$3.4 million in outstanding secured debt or

related accrued interest is made, there is no assurance that we will not 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 \$1.6 million for the first three 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 sell components 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 5, "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.

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;

- general economic and business downturns; and
- catastrophic events, including war and terrorism.

As web usage grows, the Internet infrastructure may not be able to support the demands placed on it by this growth or its performance and reliability may decline. Websites have experienced interruptions in their service as a result of outages and other delays occurring throughout the Internet network infrastructure. If these outages or delays frequently occur in the future, web usage, as well as usage of our services, could grow more slowly or decline. Also, the Internet's commercial viability may be significantly hampered due to:

- delays in the development or adoption of new operating and technical standards and performance improvements required to handle increased levels of activity;
- increased government regulation;
- potential governmental taxation of such services; and
- insufficient availability of telecommunications services which could result in slower response times and adversely affect usage of the Internet.

WE MAY FACE INCREASED GOVERNMENT REGULATION, TAXATION AND LEGAL UNCERTAINTIES IN OUR INDUSTRY, BOTH DOMESTICALLY AND INTERNATIONALLY, WHICH COULD NEGATIVELY IMPACT OUR FINANCIAL CONDITION AND/OR OUR RESULTS OF OPERATIONS.

There are an increasing number of federal, state, local and foreign laws and regulations pertaining to the Internet. In addition, a number of federal, state, local and foreign legislative and regulatory proposals are under consideration. Laws and regulations have been and will likely continue to be adopted with respect to the Internet relating to, among other things, liability for information retrieved from or transmitted over the Internet, online content regulation, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, broadband residential Internet access and the characteristics and quality of products and services.

Changes in tax laws relating to electronic commerce could materially affect our business, prospects and financial condition. One or more states or foreign countries may seek to impose sales or other tax collection obligations on out-of-jurisdiction companies that engage in electronic commerce. A successful assertion by one or more states or foreign countries that we should collect sales or other taxes on services could result in substantial tax liabilities for past sales, decrease our ability to compete with other entities involved in the industries in which we participate, and otherwise harm our business.

Moreover, the applicability to the Internet of existing laws governing issues such as intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment and personal privacy is uncertain and developing. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel, and personal privacy apply to the Internet and electronic commerce. Any new legislation or regulation, or the application or interpretation of existing laws or regulations, may decrease the growth in the use of the Internet, may impose additional burdens on electronic commerce or may alter how we do business. This could decrease the demand for our existing or proposed services, increase our cost of doing business, increase the costs of products sold through the Internet or otherwise have a material adverse effect on our business, plans, prospects, results of operations and financial condition.

WE RELY ON INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS.

We regard substantial elements of our websites and underlying technology as proprietary and attempt to protect them by relying on intellectual property laws and restrictions on disclosure. We also generally enter into confidentiality agreements with our employees and consultants. In connection with our license agreements with third parties, we generally seek to control access to and distribution of our technology and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our proprietary information without authorization or to develop similar technology independently. Thus, we cannot assure you that the steps taken by us will prevent misappropriation or infringement of our proprietary information, which could have an adverse effect on our business. In addition, our competitors may independently develop similar technology, duplicate our products, or design around our intellectual property rights.

We pursue the registration of our trademarks in the United States and, in some cases, internationally. However, effective intellectual property protection may not be available in every country in which our services are distributed or made available through the Internet. Policing unauthorized use of our proprietary information is difficult. Legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet related businesses are also uncertain and still evolving. We cannot assure you about the future viability or value of any of our proprietary rights.

Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. However, we may not have sufficient funds or personnel to adequately litigate or otherwise protect our rights. Furthermore, we cannot assure you that our business activities and product offerings will not infringe upon the proprietary rights of others, or that other parties will not assert infringement claims against us, including claims related to providing hyperlinks to websites operated by third parties, sending unsolicited email messages or providing advertising on a keyword basis that links a specific search term entered by a user to the appearance of a particular advertisement. Moreover, from time to time, third parties have asserted and may in the future assert claims of alleged infringement by us of their intellectual property rights. In the fourth quarter of 2005, we were sued by Sprint Communications Company, L.P. (“Sprint”) for alleged unauthorized use of “inventions” described and claimed in seven patents held by Sprint. In August 2006, we entered into a settlement agreement with Sprint which resolved the pending patent infringement lawsuit. As part of the settlement, we agreed to enter into a non-exclusive license under certain of Sprint’s patents. Additionally, on February 28, 2007, the United States District Court for the Central District of California entered an order, related to the lawsuit filed against theglobe by MySpace, Inc. (“MySpace”), granting in part MySpace’s motion for summary judgment, finding that we were liable for violation of the CAN-SPAM Act and the California Business & Professions Code, and for breach of contract. On March 15, 2007, the Company entered into a Settlement Agreement with MySpace whereby, among other things, the Company agreed to pay MySpace approximately \$2.6 million 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. See Note 5, “Litigation,” in the Notes to Unaudited Condensed Consolidated Financial Statements for further details regarding the MySpace settlement. Any litigation claims or counterclaims could impair our business because they could:

- be time-consuming;
- result in significant costs;
- subject us to significant liability for damages;
- result in invalidation of our proprietary rights;
- divert management's attention;

- cause product release delays; or

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- require us to redesign our products or require us to enter into royalty or licensing agreements that may not be available on terms acceptable to us, or at all.

We license from third parties various technologies incorporated into our products, networks and sites. We cannot assure you that these third-party technology licenses will continue to be available to us on commercially reasonable terms. Additionally, we cannot assure you that the third parties from which we license our technology will be able to defend our proprietary rights successfully against claims of infringement. As a result, our inability to obtain any of these technology licenses could result in delays or reductions in the introduction of new products and services or could adversely affect the performance of our existing products and services until equivalent technology can be identified, licensed and integrated.

The regulation of domain names in the United States and in foreign countries may change. Regulatory bodies could establish and have established additional top-level domains, could appoint additional domain name registries or could modify the requirements for holding domain names, any or all of which may dilute the strength of our names or our “.travel” domain registry business. We may not acquire or maintain our domain names in all of the countries in which our websites may be accessed, or for any or all of the top-level domain names that may be introduced. The relationship between regulations governing domain names and laws protecting proprietary rights is unclear. Therefore, we may not be able to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights.

WE MAY BE UNSUCCESSFUL IN ESTABLISHING AND MAINTAINING BRAND AWARENESS; BRAND IDENTITY IS CRITICAL TO OUR COMPANY.

Our success in the markets in which we operate will depend on our ability to create and maintain brand awareness for our product offerings. This has in some cases required, and may continue to require, a significant amount of capital to allow us to market our products and establish brand recognition and customer loyalty. Many of our competitors are larger than us and have substantially greater financial resources.

If we fail to promote and maintain our various brands or our business' brand values are diluted, our business, operating results, and financial condition could be materially adversely affected. The importance of brand recognition will continue to increase because low barriers of entry to the industries in which we operate may result in an increased number of direct competitors. To promote our brands, we may be required to continue to increase our financial commitment to creating and maintaining brand awareness. We may not generate a corresponding increase in revenue to justify these costs.

OUR QUARTERLY OPERATING RESULTS FLUCTUATE.

Due to our significant change in operations, including the entry into new lines of business and disposition and/or cessation of other lines of business, our historical quarterly operating results are not necessarily reflective of future results. The factors that will cause our quarterly operating results to fluctuate in the future include:

- the outcome and costs related to defending and settling litigation, claims and disputes;
- sales of our recently discontinued businesses or assets;
- changes in the number of sales or technical employees;
- the level of traffic on our websites;
- the overall demand for Internet travel services and Internet advertising;

- the addition or loss of “.travel” domain name registrants, advertising clients of our www.search.travel website and electronic commerce partners on our website;
- overall usage and acceptance of the Internet;
- seasonal trends in advertising and electronic commerce sales in our business;
- costs relating to the implementation or cessation of marketing plans for our business;
- other costs relating to the maintenance of our operations;
- the restructuring of our business;
- failure to generate significant revenues and profit margins from new and/or existing products and services; and
- competition from others providing services similar to ours.

OUR LIMITED OPERATING HISTORY MAKES FINANCIAL FORECASTING DIFFICULT. OUR INEXPERIENCE IN THE INTERNET SERVICES BUSINESS WILL MAKE FINANCIAL FORECASTING EVEN MORE DIFFICULT.

