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THEGLOBE COM INC  
Form POS AM  
September 28, 2005

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION  
ON SEPTEMBER \_\_, 2005

Registration No. 333-114556

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

POST EFFECTIVE AMENDMENT NO. 2 TO FORM S-1

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

THEGLOBE.COM, INC.  
(Exact name of Registrant as specified in its charter)

Delaware	7310	14-1782422
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Number)	(I.R.S. Employer Identification No.)

110 EAST BROWARD BLVD, SUITE 1400  
FT. LAUDERDALE, FL 33301  
(954) 769-5900

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Name, address, including zip code, and telephone number, including area code, of agent for service:

Copies of all communications to:

EDWARD A. CESPEDES, PRESIDENT  
110 EAST BROWARD BOULEVARD  
SUITE 1400  
FT. LAUDERDALE, FLORIDA 33301  
(954) 769-5900

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Approximate date of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434,

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please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Security (2)	Proposed Maximum Aggregate Offering Price
Common stock, par \$.001 (3)	100,598,406	\$.92	\$ 92,550,534
Common stock, par \$.001 (4)	26,798,534	\$.92	24,654,651
Common stock, par \$.001 (5)	3,000,000	\$.92	2,760,000
	----- 130,396,940 =====		----- \$119,965,185 =====

(1) This registration statement covers any additional shares of common stock of theglobe.com, inc. that become issuable by reason of (i) any stock dividend, stock split, recapitalization or any other similar transaction without receipt of consideration that results in an increase in the number of shares of our outstanding common stock or (ii) any changes in the exercise price of certain warrants in accordance with the terms thereof.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) of the Securities Act of 1933, as amended, based on the average of the bid and asked price for our common stock on the OTC Bulletin Board on April 14, 2004.

(3) Represents shares of common stock held by the Selling Stockholders.

(4) Represents shares of common stock issuable upon the exercise of outstanding warrants and other rights.

(5) Represents shares of common stock which may be issuable to a certain Selling Stockholder upon the achievement of various earn-out requirements.

(6) \$16,301 was previously paid in connection with the initial filing of the registration statement on April 16, 2004. Pursuant to a pre-effective amendment, the Registrant added an additional 3,000,000 shares to the registration statement issuable under the circumstances set forth in footnote (5) above and removed from registration an aggregate of 12,445,644 shares which could have been issuable to certain of the Selling Stockholders who acquired securities in the Company's March 2004 private offering, in the event the Registrant did not satisfy its registration obligations to such Selling Stockholders.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION SEPTEMBER \_\_, 2005

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

## PROSPECTUS

[LOGO] theglobe.com

UP TO 130,396,940 SHARES OF COMMON STOCK

This offering relates to the resale of an aggregate of up to 130,396,940 shares of the common stock, \$.001 par value (the "Common Stock"), of theglobe.com, inc. by persons who are referred to in this prospectus as "Selling Stockholders". The shares that may be resold pursuant to this prospectus include 100,598,406 shares of Common Stock owned by the Selling Stockholders, 26,798,534 shares of Common Stock issuable upon the exercise of warrants owned by the Selling Stockholders and 3,000,000 shares of Common Stock which may be issued to one of our selling stockholders upon the attainment of certain business goals. Our filing of the registration statement of which this prospectus is a part is intended to satisfy our obligations to certain of the Selling Stockholders to register for resale the shares issued to them and the shares issuable upon exercise of the warrants issued to them.

We are not offering or selling any shares of our Common Stock pursuant to this prospectus. We will not receive any proceeds from the sale of the shares by the Selling Stockholders. We will, however, receive proceeds if Selling Stockholders pay cash to exercise some or all of the warrants owned by the Selling Stockholders. We will bear the expenses of the offering of the shares, except that the Selling Stockholders will pay any applicable underwriting discounts, brokerage fees or commissions and transfer taxes, as well as fees and disbursements of their counsel and advisors.

Our Common Stock is quoted on the over-the-counter or OTC Bulletin Board under the trading symbol "TGLO.OB." On September 20, 2005, the average of the bid and asked price of our Common Stock was \$.12. The Selling Stockholders may sell the shares from time to time in public or private transactions occurring on or off the OTC Bulletin Board, at prevailing market prices or at negotiated prices. Sales may be made directly to purchasers or through brokers or to dealers, who are expected to receive customary commissions or discounts.

This prospectus is a part of a registration statement that we filed with the Securities and Exchange Commission. You should read both this prospectus and any related prospectus supplement together with additional information described under "Where You Can Find More Information".

All references in this prospectus to "theglobe", "the Registrant", "the Company," "we," "us," or "our" mean theglobe.com, inc. and, as the context requires, its subsidiaries.

YOU SHOULD CAREFULLY CONSIDER THE "RISK FACTORS" BEGINNING ON PAGE 4 BEFORE MAKING A DECISION TO PURCHASE SHARES OF OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is September \_\_, 2005.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. This prospectus may be used only where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of securities.

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## PROSPECTUS SUMMARY

This summary highlights key aspects of the information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our securities. You should read this entire prospectus carefully, especially the risks of investing in our securities discussed under "Risk Factors."

References to "we," "us," "our company" and "theglobe" refer to theglobe.com, inc. together with its subsidiaries.

### OUR BUSINESS

As of September 2005, theglobe.com, inc. (the "Company" or "theglobe") managed four primary lines of business. One line of business, Voice over Internet Protocol ("VoIP") telephony services, includes voiceglo Holdings, Inc., a wholly-owned subsidiary of theglobe that offers VoIP-based phone services. The term VoIP refers to a category of hardware and software that enables people to use the Internet to make phone calls. The second line of business consists of our historical network of three wholly-owned businesses, each of which specializes in the games business by delivering games information and selling games in the United States and abroad. These businesses are: our print publication business, which consists of Computer Games and Now Playing Games magazines; our online website business, which consists of our Computer Games

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Online website ([www.cgonline.com](http://www.cgonline.com)) and our Now Playing Online website ([www.nowplayingmag.com](http://www.nowplayingmag.com)), which are the online counterparts to our magazine publications; and our Chips & Bits, Inc. ([www.chipsbits.com](http://www.chipsbits.com)) games distribution company ("Chips & Bits"). We entered a third line of business, marketing services, on September 1, 2004, with our acquisition of SendTec, Inc. ("SendTec"), a direct response marketing services and technology company. On May 9, 2005, we entered a fourth line of business, which we call our Internet Services business, when we exercised our option to acquire Tralliance Corporation ("Tralliance"), a company which had recently entered into an agreement to become the registry for the ".travel" top-level Internet domain.

As of September 2005, our revenue was derived principally from the operations of SendTec, and to a lesser extent from the operations of our computer games related businesses. Our VoIP products and services have yet to produce any significant revenue. Tralliance does not expect to begin generating revenue until sometime during the fourth quarter of 2005.

During the first quarter of 2005, management began actively re-evaluating the Company's primary business lines, particularly in view of the Company's critical need for cash and the overall net losses of the Company. As a result, management with the assistance of its third party financial advisors has explored a number of strategic alternatives for the Company and/or its component businesses, including continuing to operate the businesses, selling certain businesses or assets, or entering into new businesses.

Described below are certain significant transactions and events regarding our Company which occurred in our recent past.

On June 1, 2002, Chairman Michael S. Egan and Director Edward A. Cespedes became our Chief Executive Officer and President, respectively.

On November 14, 2002, we acquired certain VoIP assets from Brian Fowler (now our Chief Technology Officer) and we are now pursuing opportunities related to this acquisition.

On May 28, 2003, we acquired Direct Partner Telecom, Inc. ("DPT"). DPT was a specialized international communications carrier providing VoIP communications services to emerging countries. We 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 we decided to suspend further wholesale telephony business in DPT and to dedicate the DPT physical and intellectual assets to our developing retail VoIP business.

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In March 2004, we completed a private offering of 333,816 units for a purchase price of \$85 per unit (the "PIPE Offering"). Each unit consisted of 100 shares of the Company's Common Stock, and warrants to acquire 50 shares of the Common Stock at an exercise price of \$.001 per share. The aggregate number of shares of Common Stock issued in the PIPE Offering was 33,381,647 shares for an aggregate consideration of \$28,374,400, or approximately \$0.57 per share assuming the exercise of the 16,690,824 warrants. The purpose of the PIPE Offering was to raise funds for use primarily in our developing retail VoIP business, including the deployment of networks, website development, marketing, and capital infrastructure expenditures and working capital. We were obligated to file a registration statement, of which the prospectus is a part, pursuant to the terms of PIPE Offering. Most of our investors from prior capital raises also elected to register their shares for resale pursuant to the PIPE Offering registration

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statement. The registration statement, which related to the resale of up to approximately 131 million of our shares (including approximately 27 million shares underlying outstanding warrants to acquire our Common Stock and 3 million shares of Common Stock which may be issued upon the attainment of certain business goals), became effective on May 11, 2004.

On September 1, 2004, we closed on the acquisition of SendTec, a direct response marketing services company based in St. Petersburg, Florida (the "SendTec Acquisition"). In exchange for the acquisition of SendTec we paid consideration consisting of: (i) \$6,000,000 in cash, excluding transaction costs, (ii) the issuance of an aggregate of 17,500,024 shares of our Common Stock, (iii) the issuance of an aggregate of 175,000 shares of our Series H Automatically Converting Preferred Stock (which, in accordance with its terms, were automatically converted into approximately 17,500,500 shares of our Common Stock on December 1, 2004), and (iv) the issuance of a subordinated promissory note in the amount of \$1 million. We also issued an aggregate of approximately 4,000,000 replacement options to acquire our Common Stock for each of the issued and outstanding options to acquire SendTec shares held by the former employees of SendTec. In addition, warrants to acquire shares of our Common Stock would be issued to the former shareholders of SendTec when and if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending December 31, 2005. The number of earn-out warrants would range from an aggregate of approximately 250,000 to 2,500,000 (if actual operating income exceeds the forecast by at least 10%). Pursuant to our contractual obligations, we were obligated to file a registration statement relating to the potential resale of these shares and to cause such registration statement to become effective on or before September 1, 2005. We have not yet filed such a registration statement. Because we have not filed and caused such registration statement to become effective on or before September 1, 2005, we may be held liable for damages suffered by holders of such stock. Upon registration all such shares will be eligible for resale over the open market. Even if not registered, the shares issued in the SendTec acquisition are eligible for resale over the public markets pursuant to and subject to the limitations of Rule 144. If we successfully redeem the majority of the shares issued as part of the SendTec acquisition (or approximately 28,900,000 shares) in connection with the sale of SendTec's business to RelationServe Media, Inc. as discussed in the "Recent Events" section below, we would substantially mitigate our risks related to our failure to timely register these shares.

On April 22, 2005, E&C Capital Partners, LLLP and E&C Capital Partners II, Ltd. (the "Noteholders"), entities controlled by the Company's Chairman and Chief Executive Officer, entered into a Note Purchase Agreement (the "Agreement") with theglobe pursuant to which they acquired secured demand convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of \$1,500,000. Under the terms of the Agreement, the Noteholders were also granted the optional right, for a period of 90 days from the date of the Agreement, to purchase additional Convertible Notes such that the aggregate principal amount of Convertible Notes issued under the Agreement may total \$4,000,000 (the "Option"). On June 1, 2005, the Noteholders exercised a portion of the Option and acquired an additional \$1,500,000 of Convertible Notes. On July 18, 2005, the Noteholders exercised the remainder of the Option and acquired an additional \$1,000,000 of Convertible Notes.

The Convertible Notes are convertible at the option of the Noteholders into shares of the Company's Common Stock at an initial price of \$0.05 per share. Through September 15, 2005, an aggregate of \$600,000 of Convertible Notes were converted by the Noteholders into an aggregate of 12,000,000 shares of the Company's Common Stock. The Convertible Notes provide for interest at the rate of ten percent per annum and are secured by a pledge of substantially all of the assets of the Company. The Convertible Notes are due and payable five days after demand for payment by the Noteholders. The Noteholders are entitled to certain demand and "piggy-back" registration rights in connection with their investment.

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Assuming full conversion of all remaining outstanding Convertible Notes, 68,000,000 shares of the Company's Common Stock would be issued to the Noteholders.

On May 9, 2005, we exercised our option to acquire all of the outstanding capital stock of Tralliance Corporation, the registry for the ".travel" top-level Internet domain. The purchase price consisted of the issuance of 2,000,000 shares of theglobe Common Stock and warrants to acquire 475,000 shares of theglobe Common Stock, as well as the payment of \$40,000 in cash. The warrants are exercisable for a period of five years at an exercise price of \$0.11 per share. The 2,000,000 shares of our Common Stock issued as a result of the acquisition of Tralliance are entitled to certain "piggy-back" registration rights.

Our executive offices are located at 110 East Broward Blvd., Suite 1400, Fort Lauderdale, Florida 33301. Our telephone number is (954) 769-5900.

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### RECENT EVENTS

#### PROPOSED SALE OF ALL OF THE ASSETS OF SENDTEC.

On August 10, 2005 (as amended on August 23, 2005) we entered into an Asset Purchase Agreement ("Purchase Agreement") with RelationServe Media, Inc. ("RelationServe"), to sell the business and substantially all of the net assets of our subsidiary, SendTec, Inc., to RelationServe for \$37.5 million in cash subject to certain adjustments. In addition to the Purchase Agreement, we have entered into or will be entering into several ancillary agreements and transactions. These agreements include, or will include, a Redemption Agreement pursuant to which theglobe will redeem 28,879,097 shares of its Common Stock held by the management of SendTec and one or more Termination Agreements pursuant to which certain options, warrants and other rights owned by SendTec management and a few other employees will be terminated. The ancillary agreements will result in payments totaling approximately \$12.6 million in cash to the management and employees of SendTec. The Board of Directors has determined that the asset sale is advisable and in the best interests of theglobe and its stockholders. The asset sale involves risks, including the existence of conditions to the obligation of RelationServe to complete the asset sale, all of which must either be satisfied or waived prior to the completion of the asset sale. The Purchase Agreement and related agreements and transactions are more fully described in the section entitled "RECENT EVENTS - AGREEMENT TO SELL ALL OF THE ASSETS OF OUR SUBSIDIARY - SENDTEC, INC."

Mr. Michael Egan, the Chairman and CEO of theglobe, together with certain of his affiliates, and a few other stockholders whom collectively are the beneficial owners of approximately 51% of the issued and outstanding shares of theglobe Common Stock, the sole class of voting securities of theglobe, have executed a written consent adopting the Purchase Agreement and approving the transactions contemplated thereby in accordance with Section 228 of Delaware Law. The action by written consent is sufficient to approve the asset sale and the other transactions contemplated by the Purchase Agreement without any further action or vote of the stockholders of theglobe. On September 16, 2005, we sent out a definitive Information Statement to our stockholders which describes the proposed sale of assets. The closing of the sale of assets of SendTec is anticipated to occur on or about October 11, 2005 (20 calendar days after the mailing of the definitive Information Statement).

THE OFFERING:



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Common stock initially offered by Selling Stockholders	100,598,406 shares
Common stock remaining to be offered by Selling Stockholders (1)	96,058,427 shares
Common stock initially issuable upon exercise of outstanding warrants	26,798,534 shares
Common stock which continues to be issuable upon exercise of outstanding warrants (1)	8,126,142 shares
Common stock initially issuable upon attainment of certain business goals (2)	3,000,000 shares
Common stock outstanding:	
Prior to the offering (3)	199,329,666 shares
After the offering (4)	207,455,808 shares

-----  
(1) As of September 15, 2005, based solely upon a review of our stock transfer records we believe there are approximately 96,058,427 shares and 8,126,142 shares issuable upon exercise of outstanding warrants, respectively, which continue to be offered by the Selling Stockholders.

(2) These shares are no longer issuable.

(3) As of September 15, 2005.

(4) Assumes that all warrants issued to the Selling Stockholders as per this Registration Statement are exercised. Excludes options, warrants and convertible securities, including 68,000,000 shares of Common Stock relating to the remaining outstanding Convertible Notes, which are not being registered as a part of this Registration Statement.

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### RISK FACTORS

This offering and an investment in our securities involves a high degree of risk. Investors should consider each of the risks and uncertainties described in this section, in the "Recent Events" section, and all of the other information in this prospectus before deciding to invest in our Common Stock. Our business, financial condition and results of operations could be severely harmed by any of the following risks. The trading price of our Common Stock could decline if any of these risks and uncertainties develop into actual events. Investors may lose all or part of the money paid to buy our common stock.