We have a limited operating history for you to use in evaluating our prospects and us, particularly as it pertains to our Internet services business. Our prospects should be considered in light of the risks encountered by companies operating in new and rapidly evolving markets like ours. We may not successfully address these risks. For example, we may not be able to:

- maintain or increase levels of user traffic on our www.search.travel website;
- generate and maintain adequate levels of “.travel” domain name registrations;
- generate and maintain adequate www.search.travel advertising revenue;
- adapt to meet changes in our markets and competitive developments; and
- identify, attract, retain and motivate qualified personnel.

OUR MANAGEMENT TEAM IS INEXPERIENCED IN THE MANAGEMENT OF A LARGE OPERATING COMPANY.

Only our Chairman has had experience managing a large operating company. Accordingly, we cannot assure you that:

- our key employees will be able to work together effectively as a team;
- we will be able to retain the remaining members of our management team;
- we will be able to hire, train and manage our employee base;

- our systems, procedures or controls will be adequate to support our operations; and
- our management will be able to achieve the rapid execution necessary to fully exploit the market opportunity for our products and services.

WE DEPEND ON HIGHLY QUALIFIED TECHNICAL AND MANAGERIAL PERSONNEL

Our future success also depends on our continuing ability to attract, retain and motivate highly qualified technical expertise and managerial personnel necessary to operate our businesses. We may need to give retention bonuses and stock incentives to certain employees to keep them, which can be costly to us. The loss of the services of members of our management team or other key personnel could harm our business. Our future success depends to a significant extent on the continued service of key management, client service, product development, sales and technical personnel. We do not maintain key person life insurance on any of our executive officers and do not intend to purchase any in the future. Although we generally enter into non-competition agreements with our key employees, our business could be harmed if one or more of our officers or key employees decided to join a competitor or otherwise compete with us.

We may be unable to attract, assimilate or retain highly qualified technical and managerial personnel in the future. Our deteriorating financial performance creates uncertainty that may result in departures of key employees and our inability to attract suitable replacements and/or additional managerial personnel in the future. Wages for managerial and technical employees are increasing and are expected to continue to increase in the future. We have from time to time in the past experienced, and could continue to experience in the future if we need to hire any additional personnel, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. If we were unable to attract and retain the technical and managerial personnel necessary to support and grow our businesses, our businesses would likely be materially and adversely affected.

OUR OFFICERS, INCLUDING OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND PRESIDENT HAVE OTHER INTERESTS AND TIME COMMITMENTS; WE HAVE CONFLICTS OF INTEREST WITH SOME OF OUR DIRECTORS; ALL OF OUR DIRECTORS ARE EMPLOYEES OR STOCKHOLDERS OF THE COMPANY OR AFFILIATES OF OUR LARGEST STOCKHOLDER.

Because our Chairman and Chief Executive Officer, Mr. Michael Egan, is an officer or director of other companies, we have to compete for his time. Mr. Egan became our Chief Executive Officer effective June 1, 2002. Mr. Egan is also the controlling investor of Dancing Bear Investments, Inc. and E&C Capital Partners LLLP, which are our largest stockholders. Mr. Egan has not committed to devote any specific percentage of his business time with us. Accordingly, we compete with Dancing Bear Investments, Inc., E&C Capital Partners LLLP, Blue Wall, LLC, Specho, LLC and Mr. Egan's other related entities for his time.

Our President, Treasurer and Chief Financial Officer and Director, Mr. Edward A. Cespedes, is also an officer or director of other companies. Accordingly, we must compete for his time. Mr. Cespedes is an officer or director of various privately held entities and is also affiliated with Dancing Bear Investments, Inc.

Our Vice President of Finance and Director, Ms. Robin Lebowitz is also affiliated with Dancing Bear Investments, Inc. She is also an officer or director of other companies or entities controlled by Mr. Egan and Mr. Cespedes.

Due to the relationships with his related entities, Mr. Egan will have an inherent conflict of interest in making any decision related to transactions between the related entities and us, including investment in our securities. Furthermore, the Company's Board of Directors presently is comprised entirely of individuals which are employees of theglobe, and therefore are not "independent." We intend to review related party transactions in the future on a case-by-case basis.