Refer to "Recent Events - Agreement to Sell All of the Assets of Our Subsidiary, SendTec, Inc.," for risk factors relating to the SendTec asset sale and the disposition of the SendTec business.

#### RISKS RELATING TO OUR BUSINESS GENERALLY

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

We have engaged certain financial advisors to assist the Company in raising capital through private placement of equity securities or alternatively in selling either part or all of the Company's businesses or assets. We currently have no access to credit facilities with traditional third party lenders and there can be no assurance that we would be able to raise any such capital or sell any of our businesses or assets. In addition, any financing that could be obtained would likely significantly dilute existing stockholders.

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We do not presently believe that cash on hand and cash flow generated internally by the Company will be adequate to fund the operation of our businesses and the implementation of our current VoIP business plan beyond a short period of time. We received a report from our independent accountants, relating to our December 31, 2004 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. We believe that the funding received in connection with the E&C Capital Partnerships' Note Purchase Agreement (total of \$4.0 million of secured demand convertible notes - See Note 16, "Subsequent Events," of the Notes to Consolidated Financial Statements), and assuming that no demand for payment is made by the Noteholders, provides the Company with temporary short-term liquidity to operate its businesses while it seeks to raise sufficient additional capital, which may involve the potential sale of one or more of the Company's subsidiaries, including SendTec. On September 6, 2005, the Company failed to make the principal and interest payments due on the \$1.0 million promissory note issued in connection with the SendTec acquisition, and is currently in default under the terms of the promissory note.

On August 10, 2005, we entered into a definitive agreement to sell the business and substantially all of the net assets of our SendTec marketing services subsidiary to RelationServe Media, Inc. ("RelationServe"). See Note 16, "Subsequent Events," of the Notes to Consolidated Financial Statements for further details. If we are not successful in consummating the RelationServe asset sale or in entering into another financing, sale, or business transaction that otherwise infuses sufficient additional cash resources into the Company by no later than sometime during the fourth quarter of 2005, we believe that the Company will no longer be able to continue the implementation of its current VoIP business plan. In this event, we also believe the Company will continue to not be able to pay its current financial obligations on a timely basis, including paying the overdue principal and interest on the aforementioned \$1.0 million promissory note. As a result, it is likely that we would be required to either temporarily suspend or permanently shutdown the operation of our VoIP telephony services business. Additionally, in such event, management believes that it may also be required to revise the business plan of some or all of its other business segments and/or further implement company-wide cost-reduction programs. There can be no assurance that the Company would be successful in implementing such revised business plans and effectively restructuring its businesses so that the Company would have the ability to continue to operate as a going concern in the future.

Although the E&C Capital Partnerships' secured demand convertible notes (the "Notes") are owned by certain entities which are controlled by our Chairman, if any of such entities were to make demand for payment of the Notes, absent additional financing, we do not have the financial resources to honor such payment. Inasmuch as substantially all of the assets of the Company and its subsidiaries secure the Notes, in connection with any resulting proceeding to collect the indebtedness relating to the Notes, the Noteholders could seize and sell the assets of the Company and its subsidiaries, any or all of which would have a material adverse effect on the Company and its operations.

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

Since our inception, we have incurred net losses in each quarter, except the fourth quarter of 2002 where we had net income of approximately \$17,000. We expect that we will continue to incur net losses for the foreseeable future. We had net losses of approximately \$24.3 million and \$11.0 million for the years

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ended December 31, 2004 and 2003, respectively, and approximately \$10.4 million for the first six months of 2005. The principal causes of our losses are likely to continue to be:

- o costs resulting from the operation of our businesses;
- o costs relating to entering new business lines;
- o failure to generate sufficient revenue; and
- o selling, general and administrative expenses.

Although we have restructured our businesses, we still expect to continue to incur losses as we continue to develop our VoIP telephony services business and while we explore a number of strategic alternatives for our businesses, including continuing to operate the businesses, selling certain businesses or assets, or acquiring or developing additional businesses or complementary products.

OUR ENTRY INTO NEW LINES OF BUSINESS, AS WELL AS POTENTIAL FUTURE ACQUISITIONS, JOINT VENTURES OR STRATEGIC TRANSACTIONS ENTAILS NUMEROUS RISKS AND UNCERTAINTIES.

We have entered into new business lines, VoIP telephony services, marketing services and Internet services. In November 2002, we acquired certain VoIP assets from an entrepreneur in exchange for 1,750,000 warrants to purchase our Common Stock. On May 28, 2003, we acquired Direct Partner Telecom, Inc. ("DPT"), an international licensed telecommunications carrier then engaged in the purchase and resale of telecommunication services over the Internet. On September 1, 2004, we acquired SendTec, Inc. ("SendTec"), a direct response marketing services and technology company. On May 9, 2005, we acquired Tralliance Corporation ("Tralliance"), an Internet related business venture. Tralliance was recently awarded the contract to operate as the registry for the ".travel" top-level domain by the Internet Corporation for Assigned Names and Numbers. Although highly dependent upon our obtaining additional capital, we may also enter into new or different lines of business, as determined by management and our Board of Directors. Our acquisitions, as well as any future acquisitions or joint ventures could result, and in some instances have resulted in numerous risks and uncertainties, including:

- o potentially dilutive issuances of equity securities, which may be issued at the time of the transaction or in the future if certain performance or other criteria are met or not met, as the case may be. These securities may be freely tradable in the public market or subject to registration rights which could require us to publicly register a large amount of our Common Stock, which could have a material adverse effect on our stock price;
- o diversion of management's attention and resources from our existing businesses;
- o significant write-offs if we determine that the business acquisition does not fit or perform up to expectations;
- o the incurrence of debt and contingent liabilities or impairment charges related to goodwill and other long-lived assets;
- o difficulties in the assimilation of operations, personnel, technologies, products and information systems of the acquired companies;
- o regulatory and tax risks relating to the new or acquired business;
- o the risks of entering geographic and business markets in which we have no or

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limited prior experience;

- o the risk that the acquired business will not perform as expected; and
- o material decreases in short-term or long-term liquidity.

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OUR NET OPERATING LOSS CARRYFORWARDS MAY BE LIMITED.

As of December 31, 2004, we had net operating loss carryforwards potentially available for U.S. and foreign tax purposes of approximately \$162 million. These carryforwards expire through 2024. 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, commencing in August 1997 through our most recent issuance of convertible notes in July 2005, and assuming conversion of such notes, we may have substantially limited or eliminated 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 COULD BE ADVERSELY AFFECTED BY AN IMPAIRMENT OF GOODWILL AND/OR INTANGIBLE ASSETS ON OUR BALANCE SHEET.

Our acquisition of SendTec has resulted in the recording of a significant amount of goodwill and intangible assets on our balance sheet. The goodwill was recorded because the fair value of the net assets acquired was less than the purchase price. If the proposed sale of our SendTec business to RelationServe is not consummated, we may not ultimately realize the full value of the goodwill and/or intangible assets. As such, we evaluate on a regular basis whether events and circumstances indicate that some or all of the carrying value of goodwill and/or intangible assets are no longer recoverable, in which case we would write off the unrecoverable portion as a charge to our earnings.

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

Our marketing services business, VoIP telephony services business, Internet services business and computer games businesses are 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:

- o inadequate network infrastructure;
- o security and authentication concerns;
- o inadequate quality and availability of cost-effective, high-speed service;
- o general economic and business downturns; and
- o 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:

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- o delays in the development or adoption of new operating and technical standards and performance improvements required to handle increased levels of activity;
- o increased government regulation;
- o potential governmental taxation of such services; and
- o 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, WHICH COULD HARM OUR BUSINESS.

There are an increasing number of federal, state, local and foreign laws and regulations pertaining to the Internet and telecommunications. In addition, a number of federal, state, local and foreign legislative and regulatory proposals are under consideration. Laws or regulations have been and may continue to be adopted with respect to the Internet relating to, among other things, fees and taxation of VoIP telephony services, 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, public safety issues like enhanced 911 emergency service ("E911"), the Communications Assistance for Law Enforcement Act ("CALEA"), the provision of online payment services, broadband residential Internet access, and the characteristics and quality of products and services.

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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 traditional telephony, and otherwise harm our business.

Currently, decisions of the U.S. Supreme Court restrict the imposition of obligations to collect state and local sales and use taxes with respect to electronic commerce. However, a number of states, as well as the U.S. Congress, have been considering various initiatives that could limit or supersede the Supreme Court's position regarding sales and use taxes on electronic commerce. If any of these initiatives addressed the Supreme Court's constitutional concerns and resulted in a reversal of its current position, we could be required to collect sales and use taxes. The imposition by state and local governments of various taxes upon electronic commerce could create administrative burdens for us and could adversely affect our VoIP business operations, and ultimately our financial condition, operating results and future prospects.

Regardless of the type of state tax imposed, the threshold issue involving state taxation of any transaction is always whether sufficient nexus, or contact, exists between the taxing entity and the taxpayer or the transaction to which the tax is being applied. The concept of nexus is constantly changing and no bright line exists that would sufficiently alert a business as to whether it is subject to tax in a specific jurisdiction. All states which have attempted to tax Internet access or online services have done so by asserting that the sale of such telecommunications services, information services, data processing

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services or other type of transaction is subject to tax in that particular state.

A handful of states impose taxes on computer services, data processing services, information services and other similar types of services. Some of these states have asserted that Internet access and/or online information services are subject to these taxes.

Most states have telecommunications sales or gross receipts taxes imposed on interstate calls or transmissions of data. A sizable minority tax only intrastate calls. Although these taxes were enacted long before the birth of electronic commerce and VoIP, several states have asserted that Internet access and/or online information services are subject to these taxes.

For example, in the 2005 Florida legislative session, Florida incorporated into the tax imposed by Chapter 202, Florida Statutes, (the Communications Services Tax) language which establishes tax nexus in Florida for VoIP. The Florida legislature inserted this language to protect the scope of the tax base for the Communications Services Tax. The language could have the effect of imposing the Communications Services Tax on VoIP services not based in the state of Florida.

The Florida legislature borrowed the language that it used to amend the Florida Statute from the national Streamlined Sales Tax Project. This project is being touted by many states as a proposed tax simplification plan. If adopted by other states, the language included in the Florida law could have a far reaching effect in many states in the United States.

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 or VoIP telephony services, 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.

Our ability to offer VoIP services outside the U.S. is also subject to the local regulatory environment, which may be complicated and often uncertain. Regulatory treatment of Internet telephony outside the United States varies from country to country.

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### WE RELY ON INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS.

We regard substantial elements of our websites and underlying technology, as well as certain assets relating to our VoIP and direct response marketing businesses and other opportunities we are investigating, 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

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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. We are also seeking patent protection for certain VoIP and direct response marketing assets which we acquired or which we have developed. 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 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. Any litigation claims or counterclaims could impair our business because they could:

- o be time-consuming;
- o result in significant costs;
- o subject us to significant liability for damages;
- o result in invalidation of our proprietary rights;
- o divert management's attention;
- o cause product release delays; or
- o 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 additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names, any or all of which may dilute the strength of our names. We may not

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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.

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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. Additionally, many of our competitors have already established their brand identity. We can offer no assurances that we will be successful in establishing awareness of our brands allowing us to compete effectively in our targeted markets.

If we fail to promote and maintain our various brands or our businesses' brand values are diluted, our businesses, operating results, financial condition, and our ability to attract buyers for any of our businesses 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, 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:

- o acquisitions of new businesses or sales of our businesses or assets;
- o changes in the number of sales or technical employees;
- o the level of traffic on our websites;
- o the overall demand for Internet telephony services, print, television, radio and Internet advertising and electronic commerce;
- o the addition or loss of VoIP customers, clients of our marketing services business, advertisers of our computer games businesses, subscribers to our magazines, and ".travel" registered users;
- o overall usage and acceptance of the Internet;
- o seasonal trends in advertising and electronic commerce sales and member usage in our businesses;
- o other costs relating to the maintenance of our operations;
- o the restructuring of our business;



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- o failure to generate significant revenues and profit margins from new products and services; and

- o competition from others providing services similar to ours.

OUR LIMITED OPERATING HISTORY MAKES FINANCIAL FORECASTING DIFFICULT. OUR INEXPERIENCE IN THE VOIP TELEPHONY BUSINESS AND 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. 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:

- o maintain or increase levels of user traffic on our e-commerce websites;

- o attract customers to our VoIP telephony service;

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- o adequately forecast anticipated customer purchase and usage of our retail VoIP products;

- o maintain or increase advertising revenue for our magazines;

- o maintain or increase direct response marketing services revenue;

- o generate sufficient ".travel" registered users;

- o adapt to meet changes in our markets and competitive developments; and

- o 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:

- o our key employees will be able to work together effectively as a team;

- o we will be able to retain the remaining members of our management team;

- o we will be able to hire, train and effectively manage our employee base;

- o our systems, procedures or controls will be adequate to support our operations; and

- o 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

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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. 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. Also, we may have difficulty attracting qualified employees to work in the geographically remote location in Vermont of Chips & Bits, Inc. and Strategy Plus, Inc. 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., an entity controlled by Mr. Egan, which is our largest stockholder. Mr. Egan has not committed to devote any specific percentage of his business time with us. Accordingly, we compete with Dancing Bear Investments, Inc. 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.

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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. 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 Florida and New York 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,

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theglobe.com brand and the brands of our individual businesses could be materially and adversely affected by any problems experienced by our sites or our supporting VoIP network. 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 (including customer billing 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 sell products directly to consumers which may expose us to additional legal risks, regulations by local, state, federal and foreign authorities and potential liabilities to consumers of these products and services, even if we do not ourselves provide these products or services. 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

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

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

We are currently a party to securities class action litigation. At this time we cannot reasonably estimate the range of any loss or damages resulting from this lawsuit due to uncertainty regarding the ultimate outcome. The defense of this litigation may be expensive and divert management's attention from day-to-day operations. An adverse outcome in this litigation could materially and adversely affect our results of operations and financial position and may utilize a significant portion of our cash resources.

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

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 are currently at the beginning stages of developing our Section 404 implementation plan. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. How companies should be implementing these new requirements including internal control reforms to comply with Section 404's requirements, and how independent auditors will apply these requirements and test companies' internal controls, is still reasonably uncertain.

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 our Section 404 plan on a timely basis. The Company's liquidity position in 2005 and 2006 may also negatively impact our ability to adequately fund our Section 404 efforts.

Even if we timely complete our 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 VOIP TELEPHONY BUSINESS

WE ARE UNABLE TO PREDICT THE VOLUME OF USAGE AND OUR CAPACITY NEEDS FOR OUR VOIP BUSINESS; DISADVANTAGEOUS CONTRACTS HAVE REDUCED OUR OPERATING MARGINS AND ADVERSELY AFFECTED OUR LIQUIDITY AND FINANCIAL CONDITION.

We have entered into a number of agreements (generally for terms of one year,

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with the terms of several agreements extending to three to five years) for leased communications transmission capacity and data center facilities with various carriers and other third parties. The minimum amounts payable under these agreements and the underlying current capacity of our VoIP network greatly exceeds our current estimates of customer demand and usage for the foreseeable future. We are currently negotiating to reduce the amounts payable during 2005 under these network-related agreements. Although we were successful in recently terminating substantially all of the minimum usage requirement commitments for which we were previously obligated under certain of our carrier agreements, there can be no assurance that we will be able to further reduce our network-related contractual commitments. If we are not successful in significantly reducing such commitments, our liquidity and financial condition could be further materially and adversely impacted.

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THE VOIP MARKET IS SUBJECT TO RAPID TECHNOLOGICAL CHANGE AND WE WILL NEED TO DEPEND ON NEW PRODUCT INTRODUCTIONS AND INNOVATIONS IN ORDER TO ESTABLISH, MAINTAIN AND GROW OUR BUSINESS.

VoIP is an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advances. To enter and compete successfully in this emerging market, we must continually design, develop and sell new and enhanced VoIP products and services that provide increasingly higher levels of performance and reliability at lower costs. These new and enhanced products must take advantage of technological advancements and changes, and respond to new customer requirements. Our success in designing, developing and selling such products and services will depend on a variety of factors, including:

- o access to sufficient capital to complete our development efforts;
- o the identification of market demand for new products;
- o the determination of appropriate product inventory levels;
- o product and feature selection;
- o timely implementation of product design and development;
- o product performance;
- o cost-effectiveness of products under development;
- o securing effective sources of equipment supply; and
- o success of promotional efforts.

Additionally, we may also be required to collaborate with third parties to develop our products and may not be able to do so on a timely and cost-effective basis, if at all. If we are unable, due to resource constraints or technological or other reasons, to develop and introduce new or enhanced products in a timely manner or if such new or enhanced products do not achieve sufficient market acceptance, our operating results will suffer and our business will not grow.

OUR ABILITY AND PLANS TO PROVIDE TELECOMMUNICATIONS SERVICES AT ATTRACTIVE RATES ARISE IN LARGE PART FROM THE FACT THAT VOIP SERVICES ARE NOT CURRENTLY SUBJECT TO THE SAME REGULATION AS TRADITIONAL TELEPHONY.

Because their services are not currently regulated to the same extent as

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traditional telephony, some VoIP providers, such as the Company, can currently avoid paying certain charges that traditional telephone companies must pay. Many traditional telephone operators are lobbying the Federal Communications Commission (FCC) and the states to regulate VoIP on the same or similar basis as traditional telephone services. The FCC and several states are examining this issue.

If the FCC or any state determines to regulate VoIP, they may impose surcharges, taxes or additional regulations upon providers of VoIP. These surcharges could include access charges payable to local exchange carriers to carry and terminate traffic, contributions to the Universal Service Fund or other charges. Regulations requiring compliance with the CALEA could also place a significant financial burden on us. The imposition of any such additional fees, charges, taxes, licenses and regulations on VoIP services could materially increase our costs and may reduce or eliminate the competitive pricing advantage we seek to enjoy.

RECENT REGULATORY ENACTMENTS BY THE FCC WILL REQUIRE US TO PROVIDE ENHANCED EMERGENCY 911 DIALING CAPABILITIES TO OUR SUBSCRIBERS AS PART OF OUR STANDARD VOIP SERVICES AND TO COMPLY WITH CERTAIN NOTIFICATION REQUIREMENTS WITH RESPECT TO SUCH CAPABILITIES. THESE REQUIREMENTS WILL RESULT IN INCREASED COSTS AND RISKS ASSOCIATED WITH OUR DELIVERY OF OUR VOIP SERVICES, INCLUDING A POSSIBLE REQUIRED DISCONTINUATION OF SUCH SERVICES WITH RESPECT TO A POTENTIALLY MATERIAL PORTION OF OUR SUBSCRIBERS.

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On June 3, 2005, the FCC released the "IP-Enabled Services and E911 Requirements for IP-Enabled Service Providers, First Report and Order and Notice of Proposed Rulemaking" (the "E911 Order"). The E911 Order requires, among other things, that VoIP service providers that interconnect to the public switched telephone network ("Interconnected VoIP Providers") supply enhanced emergency 911 dialing capabilities ("E911") to their subscribers no later than 120 days from the effective date of the E911 Order. The effective date of the E911 Order is July 29, 2005. As part of such E911 capabilities, Interconnected VoIP Providers are required to mimic the 911 emergency calling capabilities offered by traditional landline phone companies. Specifically, all Interconnected VoIP Providers must deliver 911 calls to the appropriate local public safety answering point ("PSAP"), along with call back number and location, where the PSAP is able to receive that information. Such E911 capabilities must be included in the basic service offering of the Interconnected VoIP Providers; it cannot be an optional or extra feature. The PSAP delivery obligation, along with call back number and location information must be provided regardless of whether the service is "fixed" or "nomadic." User registration of location is permissible initially, although the FCC is committed to an advanced form of E911 that will determine user location without user intervention, one of the topics of the further Notice of Proposed Rulemaking to be released.

Additionally, the E911 Order required that, by July 29, 2005 (the effective date of the E911 Order), each Interconnected VoIP Provider must have: (1) specifically advised every new and existing subscriber, prominently and in plain language, of the circumstances under which the E911 capabilities service may not be available through its VoIP services or may in some way be limited by comparison to traditional landline E911 services; (2) obtained and kept a record of affirmative acknowledgement from all subscribers, both new and existing, of having received and understood the advisory described in the preceding item (1); and (3) distributed to its existing subscribers warning stickers or other appropriate labels warning subscribers if E911 service may be limited or not available and instructing the subscriber to place them on or near the equipment used in conjunction with the provider's VoIP services. We have complied with the

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requirements set forth in the preceding items (1) and (3). However, despite engaging in significant efforts, as of August 10, 2005, we have received the affirmative acknowledgements required by the preceding item (2) from less than 15% of our VoIP subscribers.

On July 26, 2005, noting the efforts made by Interconnected VoIP Providers to comply with the E911 Order's affirmative acknowledgement requirement, the Enforcement Bureau of the FCC (the "EB") released a Public Notice communicating that, until August 30, 2005, it would not initiate enforcement action against any Interconnected VoIP Provider with respect to such affirmative acknowledgement requirement on the condition that the provider file a detailed report with the FCC by August 10, 2005. The report must set forth certain specific information relating to the provider's efforts to comply with the requirements of the E911 Order. Furthermore, the EB stated its expectation that that if an Interconnected VoIP Provider has not received such affirmative acknowledgements from 100% of its existing subscribers by August 29, 2005, then the Interconnected VoIP Provider would disconnect, no later than August 30, 2005, all subscribers from whom it has not received such acknowledgements. On August 26, 2005, the EB released another Public Notice communicating that it would not, until September 28, 2005, initiate enforcement action regarding the affirmative acknowledgement requirement against those providers that: (1) previously filed reports on or before August 10, 2005 in accordance with the July 26 Public Notice; and (2) file two separate updated reports with the FCC by September 1, 2005 and September 22, 2005 containing certain additional required information relating to such provider's compliance efforts with respect to the E911 Order's requirements. The EB further stated in the second Public Notice its expectation that, during the additional period of time afforded by the extension, all Interconnected VoIP Providers that qualified for such extension would continue to use all means available to them to obtain affirmative acknowledgements from all of their subscribers.

Our VoIP services that are subject to the E911 Order account for a material portion of our current VoIP revenues. However, our current VoIP net revenues are not substantial and for the six months ended June 30, 2005 were approximately \$163,000. Although we continue to engage in efforts to comply with all of the requirements of the E911 Order, we may not be able to provide the E911 capabilities required by the E911 Order to all of our subscribers by 120 days after the effective date thereof. Moreover, although we have complied with the reporting requirements of the EB's July 26, 2005 and August 26, 2005 Public Notices and, accordingly, the Company qualifies for the September 28, 2005 extension, as of August 10, 2005, we have received the required affirmative acknowledgements from less than 15% of our VoIP subscribers. Therefore, while we continue to be engaged in efforts to obtain affirmative acknowledgements from all of our VoIP subscribers, we expect that we will not receive such affirmative acknowledgements from 100% of our VoIP subscribers by the September 28, 2005 deadline. Moreover, we can provide no assurances as to whether the percentage of our VoIP subscribers that provide us with the required affirmative acknowledgements will rise significantly or at all. If we are unable to comply with one or more of the requirements of the E911 Order, including the requirement to obtain affirmative acknowledgements from 100% of our VoIP subscribers by the FCC's stated deadlines, the EB may bring an enforcement action against the Company and/or we may need to suspend delivery of our VoIP services to those of our customers with respect to which we have not complied with the requirements of the E911 Order. Although the EB has thus far granted two extensions to its deadline for obtaining affirmative acknowledgements from 100% of Interconnected VoIP Providers' subscribers, the EB may or may not provide additional extensions to such deadline and the Company may or may not qualify for such extensions. If we are required by the EB to suspend VoIP service to a material portion of our VoIP subscribers for a material period of time due to our non-compliance with the E911 Order, our revenues and operating results from our current VoIP operations will deteriorate.

Even assuming our full compliance with the E911 Order, such compliance and our efforts to achieve such compliance, will increase our cost of doing business in the VoIP arena and may adversely affect our ability to deliver our VoIP telephony services to new and existing customers in all geographic regions.

THE IP DIALTONE SERVICE PROVIDED BY US IS ONLY AS RELIABLE AS EACH OF OUR CUSTOMERS' RESPECTIVE CUSTOMER PREMISES EQUIPMENT (CPE) AND UNDERLYING BROADBAND DATA CONNECTION.

Our ability to provide our VoIP services to our customers, including the E911 capabilities required by the E911 Order, are directly dependent on each of our customers' respective CPE and underlying broadband data connection. We do not provide broadband data connection service and in many cases do not provide the CPE used by our customers. Accordingly, we may not be able to control our ability to provide the E911 capabilities required by the E911 Order and which our customers may expect as part of our VoIP offerings. Any interruption in our delivery of E911, whether or not as a result of any factors under our control, could expose us to potential litigation from our customers or enforcement or other actions from the FCC or other government regulators. Such exposure could potentially result in our incurring costs and expenses associated with addressing such litigation and/or actions and in potential liability for the Company, any or all of which could negatively impact our reputation, results of operations and our ability to generate additional revenues.

THE INTERNET TELEPHONY BUSINESS IS HIGHLY COMPETITIVE AND ALSO COMPETES WITH TRADITIONAL AND CELLULAR TELEPHONY PROVIDERS.

The long distance telephony market and the Internet telephony market are highly competitive. There are several large and numerous small competitors and we expect to face continuing competition based on price and service offerings from existing competitors and new market entrants in the future. The principal competitive factors in our market include price, quality of service, breadth of geographic presence, customer service, reliability, network size and capacity, and the availability of enhanced communications services. Our competitors include major and emerging telecommunications carriers in the U.S. and abroad. Financial difficulties in the past several years of many telecommunications providers are rapidly altering the number, identity and competitiveness of the marketplace. Many of the competitors for our current and planned VoIP service offerings have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than we have. As a result, certain of these competitors may be able to adopt more aggressive pricing policies which could hinder our ability to market our voice services.

During the past several years, a number of companies have introduced services that make Internet telephony or voice services over the Internet available to businesses and consumers. All major telecommunications companies, including entities like AT&T, Verizon, Sprint and MCI, either presently or potentially compete or can compete directly with us. Other Internet telephony service providers, such as Vonage, Net2Phone and deltathree, also focus on a retail customer base and compete with us. These companies may offer the kinds of voice services we currently offer or intend to offer in the future. In addition, companies currently in related markets have begun to provide voice over the Internet services or adapt their products to enable voice over the Internet services. These related companies may potentially migrate into the Internet telephony market as direct competitors. A number of cable operators have also begun to offer VoIP telephony services via cable modems which provide access to the Internet. These companies, which tend to be large entities with substantial



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resources, generally have large budgets available for research and development, and therefore may further enhance the quality and acceptance of the transmission of voice over the Internet. We also compete with cellular telephony providers.

PRICING PRESSURES AND INCREASING USE OF VOIP TECHNOLOGY MAY LESSEN OUR COMPETITIVE PRICING ADVANTAGE.

One of the main competitive advantages of our current and planned VoIP service offerings is the ability to provide discounted local and long distance telephony services by taking advantage of cost savings achieved by carrying voice traffic employing VoIP technology, as compared to carrying calls over traditional networks. In recent years, the price of telephone service has fallen. The price of telephone service may continue to fall for various reasons, including the adoption of VoIP technology by other communications carriers. Many carriers have adopted pricing plans such that the rates that they charge are not always substantially higher than the rates that VoIP providers charge for similar service. In addition, other providers of long distance services are offering unlimited or nearly unlimited use of some of their services for increasingly lower monthly rates.

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IF WE DO NOT DEVELOP AND MAINTAIN SUCCESSFUL PARTNERSHIPS FOR VOIP PRODUCTS, WE MAY NOT BE ABLE TO SUCCESSFULLY MARKET ANY OF OUR VOIP PRODUCTS.

Our success in the VoIP market is partly dependent on our ability to forge marketing, engineering and carrier partnerships. VoIP communication systems are extremely complex and no single company possesses all the technology components needed to build a complete end to end solution. We will likely need to enter into partnerships to augment our development programs and to assist us in marketing complete solutions to our targeted customers. We may not be able to develop such partnerships in the course of our operations and product development. Even if we do establish the necessary partnerships, we may not be able to adequately capitalize on these partnerships to aid in the success of our business.

THE FAILURE OF VOIP NETWORKS TO MEET THE RELIABILITY AND QUALITY STANDARDS REQUIRED FOR VOICE COMMUNICATIONS COULD RENDER OUR PRODUCTS OBSOLETE.

Circuit-switched telephony networks feature very high reliability, with a guaranteed quality of service. In addition, such networks have imperceptible delay and consistently satisfactory audio quality. VoIP networks will not be a viable alternative to traditional circuit switched telephony unless they can provide reliability and quality consistent with these standards.

ONLINE CREDIT CARD FRAUD CAN HARM OUR BUSINESS.

The sale of our products and services over the Internet exposes us to credit card fraud risks. Many of our products and services, including our VoIP services, can be ordered or established (in the case of new accounts) over the Internet using a major credit card for payment. As is prevalent in retail telecommunications and Internet services industries, we are exposed to the risk that some of these credit card accounts are stolen or otherwise fraudulently obtained. In general, we are not able to recover fraudulent credit card charges from such accounts. In addition to the loss of revenue from such fraudulent credit card use, we also remain liable to third parties whose products or services are engaged by us (such as termination fees due telecommunications providers) in connection with the services which we provide. In addition, depending upon the level of credit card fraud we experience, we may become ineligible to accept the credit cards of certain issuers. We are currently

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authorized to accept Discover, together with Visa and MasterCard (which are both covered by a single merchant agreement with us). Visa/MasterCard constitutes the primary credit card used by our VoIP customers. The loss of eligibility for acceptance of Visa/MasterCard could significantly and adversely affect our business. During 2004, we updated our fraud controls and will attempt to manage fraud risks through our internal controls and our monitoring and blocking systems. If those efforts are not successful, fraud could cause our revenue to decline significantly and our business, financial condition and results of operations to be materially and adversely affected.

### RISKS RELATED TO OUR MARKETING SERVICES BUSINESS

Should we consummate the proposed sale of our SendTec business to RelationServe as planned, the risks and uncertainties described in this section and in the "Recent Events" section as related directly or indirectly to our SendTec business would no longer exist. However, there can be no assurance that the proposed sale of our SendTec business to RelationServe will be consummated as planned.

### ANY DECREASE IN DEMAND FOR OUR ONLINE MARKETING SERVICES COULD SUBSTANTIALLY REDUCE OUR REVENUES.

A substantial portion of our revenue is derived from Internet advertising. We expect that online advertising will continue to account for a substantial portion of our revenue in the future. However, our revenue from Internet advertising may decrease in the future for a number of reasons, including the following:

- o the rate at which Internet users click on advertisements or take action in response to an advertisement has always been low and could decline as the volume of Internet advertising increases;
- o Internet users can install software programs that allow them to prevent advertisements from appearing on their screens or block the receipt of emails;

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- o advertisers may prefer an alternative Internet advertising format, product or service which we might not offer at that time; and
- o we may be unable to make the transition to new Internet advertising formats preferred by advertisers.

### IF OUR PRICING MODELS ARE NOT ACCEPTED BY OUR ADVERTISER CLIENTS, WE COULD LOSE CLIENTS AND OUR REVENUE COULD DECLINE.

Most of our services are offered to advertisers based on cost-per-action or cost-per-click pricing models, under which advertisers only pay us if we provide the results they specify. These results-based pricing models differ from the fixed-rate pricing model used by many Internet advertising companies, under which the fee is based on the number of times the advertisement is shown without regard to effectiveness. Our ability to generate significant revenue from advertisers will depend, in part, on our ability to demonstrate the effectiveness of our primary pricing models to advertisers, who may be more accustomed to a fixed-rate pricing model.

Furthermore, intense competition among websites and other Internet advertising providers has led to the development of a number of alternative pricing models for Internet advertising. The proliferation of multiple pricing alternatives may confuse advertisers and make it more difficult for them to differentiate among

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these alternatives. In addition, it is possible that new pricing models may be developed and gain widespread acceptance that are not compatible with our business model or our technology. These alternatives, and the likelihood that additional pricing models will be introduced, make it difficult for us to project the levels of advertising revenue or the margins that we, or the Internet advertising industry in general, will realize in the future. If advertisers do not understand the benefits of our pricing models, then the market for our services may decline or develop more slowly than we expect, which may limit our ability to grow our revenue or cause our revenue to decline.

ONLINE TRANSACTIONS FROM WHICH WE DERIVE OUR REVENUE ARE SUBJECT TO VALIDATION. OUR REVENUE AND MARGINS COULD BE REDUCED AS A RESULT OF INVALID TRANSACTIONS.