WE RELY ON THIRD PARTY OUTSOURCED HOSTING FACILITIES OVER WHICH WE HAVE LIMITED CONTROL.

Our principal servers are located in areas throughout the eastern region of the United States primarily at third party outsourced hosting facilities. Our operations depend on the ability to protect our systems against damage from unexpected events, including fire, power loss, water damage, telecommunications failures and vandalism. Any disruption in our Internet access could have a material adverse effect on us. In addition, computer viruses, electronic break-ins or other similar disruptive problems could also materially adversely affect our businesses. Our reputation and/or the brands of our business could be materially and adversely affected by any problems experienced by our websites, databases or our supporting information technology networks. We may not have insurance to adequately compensate us for any losses that may occur due to any failures or interruptions in our systems. We do not presently have any secondary off-site systems or a formal disaster recovery plan.

HACKERS MAY ATTEMPT TO PENETRATE OUR SECURITY SYSTEM; ONLINE SECURITY BREACHES COULD HARM OUR BUSINESS.

Consumer and supplier confidence in our businesses depends on maintaining relevant security features. Substantial or ongoing security breaches on our systems or other Internet-based systems could significantly harm our business. We incur substantial expenses protecting against and remedying security breaches. Security breaches also could damage our reputation and expose us to a risk of loss or litigation. Experienced programmers or "hackers" have successfully penetrated our systems and we expect that these attempts will continue to occur from time to time. Because a hacker who is able to penetrate our network security could misappropriate proprietary or confidential information or cause interruptions in our products and services, we may have to expend significant capital and resources to protect against or to alleviate problems caused by these hackers. Additionally, we may not have a timely remedy against a hacker who is able to penetrate our network security. Such security breaches could materially adversely affect our company. In addition, the transmission of computer viruses resulting from hackers or otherwise could expose us to significant liability. Our insurance may not be adequate to reimburse us for losses caused by security breaches. We also face risks associated with security breaches affecting third parties with whom we have relationships.

WE MAY BE EXPOSED TO LIABILITY FOR INFORMATION RETRIEVED FROM OR TRANSMITTED OVER THE INTERNET.

Users may access content on our websites or the websites of our distribution partners or other third parties through website links or other means, and they may download content and subsequently transmit this content to others over the Internet. This could result in claims against us based on a variety of theories, including defamation, obscenity, negligence, copyright infringement, trademark infringement or the wrongful actions of third parties. Other theories may be brought based on the nature, publication and distribution of our content or based on errors or false or misleading information provided on our websites. Claims have been brought against online services in the past and we have received inquiries from third parties regarding these matters. Such claims could be material in the future.

WE MAY BE EXPOSED TO LIABILITY FOR PRODUCTS OR SERVICES SOLD OVER THE INTERNET, INCLUDING PRODUCTS AND SERVICES SOLD BY OTHERS.

We enter into agreements with commerce partners and sponsors under which, in some cases, we are entitled to receive a share of revenue from the purchase of goods and services through direct links from our sites. We cannot assure you that any indemnification that may be provided to us in some of these agreements with these parties will be adequate. Even if these claims do not result in our liability, we could incur significant costs in investigating and defending against these claims. The imposition of potential liability for information carried on or disseminated through our systems could require us to implement measures to reduce our exposure to liability. Those measures may require the expenditure of substantial resources and limit the attractiveness of our services. Additionally, our insurance policies

may not cover all potential liabilities to which we are exposed.

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WE MAY NOT BE ABLE TO IMPLEMENT SECTION 404 OF THE SARBANES-OXLEY ACT ON A TIMELY BASIS.

The Securities and Exchange Commission (the "SEC"), as directed by Section 404 of The Sarbanes-Oxley Act, adopted rules generally requiring each public company to include a report of management on the company's internal controls over financial reporting in its annual report on Form 10-K that contains an assessment by management of the effectiveness of the company's internal controls over financial reporting. In addition, the company's independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. This requirement will first apply to our annual report on Form 10-K for the fiscal year ending December 31, 2007.

We have not yet developed a Section 404 implementation plan. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement.