SendTec derives revenue from its online cost-per-action advertising business based on the number of actions it generates for clients each month. SendTec determines the number of actions generated for clients based on digital tracking technology and reports from its clients detailing the number of actions received by them. SendTec relies upon its digital tracking methods and final reports from its clients to determine the number of actions for which it pays its publisher network. On average SendTec pays its network of publishers between 30 days and 60 days from the end of the month. In certain situations, SendTec may be required to reimburse its clients for actions which SendTec has previously verified as valid actions but the client has subsequently determined to be invalid due to fraud or other factors. In these instances, SendTec generally may not have recourse against the publishers in its network that have generated the actions and therefore SendTec may not be able to recover any portion of the reimbursements it makes to its clients from its publishers.

WE DEPEND ON A LIMITED NUMBER OF CLIENTS FOR A SIGNIFICANT PERCENTAGE OF OUR REVENUE AND THE LOSS OF ONE OR MORE OF THESE CLIENTS COULD CAUSE OUR REVENUE TO DECLINE.

The results of SendTec's operations have been included in our consolidated results since date of acquisition, September 1, 2004. During the first half of 2005, two customers of SendTec accounted for approximately 45% of SendTec's total net revenue. For the four months ended December 31, 2004, two customers of SendTec accounted for approximately 52% of SendTec's total net revenue. We believe that a limited number of clients will continue to be the source of a substantial portion of our revenue for the foreseeable future. Key factors in maintaining our relationships with these clients include our performance on individual campaigns, the strength of our professional reputation and the relationships of our key executives with client personnel. To the extent that our performance does not meet client expectations, or our reputation or relationships with one or more major clients are impaired, our revenues could decline and our operating results could be adversely affected. During the second quarter of 2004, one of SendTec's major customers acquired a business that competes with SendTec. This acquisition, other similar acquisitions, or general business consolidation within the marketing services industry could also cause our revenue and operating results to decline and adversely affect SendTec's business.

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ANY LIMITATION ON OUR USE OF DATA DERIVED FROM OUR CLIENTS' ADVERTISING CAMPAIGNS COULD SIGNIFICANTLY DIMINISH THE VALUE OF OUR SERVICES AND CAUSE US TO LOSE CLIENTS AND REVENUE.

When an individual visits our clients' websites, we use technologies, including cookies and web beacons, to collect information such as the user's IP address, advertisements delivered by us that have been viewed by the user and responses

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by the user to such advertisements. We aggregate and analyze this information to determine the placement of advertisements across our affiliate network of advertising space. Although the data we collect from campaigns of different clients, once aggregated, are not identifiable, our clients might decide not to allow us to collect some or all of this data or might limit our use of this data. Any limitation on our ability to use such data could make it more difficult for us to deliver online marketing programs that meet client demands.

In addition, although our contracts generally permit us to aggregate data from advertising campaigns, our clients might nonetheless request that we discontinue using data obtained from their campaigns that have already been aggregated with other clients' campaign data. It would be difficult, if not impossible, to comply with these requests, and such requests could result in significant expenditures of resources. Interruptions, failures or defects in our data collection, mining and storage systems, as well as privacy concerns regarding the collection of user data, could also limit our ability to aggregate and analyze data from our clients' advertising campaigns. If that happens, we may lose clients and our revenue may decline.

IF THE MARKET FOR INTERNET ADVERTISING FAILS TO CONTINUE TO DEVELOP, OUR REVENUE AND OUR OPERATING RESULTS COULD BE HARMED.

Our future success is highly dependent on the continued use and growth of the Internet as an advertising medium. The Internet advertising market is relatively new and rapidly evolving, and it uses different measurements than traditional media to gauge its effectiveness. As a result, demand for and market acceptance of Internet advertising services is uncertain. Many of our current or potential advertiser clients have little or no experience using the Internet for advertising purposes and have allocated only limited portions of their advertising budgets to the Internet. The adoption of Internet advertising, particularly by those entities that have historically relied upon traditional media for advertising, requires the acceptance of a new way of conducting business, exchanging information, measuring success and evaluating new advertising products and services. Such clients may find Internet advertising to be less effective for promoting their products and services than traditional advertising media. We cannot assure you that the market for Internet advertising will continue to grow or become sustainable. If the market for Internet advertising fails to continue to develop or develops more slowly than we expect, our revenue and business could be harmed.

WE DEPEND ON ONLINE PUBLISHERS FOR ADVERTISING SPACE TO DELIVER OUR CLIENTS' ADVERTISING CAMPAIGNS AND ANY DECLINE IN THE SUPPLY OF ADVERTISING SPACE AVAILABLE THROUGH OUR NETWORK COULD CAUSE OUR REVENUE TO DECLINE.

The websites, search engines and email publishers that sell or venture their advertising space to or with us are not bound by long-term contracts that ensure us a consistent supply of advertising space, which we refer to as our inventory. We generate a significant portion of our revenue from the advertising inventory provided by a limited number of publishers. In most instances, publishers can change the amount of inventory they make available to us at any time, as well as the price at which they make it available. In addition, publishers may place significant restrictions on our use of our advertising inventory. These restrictions may prohibit advertisements from specific advertisers or specific industries, or restrict the use of certain creative content or format. If a publisher decides not to make inventory available to us, or decides to increase the price, or places significant restrictions on the use of such inventory, we may not be able to replace this with inventory from other publishers that satisfy our requirements in a timely and cost-effective manner. If this happens, our revenue could decline or our cost of acquiring inventory may increase.

OUR GROWTH MAY BE LIMITED IF WE ARE UNABLE TO OBTAIN SUFFICIENT ADVERTISING INVENTORY THAT MEETS OUR PRICING AND QUALITY REQUIREMENTS.

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Our growth depends on our ability to effectively manage and expand the volume of our inventory of advertising space. To attract new advertisers, we must increase our supply of inventory that meets our performance and pricing requirements. Our ability to purchase or venture sufficient quantities of suitable advertising inventory will depend on various factors, some of which are beyond our control. These factors include:

- o our ability to offer publishers a competitive price for our inventory;

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- o our ability to estimate the quality of the available inventory; and
- o our ability to efficiently manage our existing advertising inventory.

In addition, the number of competing Internet advertising networks that purchase advertising inventory from websites, search engine and email publishers continues to increase. We cannot assure you that we will be able to purchase or venture advertising inventory that meets our performance, price and quality requirements, and if we cannot do so, our ability to generate revenue could be limited.

ANY LIMITATION ON OUR ABILITY TO POST ADVERTISEMENTS THROUGHOUT OUR NETWORK OF ADVERTISING SPACE COULD HARM OUR BUSINESS.

We execute advertising programs for clients primarily by posting advertisements, which we refer to as ad delivery, on our affiliate network of advertising space. Our business could suffer from a variety of factors that could limit or reduce our ability to post advertisements across our affiliate network, including:

- o technological changes that render the delivery of our advertisements obsolete or incompatible with the operating systems of consumers and/or the systems of online publishers;
- o lawsuits or injunctions based on claims that our ad delivery methodologies violate the proprietary rights of other parties; and
- o interruptions, failures or defects in our ad delivery and tracking systems.

CONSOLIDATION OF ONLINE PUBLISHERS MAY IMPAIR OUR ABILITY TO PROVIDE MARKETING SERVICES, ACQUIRE ADVERTISING INVENTORY AT FAVORABLE RATES AND COLLECT CAMPAIGN DATA.

The consolidation of Internet advertising networks, web portals, search engines and other online publishers could eventually lead to a concentration of desirable advertising inventory on a very small number of networks and large websites. Such concentration could:

- o increase our costs if these publishers use their greater bargaining power to increase rates for advertising inventory; and
- o impair our ability to provide marketing services if these publishers prevent us from distributing our clients' advertising campaigns on their websites or if they adopt ad delivery systems that are not compatible with our ad delivery methodologies.

OUR BUSINESS COULD BE HARMED IF THE USE OF TRACKING TECHNOLOGY IS RESTRICTED OR BECOMES SUBJECT TO NEW REGULATION.

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In conjunction with the delivery of advertisements to websites, we typically place small files of information, commonly known as cookies, on an Internet user's hard drive, generally without the user's knowledge or consent. Cookie information is passed to us through an Internet user's browser software. We use cookies to collect information regarding the advertisements we deliver to Internet users and their interaction with these advertisements. We use this information to identify Internet users who have received our advertisements in the past and to monitor and prevent potentially fraudulent activity. In addition, our technology uses this information to monitor the performance of ongoing advertising campaigns and plan future campaigns.

Some Internet commentators and privacy advocates have proposed limiting or eliminating the use of cookies and other Internet tracking technologies, and legislation has been introduced in some jurisdictions to regulate Internet tracking technologies. The European Union has already adopted a directive requiring that when cookies are used, the user must be informed and offered an opportunity to opt-out of the cookies' use. If there is a further reduction or limitation in the use of Internet tracking technologies such as cookies:

- o we may have to replace or re-engineer our tracking technology, which could require significant amounts of our time and resources, may not be completed in time to avoid losing clients or advertising inventory, and may not be commercially or technically feasible;

- o we may have to develop or acquire other technology to prevent fraud; and

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- o we may become subject to costly and time-consuming litigation or investigations due to our use of cookie technology or other technologies designed to collect Internet usage information.

Any one or more of these occurrences could result in increased costs, require us to change our business practices or divert management's attention.

IF WE OR OUR ADVERTISER OR PUBLISHER CLIENTS FAIL TO COMPLY WITH REGULATIONS GOVERNING CONSUMER PRIVACY, WE COULD FACE SUBSTANTIAL COSTS AND OUR BUSINESS COULD BE HARMED.

Our collection, maintenance and sharing of information regarding Internet users could result in lawsuits or government inquiries. These actions may include those related to U.S. federal and state legislation or European Union directives limiting the ability of companies like ours to collect, receive and use information regarding Internet users. Litigation and regulatory inquiries are often expensive and time-consuming and their outcome is uncertain. Any involvement by us in any of these matters could require us to:

- o spend significant amounts on legal defense;

- o divert the attention of senior management from other aspects of our business;

- o defer or cancel new product launches as a result of these claims or proceedings; and

- o make changes to our present and planned products or services.

Further, we cannot assure you that our advertiser and publisher clients are currently in compliance, or will remain in compliance, with their own privacy policies, regulations governing consumer privacy or other applicable legal requirements. We may be held liable if our clients use our technology or the

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data we collect on their behalf in a manner that is not in compliance with applicable laws or regulations or their own stated privacy standards.

WE MAY BE LIABLE FOR CONTENT IN THE ADVERTISEMENTS WE DELIVER FOR OUR CLIENTS.

We may be liable to third parties for content in the advertisements we deliver if the artwork, text or other content involved violates copyrights, trademarks or other intellectual property rights of third parties or if the content is defamatory. Although we generally receive warranties from our advertisers that they have the right to use any copyrights, trademarks or other intellectual property included in an advertisement and are normally indemnified by the advertisers, a third party may still file a claim against us. Any claims by third parties against us could be time-consuming, could result in costly litigation and adverse judgments and could require us to change our business.

MISAPPROPRIATION OF CONFIDENTIAL INFORMATION HELD BY US COULD CAUSE US TO LOSE CLIENTS OR INCUR LIABILITY.

We retain highly confidential information on behalf of our clients in our systems and databases. Although we maintain security features in our systems, our operations may be susceptible to hacker interception, break-ins and other disruptions. These disruptions may jeopardize the security of information stored in and transmitted through our systems. If confidential information is compromised, we could be subject to lawsuits by the affected clients or Internet users, which could damage our reputation among our current and potential clients, require significant expenditures of capital and other resources and cause us to lose business and revenues.

WE FACE INTENSE AND GROWING COMPETITION, WHICH COULD RESULT IN PRICE REDUCTIONS, REDUCED OPERATING MARGINS AND LOSS OF MARKET SHARE.

The direct response advertising market is highly competitive. If we fail to compete effectively against other advertising service companies, we could lose clients or advertising inventory and our revenues could decline. We expect competition to continue to increase because there are no significant barriers to entry.

Many current and potential competitors have advantages over us, such as longer operating histories, greater name recognition, larger client bases, greater access to advertising space on high-traffic websites and significantly greater financial, technical and marketing resources. In addition, existing or future competitors may develop or offer services that provide significant performance, price, creative or other advantages over those offered by us.

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Current and potential competitors may establish cooperative relationships among themselves or with third parties to increase the ability of their products and services to address the needs of our clients and prospective clients. As a result, it is possible that new competitors may emerge and rapidly acquire significant market share.

If we fail to compete successfully, we could have difficulties attracting and retaining advertising clients or advertising inventory, which may decrease our revenues and adversely affect our operating results. Increased competition may also result in price reductions and reduced operating income.

WE GENERALLY DO NOT HAVE LONG-TERM CONTRACTS WITH OUR CLIENTS.

Our clients typically hire us on a project-by-project basis or on an annual

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contractual relationship. Moreover, our clients generally have the right to terminate their relationships with us without penalty and with relatively short or no notice. Once a project is completed we cannot be assured that a client will engage us for further services. From time to time, highly successful engagements have ended because our client was acquired and the new owners decided not to retain us. A client that generates substantial revenue for us in one period may not be a substantial source of revenue in a subsequent period. We expect a relatively high level of client concentration to continue, but not necessarily involve the same clients from period to period. The termination of our business relationships with any of our significant clients, or a material reduction in the use of our services by any of our significant clients, could adversely affect our future financial performance.

IF WE FAIL TO MANAGE OUR GROWTH EFFECTIVELY, OUR EXPENSES COULD INCREASE AND OUR MANAGEMENT'S TIME AND ATTENTION COULD BE DIVERTED.

As we continue to increase the scope of our operations, we will need an effective planning and management process to implement our business plan successfully in the rapidly evolving Internet advertising market. Our business, results of operations and financial condition will be substantially harmed if we are unable to manage our expanding operations effectively. We plan to continue to expand the sales and marketing, customer support and research and development organizations. Growth may place a significant strain on our management systems and resources. We will likely need to continue to improve our financial and managerial controls and our reporting systems and procedures. In addition, we will need to expand, train and manage our work force. Our failure to manage our growth effectively could increase our expenses and divert management's time and attention.

IF WE FAIL TO ESTABLISH, MAINTAIN AND EXPAND OUR TECHNOLOGY BUSINESS AND MARKETING ALLIANCES AND PARTNERSHIPS, OUR ABILITY TO GROW OUR MARKETING SERVICES BUSINESS COULD BE LIMITED.

In order to grow our technology business, we must generate, retain and strengthen successful business and marketing alliances with advertising agencies. We depend, and expect to continue to depend, on our business and marketing alliances, which are companies with which we have written or oral agreements to work together to provide services to our clients and to refer business from their clients and customers to us. If companies with which we have business and marketing alliances do not refer their clients and customers to us to perform their online campaign and message management, our revenue and results of operations may be severely harmed.

RISKS RELATING TO OUR COMPUTER GAMES BUSINESS

THE MARKET SITUATION CONTINUES TO BE A CHALLENGE FOR CHIPS & BITS DUE TO ADVANCES IN CONSOLE AND ONLINE GAMES, WHICH HAVE LOWER MARGINS AND TRADITIONALLY LESS SALES LOYALTY TO CHIPS & BITS.

Our subsidiary, Chips & Bits depends on major releases in the Personal Computer (PC) market for the majority of sales and profits. Advances in technology and the game industry's increased focus on console and online game platforms, such as Xbox, PlayStation and GameCube, has dramatically reduced the number of major PC releases, which resulted in significant declines in revenues and gross margins for Chips & Bits. Because of the large installed base of personal computers, revenue and gross margin percentages may fluctuate with changes in the PC game market. However, we are unable to predict when, if ever, there will be a turnaround in the PC game market, or if we will be successful in adequately increasing our future sales of non-PC games.



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WE HAVE HISTORICALLY RELIED SUBSTANTIALLY ON ADVERTISING REVENUES, WHICH COULD DECLINE IN THE FUTURE.

We historically derived a substantial portion of our revenues from the sale of advertisements, primarily in our Computer Games Magazine. Our games business model and our ability to generate sufficient future levels of print and online advertising revenues are highly dependent on the print circulation of our magazines, as well as the amount of traffic on our websites and our ability to properly monetize website traffic. Print and online advertising market volumes have declined in the past and may decline in the future, which could have a material adverse effect on us. Many advertisers have been experiencing financial difficulties which could further negatively impact our revenues and our ability to collect our receivables. For these reasons, we cannot assure you that our current advertisers will continue to purchase advertisements from our computer games businesses.

WE MAY NOT BE ABLE TO SUCCESSFULLY COMPETE IN THE ELECTRONIC COMMERCE MARKETPLACE.