We expect that we will need to hire and/or engage additional personnel and incur incremental costs in order to complete the work required by Section 404. There can be no assurance that we will be able to complete a Section 404 plan on a timely basis. The Company's liquidity position will also impact our ability to adequately fund our Section 404 efforts.

Even if we timely complete a Section 404 plan, we may not be able to conclude that our internal controls over financial reporting are effective, or in the event that we conclude that our internal controls are effective, our independent accountants may disagree with our assessment and may issue a report that is qualified. This could subject the Company to regulatory scrutiny and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's operating results or cause the Company to fail to meet its reporting obligations.

RISKS RELATING TO OUR INTERNET SERVICES BUSINESS

OUR CONTRACT TO SERVE AS THE REGISTRY FOR THE ".TRAVEL" TOP-LEVEL DOMAIN MAY BE TERMINATED EARLY, WHICH WOULD LIKELY DO IRREPARABLE HARM TO OUR DEVELOPING INTERNET SERVICES BUSINESS.

Our contract with the Internet Corporation for Assigned Names and Numbers ("ICANN") to serve as the registry for the ".travel" top-level Internet domain is for an initial term of ten years. 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.

Should our ".travel" registry contract be terminated early by ICANN, we would likely permanently shutdown our Internet services business. Further, we could be held liable to pay additional fees or financial damages to ICANN or certain of our related subcontractors and, in certain limited circumstances, to pay punitive, exemplary or other damages to ICANN. Any such developments could have a material adverse effect on our financial condition and results of operations.

OUR BUSINESS COULD BE MATERIALLY HARMED IF IN THE FUTURE THE ADMINISTRATION AND OPERATION OF THE INTERNET NO LONGER RELIES UPON THE EXISTING DOMAIN NAME SYSTEM.

The domain name registration industry continues to develop and adapt to changing technology. This development may include changes in the administration or operation of the Internet, including the creation and institution of alternate systems for directing Internet traffic without the use of the existing domain name system. The widespread acceptance of any alternative systems could eliminate the need to register a domain name to establish an online presence and could materially adversely affect our business, financial condition and results of operations.

WE OUTSOURCE CERTAIN OPERATIONS WHICH EXPOSES US TO RISKS RELATED TO OUR THIRD PARTY VENDORS.

We do not develop and maintain all of the products and services that we offer. We offer most of our services to our customers through various third party service providers engaged to perform these services on our behalf and also outsource most of our operations to third parties. Accordingly, we are dependent, in part, on the services of third party service providers, which may raise concerns by our customers regarding our ability to control the services we offer them if certain elements are managed by another company. In the event that these service providers fail to maintain adequate levels of support, do not provide high quality service, discontinue their lines of business, cease or reduce operations or terminate their contracts with us, our business, operations and customer relations may be impacted negatively and we may be required to pursue replacement third party relationships, which we may not be able to obtain on as favorable terms or at all. If a problem should arise with a provider, transitioning services and data from one provider to another can often be a complicated and time consuming process and we cannot assure that if we need to switch from a provider we would be able to do so without significant disruptions, or at all. If we were unable to complete a transition to a new provider on a timely basis, or at all, we could be forced to either temporarily or permanently discontinue certain services which may disrupt services to our customers. Any failure to provide services would have a negative impact on our revenue, profitability and financial condition and could materially harm our Internet services business.

REGULATORY AND STATUTORY CHANGES COULD HARM OUR INTERNET SERVICES BUSINESS.

We cannot predict with any certainty the effect that new governmental or regulatory policies, including changes in consumer privacy policies or industry reaction to those policies, will have on our domain name registry business. Additionally, ICANN's limited resources may seriously affect its ability to carry out its mandate or could force ICANN to impose additional fees on registries. Changes in governmental or regulatory statutes or policies could cause decreases in future revenue and increases in future costs which could have a material adverse effect on the development of our domain name registry business.

OUR INTERNET SERVICES BUSINESS IS DEPENDENT ON THE TRAVEL INDUSTRY. OUR BUSINESS MAY AFFECTED BY EVENTS WHICH AFFECT THE TRAVEL INDUSTRY IN GENERAL.