The games marketplace has become increasingly competitive due to acquisitions, strategic partnerships and the continued consolidation of a previously fragmented industry. In addition, an increasing number of major retailers have increased the selection of video games offered by both their traditional "bricks and mortar" locations and their online commerce sites, resulting in increased competition. Our Chips & Bits subsidiary may not be able to compete successfully in this highly competitive marketplace.

We also face many uncertainties, which may affect our ability to generate electronic commerce revenues and profits, including:

- o our ability to obtain new customers at a reasonable cost, retain existing customers and encourage repeat purchases;
- o the likelihood that both online and retail purchasing trends may rapidly change;
- o the level of product returns;
- o merchandise shipping costs and delivery times;
- o our ability to manage inventory levels;
- o our ability to secure and maintain relationships with vendors; and
- o the possibility that our vendors may sell their products through other sites.

Additionally, if use of the Internet for electronic commerce does not continue to grow, our business and financial condition would be materially and adversely affected.

INTENSE COMPETITION FOR ELECTRONIC COMMERCE REVENUES HAS RESULTED IN DOWNWARD PRESSURE ON GROSS MARGINS.

Due to the ability of consumers to easily compare prices of similar products or services on competing websites and consumers' potential preference for competing website's user interface, gross margins for electronic commerce transactions, which are narrower than for advertising businesses, may further narrow in the future and, accordingly, our revenues and profits from electronic commerce arrangements may be materially and adversely affected.

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OUR ELECTRONIC COMMERCE BUSINESS MAY RESULT IN SIGNIFICANT LIABILITY CLAIMS AGAINST US.

Consumers may sue us if any of the products that we sell are defective, fail to perform properly or injure the user. Consumers are also increasingly seeking to impose liability on game manufacturers and distributors based upon the content of the games and the alleged affect of such content on behavior. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. As a result, any claims, whether or not successful, could seriously damage our reputation and our business.

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### 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 NEWLY 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 could suffer a loss of prestige that could force us to 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

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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.

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### 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 September 15, 2005, we had issued and outstanding approximately 199.3 million shares, of which approximately 57.3 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. On April 16, 2004, we filed a registration statement, of which this prospectus is a part, relating to the potential resale of up to approximately 131 million of our shares (including approximately 27 million shares underlying outstanding warrants to acquire our Common Stock). The registration statement became effective on May 11, 2004. As part of the acquisition of SendTec, we issued an aggregate of approximately 35 million shares of our Common Stock. Pursuant to our contractual obligations, we are obligated to file a registration statement relating to the potential resale of these shares and to cause such registration statement to become effective on or before September 1, 2005. We have not yet filed such a registration statement. Because we have not filed and caused such registration statement to become effective before September 1, 2005, we may be held liable for damages suffered by holders of such stock. Upon registration all such shares will be eligible for resale over the open market. Even if not registered, the shares issued in the SendTec acquisition are eligible for resale over the public markets pursuant to and subject to the limitations of Rule 144. If we successfully redeem the majority of the shares issued as part of the SendTec acquisition (or approximately 28,900,000 shares) in connection with the sale of SendTec's business to RelationServe Media, Inc. (See Note 16, "Subsequent Events," in the Notes to Consolidated Financial Statements), we would substantially mitigate our risks related to our failure to timely register these shares.

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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 the remaining outstanding Convertible Notes to acquire our Common Stock (which are convertible into 68 million shares), have registration rights under various conditions and will become available for resale in the future.

In addition, as of June 30, 2005, there were outstanding options to purchase approximately 20,302,000 shares of our Common Stock, which common shares 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.

In addition, as of September 15, 2005, we had issued and outstanding warrants to acquire approximately 7,601,000 shares of our Common Stock. In addition, the Company holds in escrow warrants to acquire up to 1,500,000 shares of Common Stock, subject to release over approximately the next year (some of which may accelerate under certain events) upon the attainment of certain performance objectives and may issue warrants to acquire up to an additional 2,500,000 shares of Common Stock upon attainment of certain performance criteria related to the SendTec acquisition. 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.

After giving effect to the proxies to vote the shares of Common Stock granted by five of the former shareholders of SendTec, Michael S. Egan, our Chairman and Chief Executive Officer, beneficially owns or controls, directly or indirectly, approximately 169.4 million shares of our Common Stock as of September 15, 2005, which in the aggregate represents approximately 62% 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, secured demand 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.

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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.

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OUR COMMON STOCK IS PRESENTLY SUBJECT TO THE "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 also subject to the requirements of Rule 15g-9 of the Exchange Act. Our Common Stock is also considered a penny stock under the Securities Enforcement Remedies and Penny Stock Reform Act of 1990, which defines a penny stock, generally, as any equity security not traded on an exchange or quoted on the Nasdaq SmallCap Market that has a market price of less than \$5.00 per share. Under Rule 15g-9, brokers who recommend our Common Stock 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:

- o have the effect of delaying, deferring or preventing a change in control of our company;
- o discourage bids of our Common Stock at a premium over the market price; or
- o 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, CEO 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 CEO) 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:

- o the performance and public acceptance of our new product lines;

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- o quarterly variations in our operating results;
- o competitive announcements;
- o sales of any of our businesses, including our sale of the SendTec business;
- o the operating and stock price performance of other companies that investors may deem comparable to us;

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- o news relating to trends in our markets; and
- o entrance into new lines of business and acquisitions of businesses, including our Tralliance acquisition.

In addition, with regard to our acquisition of Tralliance the trading price of our Common Stock may decline if:

- o integration of theglobe.com and the acquired company is unsuccessful or is delayed;
- o the combined company does not achieve the perceived benefits of the acquisition as rapidly or to the extent anticipated by investors;
- o the effect of the acquisition on the combined company's financial results or condition is not consistent with the expectations of financial investors; or
- o the dilution in shareholder ownership related to the issuance of shares of theglobe.com's Common Stock in connection with the acquisition is perceived negatively by investors.

The market price of our Common Stock could also decline as a result of unforeseen factors related to the sale of the SendTec business or the Tralliance acquisition. 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.

### FORWARD-LOOKING STATEMENTS

This prospectus 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:

- o implementing our business plans;
- o marketing and commercialization of our existing products and those products under development;
- o plans for future products and services and for enhancements of existing products and services;

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- o plans for divestitures of certain businesses or assets, including our SendTec business;
- o our ability to implement cost-reduction programs;
- o potential governmental regulation and taxation;
- o the outcome of any pending litigation;
- o our intellectual property;
- o our estimates of future revenue and profitability;
- o our estimates or expectations of continued losses;
- o our expectations regarding future expenses, including cost of revenue, product development, sales and marketing, and general and administrative expenses;
- o difficulty or inability to raise additional financing, if needed, on terms acceptable to us;
- o our estimates regarding our capital requirements and our needs for additional financing;
- o attracting and retaining customers and employees;

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- o rapid technological changes in our industry and relevant markets;
- o sources of revenue and anticipated revenue;
- o plans for future acquisitions and entering new lines of business;
- o competition in our market; and
- o our ability to continue to operate as a going concern.

These statements are only predictions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are not required to and do not intend to update any of the forward-looking statements after the date of this prospectus or to conform these statements to actual results. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus 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 prospectus.

In this prospectus, we refer to information regarding our potential markets and other industry data. We believe that we have obtained this information from reliable sources that customarily are relied upon by companies in our industry, but we have not independently verified any of this information.

### USE OF PROCEEDS

We will not receive any proceeds upon the sale of shares of Common Stock by the Selling Stockholders. The Company will only receive proceeds in the event the

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Selling Stockholders exercise their warrants. We intend to use the proceeds from the exercise of warrants for working capital and other general corporate purposes.

### DETERMINATION OF OFFERING PRICE

The shares of Common Stock will be sold at prevailing market prices at the time of the sale or at negotiated prices by the Selling Stockholders.

### SELLING STOCKHOLDERS

The following table sets forth certain information known to us with respect to the beneficial ownership of the Company's Common Stock as of September 15, 2005 by the Selling Stockholders who may sell their Common Stock pursuant to this prospectus. This information is based upon information originally provided by each respective Selling Stockholder as of May 11, 2004, and Schedules 13D and other public accounts filed with the Commission, as updated to September 15, 2005 based solely upon our review of our stockholders of record as of such date based on information provided by the Company's stock registrar and transfer agent.

The shares offered by this prospectus may be offered for sale from time to time by the Selling Stockholders. Because the Selling Stockholders may offer all, some or none of the shares pursuant to this prospectus, and because there are currently no agreements, arrangements or understandings with respect to the sale of any shares, no estimate can be given as to the number of shares that will be held by the Selling Stockholders after the completion of this offering. Accordingly, it is assumed that all the shares offered pursuant to this prospectus are sold. No selling stockholder has, or within the past three years has had, any position, office or other material relationship with us or any of our predecessors or affiliates, except as noted.

The number of shares of Common Stock beneficially owned by the Selling Stockholders includes the shares of Common Stock known by us to be beneficially owned by the Selling Stockholders as of September 15, 2005. Except as otherwise indicated, to our knowledge, the Selling Stockholders have sole voting and investment power with respect to all shares beneficially owned by them, or with respect to the shares underlying warrants, will have sole voting and investment power at the time such shares are sold. The percentages shown in the table below are based upon 199,329,666 shares of Common Stock outstanding as of September 15, 2005. The numbers shown in the column "Remaining Shares Being Offered" include additional shares of Common Stock that may be issued to many of the Selling Stockholders upon exercise of any warrant held by them.

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Selling Security Holder	Number of Shares Beneficially Owned as Disclosed in Original Offering	Number of Shares Beneficially Owned As of September 15, 2005	Remaining Number of Shares Underlying Warrants (1)	Remai Shares Offe



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Telestra Super Pty Ltd. (29)	360,000	360,000	-	36
Wellington Management Portfolios (Dublin) - Global Smaller Companies Equity Portfolio (29)	202,500	202,500	-	20
New Zealand Funds Management Limited (29)	300,000	300,000	-	30
SEI Institutional Investments Trust, Small Cap Fund (29)	1,350,000	1,350,000	-	1,35
Seligman Portfolios, Inc., Seligman Global Smaller Companies Portfolio (29)	33,750	33,750	-	3
Australian Retirement Fund (29)	420,000	420,000	-	42
Emergency Services Superannuation Board (29)	285,000	285,000	-	28
Retail Employees Superannuation Trust (29)	495,000	495,000	-	49
SEI Institutional Investments Trust, Small Mid Cap Equity Fund (29)	255,000	255,000	-	25
Talvest Global Small Cap Fund (29)	345,000	345,000	-	34
BC Telecom Pension Plan for Management and Exempt Employees (29)	75,000	75,000	-	7
J B Were Global Small Companies Pooled Fund (29)	1,425,000	1,425,000	-	1,42
SEI Institutional Managed Trust, Small Cap Growth Fund (29)	1,575,000	1,575,000	-	1,57
Seligman Global Fund Series, Inc., Seligman Global Smaller companies Fund (29)	900,000	900,000	-	90
TELUS Corporation Foreign Equity Active Pool (29)	165,000	165,000	-	16
British Columbia Investment Management Corporation (29)	645,000	645,000	-	64
The Dow Chemical Employees' Retirement Plan (29)	1,155,000	1,155,000	-	1,15
The Robert Wood Johnson Foundation (29)	1,425,000	1,425,000	-	1,42
Laborers' District Council and Contractors' of Ohio Pension Fund (29)	375,000	375,000	-	37
Wellington Trust Company, National Association Multiple Collective Investment Funds Trust, Emerging Companies Portfolio (29)	1,800,000	1,800,000	-	1,80

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Selling Security Holder	Number of Shares Beneficially Owned as Disclosed in Original Offering	Number of Shares Beneficially Owned As of September 15, 2005	Remaining Number of Shares Underlying Warrants (1)	Remain Shares Offered
Government of Singapore Investment Company Pte, Ltd. (29)	4,950,000	4,950,000	-	4,950,000
New York State Nurses Association Pension Plan (29)	780,000	780,000	-	780,000
Oregon Investment Council (29)	2,550,000	2,550,000	-	2,550,000
Wellington Trust Company, National Association Multiple Common Trust Funds Trust, Emerging Companies Portfolio (29)	1,950,000	1,950,000	-	1,950,000
Howard Hughes Medical Institute (29)	1,275,000	1,275,000	-	1,275,000
Ohio Carpenters' Pension Fund (29)	405,000	405,000	-	405,000
The Retirement Program Plan for Employees of Union Carbide Corporation (29)	1,050,000	1,050,000	-	1,050,000
The Maritime Life Discovery Fund (29)	585,000	585,000	-	585,000
Proximity Partners, LP	611,775	-	-	-
Proximity Fund LP	611,775	-	-	-
Gamma Opportunity Capital Partners LP	882,450	-	-	-
Enable Growth Partners	611,700	203,900	203,900	203,900
Capital Ventures International	3,058,800	-	-	-
SF Capital Partners, Ltd.	3,211,800	173,500	-	173,500
Longview Fund, LP	1,764,750	-	-	-
Longview Equity Fund, LP	2,084,550	-	-	-
Longview International Equity Fund, LP	694,800	-	-	-
Alpha Capital AG	1,764,750	1,577,250	-	1,577,250
Manuel Senderos F	1,588,235	798,235	-	798,235
Gruber & McBaine International	344,250	-	-	-
Jon D. Gruber & Linda W. Gruber	344,250	-	-	-
Lagunitas Partners LP	996,750	-	-	-

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J. Patterson McBaine	150,000	-	-	
Seneca Capital LP	520,500	173,500	173,500	17
Seneca Capital International Ltd.	1,008,900	336,300	336,300	33
Sergio Rosengaus Leizgold	150,000	150,000	-	15
Carinthia Pte, Ltd.	1,614,707	1,574,707	-	1,57

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Selling Security Holder	Number of Shares Beneficially Owned as Disclosed in Original Offering	Number of Shares Beneficially Owned As of September 15, 2005	Remaining Number of Shares Underlying Warrants (1)	Remain Shares Offe
Mauricio Garduno	529,411	211,911	-	21
Paul Tomasi	432,950	432,950	-	35
Garrett Pettingell (3)	106,618	44,118	-	4
Idlewyld, LLC	337,956	337,956	-	33
David Dohrmann	11,914	11,914	11,914	1
William C. Begien	109,489	109,489	109,489	10
Baruch & Shoshana Halpern,	540,641	540,641	-	54
Huizenga Investments Limited Partnership (4)	2,400,000	2,400,000	400,000	2,40
Berard Holdings Limited Partnership	600,000	600,000	100,000	60
Actarus Fund II, LLP (4)	1,380,000	430,000	230,000	43
Stephan Paternot (4)	364,957	364,957	364,957	36
Michael E. Maroone	240,000	40,000	40,000	4
Henry C. Duques (4)	60,000	60,000	10,000	6
Robert W. and Sarah M. Tuthill, BDE	96,425	96,425	14,000	8
Robert Emmett McTigue	60,000	60,000	10,000	6
James A. Jordan, IRA	240,000	240,000	40,000	24
Janet Jordan	136,000	136,000	20,000	12

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Marjorie W. Egan	120,000	20,000	20,000	2
Susan B. Segaul (5)	60,000	20,000	10,000	2
Michael G. Moore	245,000	245,000	40,000	24
Celeste V. Allen (6)	120,000	120,000	20,000	12
Rosalie V. Arthur (7)	70,002	70,002	10,000	6
Robert F. and Mary M. Dwors, JTROS	72,000	12,000	12,000	1
Weezor I Limited Partnership	60,000	60,000	10,000	6
Ron Castell	60,000	60,000	10,000	6
James J. and Nancy W. Blosser, JTROS	60,000	60,000	10,000	6
Ted and Carol Drum, JTROS	60,000	60,000	10,000	6
William J. Gross	60,400	60,400	10,000	6
Thomas G. Egan III (8)	240,000	240,000	40,000	24
John T. Mooney (9)	145,000	145,000	20,000	12

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Selling Security Holder	Number of Shares Beneficially Owned as Disclosed in Original Offering	Number of Shares Beneficially Owned As of September 15, 2005	Remaining Number of Shares Underlying Warrants (1)	Remain Shares Offe
Grant J. and Eliza Egan Smith, JTROS (9)	60,000	60,000	10,000	6
Kenneth and Jessica Beir, TBE (10)	168,125	168,125	20,000	12
Laurent F. Sidon (11)	381,000	381,000	40,000	24
Thomas First	120,000	20,000	20,000	2
Revocable Living Trust of George E. Pittinos	240,000	240,000	40,000	24
Jan Vitrofsky (12)	24,000	4,000	4,000	
Kenneth and Marguerite Larsen, JTROS	240,000	240,000	40,000	24
Charles P. and Linda H. Irwin, JTROS	60,000	10,000	10,000	1
Macdonald and Juliet H. Clark, JTROS	120,000	120,000	20,000	12

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Daniel Walsh	24,000	24,000	4,000	2
Michael J. Kennelty (13)	148,084	24,000	4,000	2
Robert Giannini	60,000	60,000	10,000	6
Stephen N. Lipton	170,000	170,000	20,000	12
John M. Pennekamp	72,000	12,000	12,000	1
Michael and Joan Sher, TROS (14)	60,000	60,000	10,000	6
Jack Paltani	120,000	120,000	20,000	12
Albert R. Paonessa	60,000	60,000	10,000	6
John A. Schneider	240,000	240,000	40,000	24
Thomas W. Scott	240,000	240,000	40,000	24
Gregory A. McLaughlin as trustee of the Tripp, Scott, Conklin & Smith, PA Profit Sharing Plan fbo Norman D. Tripp	480,000	80,000	80,000	8
Tripperoo Family Limited Partnership Class AA Florida Limited Partnership	480,000	80,000	80,000	8
Tripp Scott P.A. Amended and Restated Profit Sharing Plan fbo Dennis Dustin Smith	180,000	180,000	30,000	18
Smith Trust	60,000	60,000	10,000	6
Tripp Scott Conklin & Smith PSP fbo Garry W. Johnson	65,000	35,000	10,000	3
Philip P. and Susan A. Smith, JTROS	240,000	240,000	40,000	24
The Nantucket Irrevocable Trust (15)	1,200,000	1,200,000	200,000	1,200

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Selling Security Holder	Number of Shares Beneficially Owned as Disclosed in Original Offering	Number of Shares Beneficially Owned As of September 15, 2005	Remaining Number of Shares Underlying Warrants (1)	Remain Shares Offered
The Nantucket Irrevocable Trust	1,200,000	1,200,000	200,000	1,200
David A. Mitchell	276,000	276,000	46,000	276

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Frank Fowler	96,000	96,000	16,000	9
Charles A. Hinnant	120,000	120,000	20,000	12
R.F. Decosimo	70,000	70,000	10,000	6
Eloise D. Robbins	230,000	230,000	30,000	18
Barbara N. and Walter D. Moore, Jr., JTWR0S	60,000	10,000	10,000	1
J. Melville Armstrong	60,000	60,000	10,000	6
Joseph F. Decosimo	510,000	510,000	80,000	48
Rita F. Kerr	84,000	84,000	14,000	8
W.A. Bryan Patten	1,325,000	1,325,000	200,000	1,20
Michael F. McGauley	250,000	250,000	20,000	12
Judith F. Stone	60,000	60,000	10,000	6
Brenda G. McKenzie	240,000	40,000	40,000	4
Creel Medical Service, Inc. Profit Sharing Trust	60,000	60,000	10,000	6
Joy W. Jones	60,000	60,000	10,000	6
Lawrence Partners, LP	70,000	70,000	10,000	6
Lesslie W. Lee, IRA	60,000	60,000	10,000	6
Brent S. Mills	60,000	60,000	10,000	6
Stan Martynski Rollover IRA	65,000	15,000	10,000	1
Brent L. Norris, M.D.	60,000	60,000	10,000	6
Thomas R. Northcott, IRA	60,000	60,000	10,000	6
Patten & Patten, Inc. Profit Sharing Plan	120,000	120,000	20,000	12
Patten & Patten, Inc. Profit Sharing fbo Frank M. Robbins, III	180,000	180,000	30,000	18
Jack Stocker	70,000	70,000	10,000	6
R. Alan Winger	60,000	10,000	10,000	1
James L. Wolford	240,000	240,000	40,000	24
Lawrence I. Young, M.D. IRA Rollover	60,000	60,000	10,000	6
711 East Company	360,000	360,000	60,000	36

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Selling Security Holder	Number of Shares Beneficially Owned as Disclosed in Original Offering	Number of Shares Beneficially Owned As of September 15, 2005	Remaining Number of Shares Underlying Warrants (1)	Remain Shares Offe
Suntrust Bank, Chattanooga Trustee for Miller & Martin Profit Sharing Plan - James M. Haley IV	60,000	60,000	10,000	6
Suntrust Bank, Chattanooga Trustee for Miller & Martin Profit Sharing Plan - Lowry F. Kline, DIA	60,000	60,000	10,000	6
Suntrust Bank, Chattanooga Trustee for Miller & Martin Projeet Sharing Plan - Howard Levine	60,000	60,000	10,000	6
A-OK Supply Co. Employee Profit Sharing Plan	60,000	60,000	10,000	6
Charlie H. Armstrong & Barbara Mayer Armstrong, JTWROS	70,000	20,000	10,000	1
Jean R. Bowden	60,000	60,000	10,000	6
James L. Caldwell, Jr.	60,000	60,000	10,000	6
Malcolm B. Daniell and Zella C. Daniell JTWROS	120,000	120,000	20,000	12
Eliot Family Limited Partnership	120,000	120,000	20,000	12
George I. Haigler	48,000	8,000	8,000	
Julia Elizabeth Haigler-Baker	12,000	2,000	2,000	
Margaret Susan Haigler	12,000	2,000	2,000	
Ruth A. Liu	60,000	60,000	10,000	6
T.E. Mynatt, Jr.	60,000	10,000	10,000	1
Kathleen Cartter Patten	157,500	157,500	20,000	12
William Allen Bryan Patten	160,000	160,000	20,000	12
Fred Robinson	60,000	60,000	10,000	6
Sarah Caldwell Patten	157,500	157,500	20,000	12
Michael A. Stoker	60,000	60,000	10,000	6
W.A. Bryan Patten and Z. Cartter Patten, III Trustees U/WZ. Cartter Patten, Jr. - Sons Trust	340,000	340,000	40,000	24

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Wayne E. Tipps	60,000	60,000	10,000	6
Charles R. Adcock	60,000	10,000	10,000	1
Douglas W. Curtis, IRA	60,000	60,000	10,000	6
Fletcher Bright	240,000	240,000	40,000	24
Robert W. Jones	60,000	60,000	10,000	6

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Selling Security Holder	Number of Shares Beneficially Owned as Disclosed in Original Offering	Number of Shares Beneficially Owned As of September 15, 2005	Remaining Number of Shares Underlying Warrants (1)	Remai Shares Offe
J. Nelson and Deanne W. Irvine, JTWROS	60,000	60,000	10,000	6
Joel B. Clements, MD Rollover IRA	60,000	60,000	10,000	6
C. Robert Clark Rollover IRA	60,000	60,000	10,000	6
Donald A. Bodley Rollover IRA	60,000	60,000	10,000	6
Richard E. Cormier Rollover IRA	60,000	60,000	10,000	6
Linda T. Collins Rollover IRA	60,000	60,000	10,000	6
John W. Moore, IRA	60,000	60,000	10,000	6
John A. Kosik, IRA	84,000	84,000	14,000	8
John A. Hewgley, IRA	60,000	60,000	10,000	6
Paul E. Henson, Jr. M.D. Rollover IRA	70,000	70,000	10,000	6
A.R. Fortune, II Rollover IRA	60,000	60,000	10,000	6
Charles P. Driver Rollover IRA	60,000	60,000	10,000	6
Henry Crumbliss Rollover IRA	60,000	60,000	10,000	6
Robert T. Spalding Rollover IRA	60,000	60,000	10,000	6
Robert L. Raitz, M.D. Rollover IRA	60,000	60,000	10,000	6
Earl T. McGhee Rollover IRA	60,000	60,000	10,000	6
Bonnie G. McBride Rollover IRA	60,000	60,000	10,000	6



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Steve A. McKenzie	240,000	240,000	40,000	24
Frank J.B. Varallo	240,000	240,000	40,000	24
Kevin Lancey (16)	80,000	30,000	30,000	3
Jeffrey S. Roschman (16)	1,760,000	660,000	660,000	66
Robert J. Roschman (16)	1,760,000	660,000	660,000	66
James L. Magruder (16) (18)	660,000	150,000	150,000	15
Todd Krizelman (19)	709,976	-	-	
Brain Fowler (20)	1,815,000	2,025,312	1,750,000	1,75
Michael S. Egan (21) (22)	58,943,274	169,397,505	204,082	48,97
S. Jacqueline Egan (23) (24)	3,745,419	3,745,419	204,082	3,73
E&C Capital Partners LLLP (25)	32,469,012	101,168,886	-	32,46
Dancing Bear Investments, Inc. (26)	8,303,148	8,303,148	-	2,77
The Michael S. Egan Grantor Retained Annuity Trust F/B/O Sarah Egan Mooney (27)	2,007,000	2,007,000	-	2,00

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Selling Security Holder	Number of Shares Beneficially Owned as Disclosed in Original Offering	Number of Shares Beneficially Owned As of September 15, 2005	Remaining Number of Shares Underlying Warrants (1)	Remain Shares Offered
The Michael S. Egan Grantor Retained Annuity Trust F/B/O Eliza Shenners Egan (27)	2,007,000	2,007,000	-	2,00
The Michael S. Egan Grantor Retained Annuity Trust F/B/O Catherine Lewis Egan (27)	2,014,000	2,014,000	-	2,00
The Michael S. Egan Grantor Retained Annuity Trust F/B/O Teague Michael Thomas Egan (27)	2,014,000	2,014,000	-	2,00
The Michael S. Egan Grantor Retained Annuity Trust F/B/O Riley Martin Michael	2,014,000	2,014,000	-	2,00

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Egan (27)

(28)	3,000,000	3,000,000	-	3,000,000
-----				
Total**	142,182,214	228,875,347	8,126,142	107,180,000
=====				

\* less than 1%

\*\* Does not count more than once shares which are beneficially owned by more than one person.

(1) Pursuant to Rule 13d-3 of the Exchange Act, as used in this table, "beneficial ownership" means the sole or shared power to vote, or to direct the disposition of, a security and a person is deemed to have "beneficial ownership" of any security that the person has the right to acquire within 60 days of September 15, 2005. Without limiting the generality of the foregoing, includes all of the underlying shares of common stock in the column labeled "Number of Shares Underlying Warrants".

(2) Assumes the sale by the Selling Stockholders of all shares registered hereby. Shares beneficially owned after this offering are based upon information originally provided to us by the Selling Stockholders in May 2004, as updated through September 15, 2005 based solely upon our review of our stock records. Shares beneficially owned but not held in record name have not been updated from our original filing.

(3) Mr. Pettingell was our Chief Financial Officer until June 2004.

(4) A former director (or a company controlled by such a former director) of ours who resigned or whose term ended in June 2001.

(5) Mother of Robin Lebowitz, one of our executive officers.

(6) President of Certified Vacations, a company controlled by our Chairman, Michael Egan.

(7) One of our former board members who resigned in November 2001.

(8) Brother of our Chairman, Michael Egan.

(9) Son-in-law or daughter of our Chairman, Michael Egan.

(10) Brother-in-law of our Chairman, Michael Egan.

(11) Son-in-law of our Chairman, Michael Egan. A company controlled by Laurent Sidon also provides services to us. See "Certain Relationships and Related Transactions".

(12) Serves as the President of Thomas Street Logistics LLC, a company controlled by our Chairman, Michael Egan. Thomas Street Logistics formerly provided services to the Company. See "Certain Relationships and Related Transactions".

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Transactions".

(13) One of our former employees.

(14) Parents-in-law of our President, Edward Cespedes.

(15) Trust for the benefit of the children of our Chairman, Michael Egan.

(16) Includes shares underlying certain earn-out warrants, which have not yet been earned as follows: (i) Lancey, 30,000 warrants; (ii) J. Roschman, 660,000 warrants; (iii) R. Roschman, 660,000 warrants; and (iv) Magruder, 150,000 warrants. J. Roschman has agreed, when and if such warrants are earned, to transfer 500,000 of such warrants to Izor Investments.

(17) Not used.

(18) Mr. Magruder was the Director of Carrier Relations of our subsidiary, Direct Partner Telecom until May 2004.

(19) One of our former directors who did not seek reelection in June 2002.

(20) Mr. Fowler is our Chief Technology Officer.

(21) Mr. Egan is our Chairman and Chief Executive Officer.

(22) Includes the shares that Mr. Egan is deemed to beneficially own as the controlling investor of Dancing Bear Investments, Inc., E&C Capital Partners, LLLP, and E&C Capital Partners II Ltd. and as the Trustee of each of the Michael S. Egan Grantor Retained Annuity Trusts for the benefit of his children. Also includes (i) 5,593,128 shares of our common stock issuable upon exercise of options that are currently exercisable and 469 shares of our common stock issuable upon exercise of options that are exercisable within 60 days of September 15, 2005; (ii) 3,541,337 shares of our common stock held by Mr. Egan's wife, as to which he disclaims beneficial ownership; and (iii) 204,082 shares of our common stock issuable upon exercise of warrants at \$1.22 per share owned by Mr. Egan and his wife. Also includes 28,699,874 shares of common stock over which E&C Capital Partners, LLLP holds an irrevocable proxy, ("Proxy Shares") pursuant to the Stockholders' Agreement and 68,000,000 shares of our common stock issuable upon the conversion of the Convertible Notes. In connection with the proposed sale of SendTec, the Stockholders' Agreement will be terminated and E&C Capital Partners, LLLP's voting rights with respect to the Proxy Shares will terminate.

(23) Ms. Egan is the spouse of Mr. Egan, our Chairman and Chief Executive Officer.

(24) Includes 204,082 shares of our common stock issuable upon exercise of warrants owned jointly by Mr. and Mrs. Egan.

(25) E&C Capital Partners, LLLP is a privately held investment vehicle controlled by our Chairman, Michael S. Egan. Our President, Edward A. Cespedes, has a minority, non-controlling interest in E&C Capital Partners, LLLP. Also includes 28,699,874 shares of common stock over which E&C Capital Partners, LLLP holds an irrevocable proxy, ("Proxy Shares") pursuant to the Stockholders' Agreement and 34,000,000 shares of our common stock issuable upon the conversion of the Convertible Notes. In connection with the proposed sale of SendTec, the Stockholders' Agreement will be terminated and E&C Capital Partners, LLLP's voting rights with respect to the Proxy Shares will terminate.

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(26) Dancing Bear Investments, Inc., is controlled by our Chairman, Michael Egan.

(27) Each of these Trusts is for the benefit of one of the children of our Chairman, Michael Egan.

(28) These shares related to an agreement with us relating to advertising and marketing. All 3,000,000 of such shares were issuable in various stages subject to meeting certain business criteria set forth in the agreement. This agreement has been terminated and as of September 15, 2005, no shares have been issued.

(29) These are the beneficial owners of the stock based upon information provided to us in May 2004 by such owners or their representatives. However, these shares are held by different record holders in our stock record books. Accordingly, while we can determine from a review of our stock records that a number of these shares have been sold, we cannot identify the beneficial owners on whose behalf such shares were sold. Accordingly, we have not updated the holdings of the beneficial owners from the original prospectus dated May 11, 2004. We believe that approximately 9,168,050 shares in the aggregate have been sold as of September 15, 2005 for these beneficial owners and that approximately 17,963,200 shares are still owned.

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### PLAN OF DISTRIBUTION

The Selling Stockholders, or by their pledgees, transferees or other successors in interest, may sell the shares of Common Stock from time to time in public or private transactions occurring on or off the OTC Bulletin Board, at prevailing market prices or at negotiated prices. Sales may be made directly to purchasers or through brokers or to dealers, who are expected to receive customary commissions or discounts. To this end, the Selling Stockholders may offer their shares for sale in one or more of the following transactions listed and described below:

- o In the over-the-counter market, including the OTC Bulletin Board;
- o Through the facilities of any national securities exchange or U.S. automated inter-dealer quotation system of a registered national securities association on which any of the shares of Common Stock are then listed, admitted to unlisted trading privileges or included for quotation in privately negotiated transactions;
- o In transactions other than on such exchanges or in the over-the-counter market;
- o In connection with short sales of our common stock;
- o In ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- o In block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- o In purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

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- o In privately negotiated transactions;
- o Broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- o In a combination of any such methods of sale; and
- o Any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

If the Selling Stockholders sell their shares directly, or indirectly through underwriters, broker-dealers or agents acting on their behalf, in connection with such sales, the broker-dealers or agents may receive compensation in the form of commissions, concessions, allowances or discounts from the Selling Stockholders and/or the purchasers of the shares for whom they may act as agent or to whom they sell the shares as principal or both. Such commissions, concessions, allowances or discounts might be in excess of customary amounts. To comply with the securities laws of certain jurisdictions, the securities offered in this prospectus will be offered or sold in those jurisdictions only through registered or licensed broker/dealers. In addition, in certain jurisdictions the securities offered in this prospectus may not be offered or sold unless they have been registered or qualified for sale in those jurisdictions, or unless an exemption from registration or qualification is available and is complied with. We are not aware of any definitive selling arrangement at the date of this prospectus between any Selling Stockholder and any broker-dealer or agent. We will not receive any of the proceeds from the sale of the shares by the Selling Stockholders, but may receive certain funds upon the exercise of warrants as described under "Use of Proceeds."