Revenue and cash flows of our Internet services business principally result from the registrations of domain names in the ".travel" top level domain. The ability to register such domain names are only available to businesses which are involved in the travel industry. Events such as terrorist attacks, military actions and natural disasters have had a significant adverse affect on the travel industry in the past. In addition, recessions or other economic pressures, such as the level of employment in the U.S or abroad have also had negative impacts on the travel industry. The overall demand for advertising, as well as the level of consumer travel may also be linked to such events or economic conditions. If such events result in a negative impact on the travel industry, such impact could have a material adverse effect on our business, results of operations and financial condition.

WE MAY NOT BE ABLE TO ATTRACT ADVERTISERS OR INTERNET USERS TO OUR SEARCH.TRAVEL WEBSITE.

Our www.search.travel search engine competes for advertising dollars with large Internet portal and search engine sites, such as Google, America Online, MSN and Yahoo!, that offer listings or other advertising opportunities for travel companies. These companies have significantly greater financial, technical, marketing and other resources and larger client bases. In addition, we also compete with traditional media companies, such as newspaper and magazine publishers, that provide online advertising opportunities on their websites. We expect to face additional competition as other companies enter the online advertising market. If we do not attract a sufficient number of Internet users and advertisers to our search engine website, our present business model may not be successful and our business could be

adversely affected.

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RISKS RELATING TO OUR RECENTLY DISCONTINUED OPERATIONS

WE MAY NOT BE ABLE TO RECOVER THE FULL CARRYING VALUE OF THE ASSETS OF OUR RECENTLY DISCONTINUED BUSINESSES.

In connection with our recent decision to discontinue the operations of our computer games and VoIP telephony services businesses, we are currently in the process of evaluating the recoverability of the carrying value of the remaining assets of these businesses. At the present time, management is not aware of any issues that would negatively impact the recoverability of these assets. However, there can be no assurance that future events will not occur, particularly with respect to the collection of approximately \$400 thousand in accounts receivable of our computer games businesses, which will adversely impact the recoverability of these discontinued business assets. Any such adverse future events could negatively impact the Company's already weakened liquidity and financial condition.

WE MAY INCUR EXCESSIVE SHUTDOWN COSTS.

In connection with our recent decision to discontinue the operations of our computer games and VoIP telephony services businesses, we are in the process of evaluating the amount of costs expected to be incurred in shutting down these businesses. The amount of these shutdown costs, including employee termination benefits and vendor contract termination costs, are not yet certain, however, at the present time, we believe that total shutdown costs for both businesses combined will range from between \$20 thousand to \$646 thousand. Although we will attempt to negotiate vendor settlements near the lower end of this range, there can be no assurance that we will be successful. Additionally, liabilities presently unknown to us could be identified in the future. Either or both of these adverse outcomes could negatively impact the Company's already weakened liquidity and financial condition.

RISKS RELATING TO OUR COMMON STOCK

THE VOLUME OF SHARES AVAILABLE FOR FUTURE SALE IN THE OPEN MARKET COULD DRIVE DOWN THE PRICE OF OUR STOCK OR KEEP OUR STOCK PRICE FROM IMPROVING, EVEN IF OUR FINANCIAL PERFORMANCE IMPROVES.

As of May 7, 2007, we had issued and outstanding approximately 172.5 million shares, of which approximately 86.7 million shares were freely tradable over the public markets. There is limited trading volume in our shares and we are now traded only in the over-the-counter market. Most of our outstanding restricted shares of Common Stock were issued more than one year ago and are therefore eligible to be resold over the public markets pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended.

Sales of significant amounts of Common Stock in the public market in the future, the perception that sales will occur or the registration of additional shares pursuant to existing contractual obligations could materially and adversely drive down the price of our stock. In addition, such factors could adversely affect the ability of the market price of the Common Stock to increase even if our business prospects were to improve. Substantially all of our stockholders holding restricted securities, including shares issuable upon the exercise of warrants or the conversion of convertible notes to acquire our Common Stock (which are convertible into 68 million shares), have registration rights under various conditions and are or will become available for resale in the future.