In connection with the distribution of their shares, certain of the Selling Stockholders may enter into hedging transactions with broker-dealers. In connection with such transactions, broker-dealers may engage in short sales of the shares in the course of hedging the positions they assume with the Selling Stockholders.

The Selling Stockholders may also sell the shares short and redeliver the shares of Common Stock to close out the short positions.

The Selling Stockholders may also enter into option or other transactions with broker-dealers, which require the delivery of the shares to the broker-dealer.

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The Selling Stockholders may also loan or pledge their shares to a broker-dealer. The broker-dealer may then sell the loaned shares or, upon a default, may sell the pledged shares.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledges or other successors in interest will be the selling beneficial owners for purposes of this prospectus and may sell the shares of common stock from time to time under this prospectus after we have filed an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The Selling Stockholders and any dealer acting in connection with the offering

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or any broker executing a sell order on behalf of a selling stockholder may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"). In that case, any profit on the sale of shares by a selling stockholder and any commissions or discounts received by any such broker or dealer may be deemed to be underwriting compensation under the Securities Act. Any such broker or dealer may be required to deliver a copy of this prospectus to any person who purchases any of the shares from or through such broker or dealer. These shares may later be distributed, sold, pledged, hypothecated or otherwise transferred. In addition to any other applicable laws or regulations, Selling Stockholders must comply with regulations relating to distributions by Selling Stockholders, including Regulation M under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

### LEGAL PROCEEDINGS

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 and noted that the decision is intended to provide strong guidance to all parties regarding class certification in the remaining cases. Plaintiffs have not yet moved to certify a class in theglobe.com case.

The Company has 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. Among other provisions, the settlement provides for a release of the Company and the Individual Defendants for the conduct alleged in the action to be wrongful. The Company would agree to undertake certain responsibilities, including agreeing to assign away, not assert, or release certain potential claims the Company may have against its underwriters. The settlement agreement also provides a guaranteed recovery of \$1 billion to plaintiffs for the cases relating to all of the approximately 300 issuers. To the extent that the underwriter defendants settle all of the cases for at least \$1 billion, no payment will be required under the issuers' settlement agreement. To the extent that the underwriter defendants settle for less than \$1 billion, the issuers are required to make up the difference. It is anticipated that any potential financial obligation of the Company to plaintiffs pursuant to the terms of the settlement agreement and related agreements will be covered by existing insurance. The Company currently is not aware of any material limitations on the expected recovery of any potential financial obligation to plaintiffs from its insurance carriers. Its carriers are solvent, and the Company is not aware of

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any uncertainties as to the legal sufficiency of an insurance claim with respect to any recovery by plaintiffs. Therefore, we do not expect that the settlement will involve any payment by the Company. If material limitations on the expected recovery of any potential financial obligation to the plaintiffs from the Company's insurance carriers should arise, the Company's maximum financial obligation to plaintiffs pursuant to the settlement agreement would be less than \$3.4 million. On February 15, 2005, the Court granted preliminary approval of

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the settlement agreement, subject to certain modifications consistent with its opinion. The Court ruled that the issuer defendants and the plaintiffs were required to submit a revised settlement agreement which provides for a mutual bar of all contribution claims by the settling and non-settling parties and does not bar the parties from pursuing other claims. The issuers and plaintiffs have submitted to the Court a revised settlement agreement consistent with the Court's opinion. The revised settlement agreement has been approved by all of the issuer defendants that are not in bankruptcy. The underwriter defendants have submitted limited objections to the revised settlement agreement, such as an objection that it seeks to impose the cost of identifying and notifying class members on the underwriters, and an objection that it does not provide the underwriters with sufficient time to gather the information sought by the claims administrator. There is no assurance that the Court will grant final approval to the settlement. If the settlement agreement is not approved and 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.

On December 16, 2004, the Company, together with its wholly-owned subsidiary, voiceglo Holdings, Inc., were named as defendants in NeoPets, Inc. v. voiceglo Holdings, Inc. and theglobe.com, inc., a lawsuit filed in Los Angeles Superior Court. The Company and its subsidiary, were parties to an agreement dated May 6, 2004, with NeoPets, Inc. ("NeoPets"), whereby NeoPets agreed to host a voiceglo advertising feature on its website for the purpose of generating registered activations of the voiceglo product featured. Consideration to NeoPets was to include specified commissions, including cash payments based on registered activations, as defined, as well as the issuance of Common Stock of theglobe.com and additional cash payments, upon the attainment of certain performance criteria. NeoPets' complaint asserts claims for breach of contract and specific performance and seeks payment of approximately \$2.5 million in cash, plus interest, as well as the issuance of 1,000,000 shares of theglobe.com Common Stock. On February 22, 2005, the Company and voiceglo answered the complaint and asserted cross-claims against NeoPets for fraud and deceit, rescission, breach of contract, breach of the implied covenant of good faith and fair dealing and set-off. NeoPets answered the cross-claims on March 24, 2005.

During 2004, the Company recorded amounts due for commissions pursuant to the terms of the agreement totaling approximately \$246,000. On August 5, 2005, the Company, together with voiceglo Holdings, Inc., its wholly-owned subsidiary, and NeoPets (collectively "the Parties") agreed to amicably resolve their dispute and entered into a settlement agreement (the "Settlement Agreement"). Under the terms of the Settlement Agreement, the Parties agreed to dismiss the lawsuit, release each other from all claims and to terminate their May 6, 2004 website advertising agreement in consideration for voiceglo Holdings, Inc. making cash payments totaling \$200,000 to NeoPets within thirty days of the date of the Settlement Agreement.

The Company is currently a party to certain other legal proceedings, claims, disputes and litigation arising in the ordinary course of business, including

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those noted above. The Company currently believes that the ultimate outcome of these other proceedings, 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 litigation, should the outcome of these actions be unfavorable, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

### MANAGEMENT

The following table sets forth the names, ages and current positions with the Company held by our Directors and Executive Officers. There is no immediate family relationship between or among any of the Directors or Executive Officers, and the Company is not aware of any arrangement or understanding between any Director or Executive Officer and any other person pursuant to which he was elected to his current position.

NAME	AGE	POSITION OR OFFICE WITH THE COMPANY
Michael S. Egan	65	Chairman and Chief Executive Officer
Edward A. Cespedes	39	President, Treasurer and Chief Financial Officer and Director
Robin S. Lebowitz	41	Vice President of Finance and Director
Paul Soltoff	51	Chief Executive Officer of SendTec

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Michael S. Egan. Michael Egan has served as theglobe.com's Chairman since 1997 and as its Chief Executive Officer since June 1, 2002. Since 1996, Mr. Egan has been the controlling investor of Dancing Bear Investments, Inc., a privately held investment company. Since 2002, Mr. Egan has been the controlling investor of E&C Capital Partners LLLP, a privately held investment partnership. Mr. Egan is also Chairman of Certified Vacations, a privately held wholesale travel company which was founded in 1980. Certified Vacations specializes in designing, marketing and delivering vacation packages. Mr. Egan spent over 30 years in the rental car business. He began with Alamo Rent-A-Car in 1973, became an owner in 1979, and became Chairman and majority owner from January 1986 until November 1996 when he sold the company to AutoNation. In 2000, AutoNation spun off the rental division, ANC Rental Corporation (Other OTC: ANCXZ.PK), and Mr. Egan served as Chairman until October 2003. Prior to acquiring Alamo, he held various administration positions at Yale University and taught at the University of Massachusetts at Amherst. Mr. Egan is a graduate of Cornell University where he received his Bachelor's degree in Hotel Administration.

Edward A. Cespedes. Edward Cespedes has served as a director of theglobe.com since 1997, as President of theglobe.com since June 1, 2002 and as Treasurer and Chief Financial Officer of theglobe.com since February 1, 2005. Mr. Cespedes is also the President of E&C Capital Ventures, Inc., the general partner of E&C Capital Partners LLLP. Mr. Cespedes served as the Vice Chairman of Prime Ventures, LLC, from May 2000 to February 2002. From August 2000 to August 2001, Mr. Cespedes served as the President of the Dr. Koop Lifecare Corporation and was a member of the Company's Board of Directors from January 2001 to December 2001. From 1996 to 2000, Mr. Cespedes was a Managing Director of Dancing Bear Investments, Inc. Concurrent with his position at Dancing Bear Investments, Inc. from 1998 to 2000, Mr. Cespedes also served as Vice President for corporate



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development for theglobe.com where he had primary responsibility for all mergers, acquisitions, and capital markets activities. In 1996, prior to joining Dancing Bear Investments, Inc., Mr. Cespedes was the Director of Corporate Finance for Alamo Rent-A-Car. From 1988 to 1996, Mr. Cespedes worked in the Investment Banking Division of J.P. Morgan and Company, where he most recently focused on mergers and acquisitions. In his capacity as a venture capitalist, Mr. Cespedes has served as a member of the board of directors of various portfolio companies. Mr. Cespedes is the founder of the Columbia University Hamilton Associates, a foundation for university academic endowments. In 1988 Mr. Cespedes received a Bachelor's degree in International Relations from Columbia University.

Robin S. Lebowitz. Robin Lebowitz has served as a director of theglobe.com since December 2001, as Secretary of theglobe.com since June 1, 2002, and as Vice President of Finance of theglobe.com since February 23, 2004. Ms. Lebowitz also served as Treasurer of theglobe.com from June 1, 2002 until February 23, 2004 and as Chief Financial Officer of theglobe.com from July 1, 2002 until February 23, 2004. Ms. Lebowitz has worked in various capacities for the Company's Chairman, Michael Egan, for twelve years. She is the Controller/Managing Director of Dancing Bear Investments, Inc., Mr. Egan's privately held investment management and holding company. Previously, Ms. Lebowitz served on the Board of Directors of theglobe.com from August 1997 to October 1998. At Alamo Rent-A-Car, she served as Financial Assistant to the Chairman (Mr. Egan). Prior to joining Alamo, Ms. Lebowitz was the Corporate Tax Manager at Blockbuster Entertainment Group where she worked from 1991 to 1994. From 1986 to 1989, Ms. Lebowitz worked in the audit and tax departments of Arthur Andersen & Co. Ms. Lebowitz received a Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania; a Masters in Business Administration from the University of Miami and is a Certified Public Accountant.

Paul Soltoff. Paul Soltoff has served as Chairman of the Board and Chief Executive Officer of SendTec since its inception in February 2000. Commensurate with the SendTec merger on September 1, 2004, Mr. Soltoff continued in the position of Chief Executive Officer of SendTec, now theglobe.com's wholly-owned subsidiary, and was elected to theglobe.com's Board of Directors. On February 21, 2005, Mr. Soltoff resigned from our Board of Directors, however, he continues to serve as Chief Executive Officer of SendTec. In 1997, Mr. Soltoff became the Chief Executive Officer of Soltoff Direct Corporation, a specialized direct marketing consulting company located in St. Petersburg, Florida. Since the inception of SendTec, Soltoff Direct Corporation has been largely inactive. Mr. Soltoff is a graduate of Temple University where he received his Bachelor of Science degree in Business Marketing in 1995.

### INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

Michael Egan, theglobe.com's Chairman and CEO, was Chairman of ANC Rental Corporation from late 2000 until October 2003 and was Chief Executive Officer of ANC Rental Corporation from late 2000 until April 4, 2002. In November 2001, ANC Rental Corporation filed voluntary petitions for relief under Chapter 11 or Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (Case No. 01-11200).

Edward Cespedes, a director and the President, Treasurer and Chief Financial Officer of theglobe.com, was also a director of Dr. Koop Lifecare Corporation from January 2001 to December 2001. In December 2001, Dr. Koop Lifecare Corporation filed petitions seeking relief under Chapter 7 of the United States Bankruptcy Code.

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## EXECUTIVE COMPENSATION

The following table sets forth information concerning compensation for services in all capacities awarded to, earned by or paid by us to those persons serving as the chief executive officer at any time during the last calendar year and our four other most highly compensated executive officers (collectively, the "Named Executive Officers"):

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation (1)	All Comp
		Salary (\$)	Bonus (\$)	Number of Securities Underlying Options (#)	
Michael S. Egan, Chairman, Chief Executive Officer (2)	2004	250,000	77,500	--	
	2003	125,000	50,000	1,000,000	
	2002	--	--	2,507,500	
Edward A. Cespedes, President, Treasurer and Chief Financial Officer (3)	2004	250,000	77,500	--	
	2003	225,000	50,000	550,000	
	2002	100,000	25,000	1,757,500	
Albert J. Detz, Former Chief Financial Officer, Treasurer (4)	2004	100,139	--	200,000	
Robin S. Lebowitz, Former Chief Financial Officer; Vice President of Finance (5)	2004	144,167	17,500	--	
	2003	137,500	--	100,000	
	2002	58,350	10,000	507,500	
Paul Soltoff, Chief Executive Officer, SendTec, Inc. (6)	2004	100,000	17,000	477,337	

(1) Included in long-term compensation for 2004 are 200,000 options granted to Mr. Detz at an exercise price of \$0.38 per share. In addition, long-term compensation for 2004 includes replacement options to acquire 477,337 shares of theglobe.com Common Stock granted to Mr. Soltoff at an exercise price of \$0.06 per share in exchange for options which Mr. Soltoff held prior to the acquisition of SendTec, Inc. by theglobe.com. Included in long-term compensation for 2003 are 1,650,000 options granted during the year at \$0.56 per share to the Named Executive Officers. Included in long-term compensation for 2002 are 7,500 options granted to each of Messrs. Egan and Cespedes and Ms. Lebowitz in June 2002 at an exercise price of \$0.04 per share in accordance with the Company's Director Compensation Plan; and 2,500,000, 1,750,000, and 500,000 options granted in June 2002 at an exercise price of \$0.02 per share related to bonuses earned in 2002 for Messrs. Egan and Cespedes and Ms. Lebowitz, respectively.

(2) Mr. Egan became an executive officer in July 1998. We began paying Mr. Egan a base salary in July 2003. We did not pay Mr. Egan a base salary in 2002 or 2001. Effective in March 2005, the Company discontinued paying Mr. Egan's base salary, at his request. The Company is obligated to pay all such deferred salary amounts to Mr. Egan upon his demand. At June 30, 2005, deferred base salary payable to Mr. Egan totaled approximately \$80,800.

(3) Mr. Cespedes became President in June 2002 and Treasurer and Chief Financial

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Officer in February 2005. Prior to this, Mr. Cespedes served as a consultant to the Company and was paid \$41,668 for these services.

(4) Mr. Detz became Chief Financial Officer and Treasurer in June 2004 at a base salary of \$175,000 per year. In February 2005, Mr. Detz resigned his positions with the Company and thereafter began performing various financial and accounting consulting services on a project basis to the Company.

(5) Ms. Lebowitz became an officer of the Company in June 2002 and Chief Financial Officer in July 2002. In February 2004, Ms. Lebowitz resigned her position as Chief Financial Officer and became Vice President of Finance.

(6) Mr. Soltoff became a Director of the Company and Chief Executive Officer of SendTec, Inc. in September 2004. On February 21, 2005, Mr. Soltoff resigned from the Company's Board of Directors but continues to serve as CEO of SendTec, Inc. His current base salary is \$300,000 per year. Salary for 2004 represents amounts earned since September 1, 2004, the date SendTec was acquired by the Company.

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### AGGREGATED OPTION EXERCISES IN THE LAST FISCAL YEAR AND 2004 YEAR-END OPTION VALUES

The following tables set forth for each of the Named Executive Officers (a) the number of options exercised during 2004, (b) the total number of unexercised options for common stock (exercisable and unexercisable) held at December 31, 2004, (c) the value of those options that were in-the-money on December 31, 2004 based on the difference between the closing price of our Common Stock on December 31, 2004 and the exercise price of the options on that date, and (d) the total number of options granted to such persons in 2004.