In addition, as of March 31, 2007, there were outstanding options to purchase approximately 18.9 million shares of our Common Stock, which become eligible for sale in the public market from time to time depending on vesting and the expiration of lock-up agreements. The shares issuable upon exercise of these options are registered under the Securities Act and consequently, subject to certain volume restrictions as to shares issuable to executive officers, will be freely tradable.

Also as of May 7, 2007, we had issued and outstanding warrants to acquire approximately 16.9 million shares of our Common Stock. Many of the outstanding instruments representing the warrants contain anti-dilution provisions pursuant to which the exercise prices and number of shares issuable upon exercise may be adjusted.

OUR CHAIRMAN MAY CONTROL US.

Michael S. Egan, our Chairman and Chief Executive Officer, beneficially owns or controls, directly or indirectly, approximately 150 million shares of our Common Stock as of May 7, 2007, which in the aggregate represents approximately 58% of the outstanding shares of our Common Stock (treating as outstanding for this purpose the shares of Common Stock issuable upon exercise and/or conversion of the options, convertible promissory notes and warrants owned by Mr. Egan or his affiliates). Accordingly, Mr. Egan will be able to exercise significant influence over, if not control, any stockholder vote.

DELISTING OF OUR COMMON STOCK MAKES IT MORE DIFFICULT FOR INVESTORS TO SELL SHARES. THIS MAY POTENTIALLY LEAD TO FUTURE MARKET DECLINES.

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." As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the market value of the securities. The delisting has made trading our shares more difficult for investors, potentially leading to further declines in share price and making it less likely our stock price will increase. It has also made it more difficult for us to raise additional capital. We may also incur additional costs under state blue-sky laws if we sell equity due to our delisting.

OUR COMMON STOCK IS SUBJECT TO CERTAIN "PENNY STOCK" RULES WHICH MAY MAKE IT A LESS ATTRACTIVE INVESTMENT.

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. For all of these reasons, an investment in our equity securities may not be attractive to our potential investors.

ANTI-TAKEOVER PROVISIONS AFFECTING US COULD PREVENT OR DELAY A CHANGE OF CONTROL.

Provisions of our charter, by-laws and stockholder rights plan and provisions of applicable Delaware law may:

- have the effect of delaying, deferring or preventing a change in control of our Company;
- discourage bids of our Common Stock at a premium over the market price; or
- adversely affect the market price of, and the voting and other rights of the holders of, our Common Stock.

Certain Delaware laws could have the effect of delaying, deterring or preventing a change in control of our Company. One of these laws prohibits us from engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder, unless various conditions are met. In addition, provisions of our charter and by-laws, and the significant amount of Common Stock held by our current executive officers, directors and affiliates, could together have the effect of discouraging potential takeover attempts or making it more difficult for stockholders to change management. In addition, the employment contracts of our Chairman and CEO, President and Vice President of Finance provide for substantial lump sum payments ranging from 2 (for the Vice President) to 10 times (for each of the Chairman and President) of their respective average combined salaries and bonuses (together with the continuation of various benefits for extended periods) in the event of their termination without cause or a termination by the executive for “good reason,” which is conclusively presumed in the event of a “change-in-control” (as such terms are defined in such agreements).

OUR STOCK PRICE IS VOLATILE AND MAY DECLINE.

The trading price of our Common Stock has been volatile and may continue to be volatile in response to various factors, including:

- the performance and public acceptance of our product lines;
- quarterly variations in our operating results;
- competitive announcements;
- sales of any of our recently discontinued businesses and/or components of their assets;
- the operating and stock price performance of other companies that investors may deem comparable to us; and
- news relating to trends in our markets.

The market price of our Common Stock could also decline as a result of unforeseen factors. The stock market has experienced significant price and volume fluctuations, and the market prices of technology companies, particularly Internet related companies, have been highly volatile. Our stock is also more volatile due to the limited trading volume and the high number of shares eligible for trading in the market.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Unregistered Sales of Equity Securities.

None.

(b) Use of Proceeds From Sales of Registered Securities.

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

theglobe.com, inc.

Dated : May 11, 2007

By: */s/ Michael S. Egan*

*Michael S. Egan
Chief Executive Officer
(Principal Executive Officer)*

By: */s/ Edward A. Cespedes*

*Edward A. Cespedes
President and Chief Financial Officer
(Principal Financial Officer)*

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