Name	Shares Acquired on Exercise #	Value Realized	Number of Securities Underlying Unexercised Stock Options at Fiscal Year-End (#)		Value of Unexe In-the-Money Stock at Fiscal Year E	
			Exercisable	Un- Exercisable	Exercisable	Ex
Michael S. Egan	--	--	3,841,182	3,818	\$ 1,003,016	\$
Edward A. Cespedes	--	--	2,461,182	3,818	703,016	
Albert J. Detz	--	--	83,334	116,666	3,333	
Robin S. Lebowitz	--	--	625,025	9,055	208,722	
Paul Soltoff	--	--	238,669	238,668	85,921	

(1) Value represents closing price of our Common Stock on December 31, 2004 less the exercise price of the stock option, multiplied by the number of shares exercisable or unexercisable, as applicable.

### OPTION GRANTS IN 2004

Number of	Percent of Total Options	Market Exercise Price	Potential Rea at Assumed Annu Price Appreciation
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Name	Securities Underlying Options Granted	Granted to Employees in 2004	or Base Price (\$/Share)	on Date of Grant (\$/share)	Expiration Date	5% (\$)
Michael S. Egan	-	-	-	-	-	-
Edward A. Cespedes	-	-	-	-	-	-
Albert J. Detz	200,000 (1)	2.6%	\$0.38	\$0.38	6/04/2014	\$ 47,796
Robin S. Lebowitz	-	-	-	-	-	-
Paul Soltoff	477,337 (2)	6.2%	\$0.06	\$0.41	10/01/2013	\$290,148

(1) 60,000 of these options vested immediately, with the balance vesting ratably on a quarterly basis over the following three years as long as Mr. Detz was employed by the Company. Upon Mr. Detz' resignation and pursuant to the terms of his consulting agreement, 130,000 of the options became vested effective February 2, 2005, with the 70,000 remaining to vest upon Mr. Detz' performance of consulting services on a continuous basis for at least six months from the effective date of the agreement, February 2, 2005.

(2) 238,669 of these options vested on September 30, 2004 and the remainder vest on September 30, 2005.

(3) These amounts represent assumed rates of appreciation in conformity with Securities and Exchange Commission disclosure requirements. Actual gains, if any, on stock option exercises are dependent on future performance of our Common Stock.

### EMPLOYMENT AGREEMENTS

CHIEF EXECUTIVE OFFICER EMPLOYMENT AGREEMENT AND PRESIDENT EMPLOYMENT AGREEMENT. On August 1, 2003, we entered into separate employment agreements with our Chief Executive Officer ("CEO"), Michael S. Egan, and our President, Edward A. Cespedes. The two employment agreements are substantially similar and each provides for the following:

- o employment as one of our executives;

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- o an annual base salary of \$250,000 with eligibility to receive annual increases as determined in the sole discretion of the Board of Directors;

- o an annual cash bonus, which will be awarded upon the achievement of specified pre-tax operating income (not be less than \$50,000 per year);

- o participation in all welfare, benefit and incentive plans (including equity based compensation plans) offered to senior management;

- o a term of employment which commenced on August 1, 2003 and continues through the first anniversary thereof. The term automatically extends for one day each day unless either the Company or executive provides written notice to the other not to further extend. The agreement provides that, in the event of termination by us without "cause" or by the executive for "good reason" (which includes a "Change of Control"), the executive will be entitled to receive from us:

- (A) his base salary through the date of termination and an amount equal to the product of (x) the higher of (i) the executive's average annual incentive paid or payable under the Company's annual incentive plan for the last three full fiscal years, including any portion which has been earned but deferred and (ii)

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the annual incentive paid or payable under the Company's annual incentive plan for the most recently completed fiscal year, including any portion thereof which has been earned but deferred (and annualized if the fiscal year consists of less than twelve full months or, if during which, the executive was employed for less than twelve full months) and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the date of termination, and the denominator of which is 365;

- (B) any accrued vacation pay; and
- (C) a lump-sum cash payment equal to ten (10) times the sum of executive's base salary and highest annual incentive;
- for the continued benefit of executive, his spouse and his dependents for a period of ten (10) years following the date of termination, the medical, hospitalization, dental, and life insurance programs in which executive, his spouse and his dependents were participating immediately prior to the date of termination at the level in effect and upon substantially the same terms and conditions as existed immediately prior to the date of termination;
- reimbursement for any reasonable and necessary monies advanced or expenses incurred in connection with the executive's employment; and
- executive will be vested, as of the date of termination, in all rights under any equity award agreements (e.g., stock options that would otherwise vest after the date of termination) and in the case of stock options, stock appreciation rights or similar awards, thereafter shall be permitted to exercise any and all such rights until the earlier of (i) the third anniversary of the date of termination and (ii) the end of the term of such awards (regardless of any termination of employment restrictions therein contained) and any restricted stock held by executive will become immediately vested as of the date of termination.

EMPLOYMENT AGREEMENT WITH FORMER CHIEF FINANCIAL OFFICER. We also entered into an employment agreement with our then Chief Financial Officer ("CFO"), Robin Segaul Lebowitz, on August 1, 2003. Her employment agreement provides for the following:

- o employment as one of our executives;
- o an annual base salary of \$150,000 with eligibility to receive annual increases as determined in the sole discretion of the Board of Directors;
- o a discretionary annual cash bonus, which will be awarded at our Board's discretion;
- o participation in all welfare, benefit and incentive plans (including equity based compensation plans) offered to senior management;

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o term of employment which commenced on August 1, 2003 and continues through the first anniversary thereof. The term automatically extends for one day each day unless either the Company or executive provides written notice to the other not to further extend. The agreement provides that, in the event of termination by us without "cause" or by the executive for "good reason" (which includes a "Change of Control"), the executive will be entitled to receive from us:

- (A) her base salary through the date of termination and an amount equal to the product of (x) the higher of (i) the executive's average annual incentive paid

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or payable under the Company's annual incentive plan for the last three full fiscal years, including any portion which has been earned but deferred and (ii) the annual incentive paid or payable under the Company's annual incentive plan for the most recently completed fiscal year, including any portion thereof which has been earned but deferred (and annualized if the fiscal year consists of less than twelve full months or, if during which, the executive was employed for less than twelve full months) and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the date of termination, and the denominator of which is 365;

- (B) any accrued vacation pay; and
- (C) a lump-sum cash payment equal to two (2) times the sum of executive's base salary and highest annual incentive;
- for the continued benefit of executive, her spouse and her dependents for a period of two (2) years following the date of termination, the medical, hospitalization, dental, and life insurance programs in which executive, her spouse and her dependents were participating immediately prior to the date of termination at the level in effect and upon substantially the same terms and conditions as existed immediately prior to the date of termination;
- reimbursement for any reasonable and necessary monies advanced or expenses incurred in connection with the executive's employment; and
- executive will be vested, as of the date of termination, in all rights under any equity award agreements (e.g., stock options that would otherwise vest after the date of termination) and in the case of stock options, stock appreciation rights or similar awards, thereafter shall be permitted to exercise any and all such rights until the earlier of (i) the third anniversary of the date of termination and (ii) the end of the term of such awards (regardless of any termination of employment restrictions therein contained) and any restricted stock held by executive will become immediately vested as of the date of termination.

Effective February 23, 2004, Ms. Lebowitz's employment agreement was amended. Ms. Lebowitz's new title is Vice President, Finance and effective June 1, 2004 her annual base salary is \$140,000.

CHIEF FINANCIAL OFFICER AND TREASURER AGREEMENT. We also entered into an agreement with our former Chief Financial Officer ("CFO") and Treasurer, Albert J. Detz, on June 3, 2004. That agreement had provided for the following:

- o an annual base salary of \$175,000 with eligibility to receive annual increases as determined in the sole discretion of the Board of Directors;
- o a grant of 200,000 options to acquire theglobe.com Common Stock at an exercise price of \$0.38 per share. 60,000 of these options vested immediately and the balance vest ratably on a quarterly basis over 3 years;
- o a discretionary annual cash bonus, which will be awarded at our Board's discretion;
- o participation in all welfare, benefit and incentive plans offered to senior management of the Company; and
- o in the event of termination by us after six months of employment but less than one year, the executive will be entitled to receive from us his base salary for a period of three months from the date of such termination. In the event of termination by us after one year of employment, the executive will be entitled to receive from us his base salary for a period of six months from the date of such termination.

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Effective February 1, 2005, Mr. Detz resigned his positions with the Company and his employment with the Company ended. Pursuant to a consulting agreement effective February 2, 2005, Mr. Detz began performing various financial and accounting consulting services on a project basis to the Company.

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SENDTEC CHIEF EXECUTIVE OFFICER EMPLOYMENT AGREEMENT. As part of the SendTec Acquisition, on September 1, 2004, we entered into an employment agreement with Paul Soltoff to continue as Chief Executive Officer ("CEO") of SendTec, Inc., now a wholly-owned subsidiary of the Company. His employment agreement provides for the following:

- o an annual base salary of \$300,000 with eligibility to receive annual increases as determined in the sole discretion of the Board of Directors;
- o a discretionary annual cash bonus, which will be awarded at our Board's discretion;
- o participation in all welfare, benefit and incentive plans offered to senior management of the Company;
- o a 5 year term of employment which commenced on September 1, 2004. The agreement provides that, in the event of termination by us without "cause" or by the executive for "good reason," the executive will be entitled to receive from us his base salary for a period of 2 years from the date of such termination, any accrued vacation pay and for the continued benefit of executive, his spouse and his dependents for a period of one (1) year following the date of termination, the medical, hospitalization, dental, and life insurance programs in which executive, his spouse and his dependents were participating immediately prior to the date of termination at the level in effect and upon substantially the same terms and conditions as existed immediately prior to the date of termination; and
- o customary provisions relating to confidentiality, work-product and covenants not to compete.

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ARRANGEMENTS WITH ENTITIES CONTROLLED BY VARIOUS DIRECTORS AND OFFICERS. On November 14, 2002, E&C Capital Partners, LLLP ("E&C Partners"), a privately held investment holding company owned by Michael S. Egan, our Chairman and CEO and a major stockholder, and Edward A. Cespedes, our President and a Director, entered into a non-binding letter of intent with theglobe.com to provide \$500,000 of new financing via the purchase of shares of a new Series F Preferred Stock of theglobe.com. On March 28, 2003, the parties signed a Preferred Stock Purchase Agreement and other related documentation pertaining to the investment and closed on the investment. Pursuant to the Preferred Stock Purchase Agreement, E&C Capital Partners received 333,333 shares of Series F Preferred Stock convertible into shares of the Company's Common Stock at a price of \$0.03 per share. The conversion price was subject to adjustment upon the occurrence of certain events, including downward adjustment on a weighted-average basis in the event the Company issued securities at a purchase price below \$0.03 per share. If fully converted, and without regard to the anti-dilutive adjustment mechanisms applicable to the Series F Preferred Stock, an aggregate of approximately 16,666,650 million shares of Common Stock would be issuable. The Series F Preferred Stock had a liquidation preference of \$1.50 per share (and was thereafter entitled to participate with the Common Stock on an "as-converted" basis), and was entitled to a dividend at the rate of 8% per

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annum if and to the extent declared by the board and was also entitled to participate in any dividend declared on the Company's Common Stock. The Series F Preferred Stock also was entitled to vote on an "as converted" basis with the holders of Common Stock. In addition, as part of the \$500,000 investment, E&C Partners received warrants to purchase approximately 3.3 million shares of theglobe.com Common Stock at an exercise price of \$0.125 per share. The warrant was exercisable at any time on or before March 28, 2013. E & C Partners also received certain demand registration rights in connection with its investment.

On May 22, 2003, E&C Partners and certain trusts, of which Mr. Egan is the trustee, entered into a Note Purchase Agreement with the Company pursuant to which they acquired convertible promissory notes (the "\$1,750,000 Convertible Notes") in the aggregate principal amount of \$1,750,000. The \$1,750,000 Convertible Notes were convertible at anytime into shares of the Company's Common Stock at a blended rate of \$.09 per share (the Convertible Note held by E&C was convertible at approximately \$.079 per share and the Convertible Notes held by the Trusts were convertible at \$.10 per share), which if fully converted, would result in the issuance of approximately 19,444,000 shares. The \$1,750,000 Convertible Notes had a one year maturity date, which could be extended at the option of the holder of the Note for periods aggregating two years, and was secured by a pledge of substantially all of the assets of the Company. In addition, E&C Partners was issued a warrant to acquire 3,888,889 shares of theglobe.com Common Stock at an exercise price of \$.15 per share. The warrant was exercisable at any time on or before May 22, 2013. E&C Partners and the trusts are entitled to certain demand and "piggy-back" registration rights in connection with their investment.

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On February 2, 2004, Michael S. Egan (our Chairman and Chief Executive Officer) and his wife, S. Jacqueline Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired convertible promissory notes (the "Bridge Notes") in the aggregate principal amount of \$2,000,000. The Bridge Notes were convertible at anytime into shares of the Company's Common Stock at an initial rate of \$.98 per share. The conversion rate was initially adjustable based on an amount equal to the rate at which the Company sold its Common Stock in any subsequent qualified private offering (defined as an offering which raises a minimum of \$7.5 million) (or at a 20% discount to such amount, depending upon the timing of completion, and amount of, such private offering). This conversion was subsequently adjusted to \$.57 per share, which was the effective per share rate of the subsequent qualified private offering. The Bridge Notes were due on demand from the holder, and were secured by a pledge of substantially all of the assets of the Company. The security interest was shared with the holders of the Company's \$1,750,000 Convertible Notes in the principal amount of \$1,750,000. The Bridge Notes paid interest at the rate of ten (10) percent per annum. In addition, the Egan's were issued a warrant to acquire 204,082 shares of theglobe.com Common Stock at an initial exercise price of \$1.22 per share. This warrant is exercisable at any time on or before February 2, 2009. The Egan's are entitled to certain demand and "piggy-back" registration rights in connection with this investment.

On March 11, 2004, theglobe.com, inc. completed the PIPE Offering. In connection with the PIPE Offering, Mr. Egan, our Chairman, Chief Executive Officer and principal stockholder, together with certain of his affiliates and other parties, converted the \$2,000,000 Bridge Note, the \$1,750,000 Convertible Notes and all of the Company's outstanding shares of Series F Preferred Stock, and exercised (on a cashless exercise basis) all of the warrants issued in connection with the foregoing \$1,750,000 Convertible Notes and Series F Preferred Stock, together with certain warrants issued to Dancing Bear Investments, Inc. (an affiliate of Mr. Egan). As a result of such conversions



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and exercises, the Company issued an aggregate of approximately 48.75 million shares of Common Stock to such parties.

Interest expense on the \$1,750,000 Convertible Notes totaled approximately \$108,200, excluding the amortization of the discount on the Notes, during the year ended December 31, 2003. The interest remained unpaid at December 31, 2003, and was included in accrued expenses in our consolidated balance sheet. As a result of the conversion of the \$1,750,000 Convertible Notes into the Company's Common Stock in March 2004, all accrued interest, including approximately \$32,000 relating to the first quarter of 2004, was paid by June 30, 2004. As a result of the conversion of the \$2,000,000 Bridge Note into the Company's Common Stock in March 2004, accrued interest of approximately \$17,500 relating to the first quarter of 2004 was paid by June 30, 2004.

On April 22, 2005, E&C Partners and E&C Capital Partners II, Ltd. (the "Noteholders"), entities controlled by the Company's Chairman and Chief Executive Officer, entered into a Note Purchase Agreement (the "Agreement") with theglobe pursuant to which they acquired secured demand convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of \$1,500,000. Under the terms of the Agreement, the Noteholders were also granted the optional right, for a period of 90 days from the date of the Agreement, to purchase additional Convertible Notes such that the aggregate principal amount of Convertible Notes issued under the Agreement may total \$4,000,000 (the "Option"). On June 1, 2005, the Noteholders exercised a portion of the Option and acquired an additional \$1,500,000 of Convertible Notes. On July 18, 2005, the Noteholders exercised the remainder of the Option and acquired an additional \$1,000,000 of Convertible Notes.

The Convertible Notes are convertible at the option of the Noteholders into shares of the Company's Common Stock at an initial price of \$0.05 per share. Through September 15, 2005 an aggregate of \$600,000 of Convertible Notes were converted by the Noteholders into an aggregate of 12,000,000 shares of the Company's Common Stock. The Convertible Notes provide for interest at the rate of ten percent per annum and are secured by a pledge of substantially all of the assets of the Company. Approximately \$41,000 of interest expense was recorded during the six months ended June 30, 2005 related to the Convertible Notes. The Convertible Notes are due and payable five days after demand for payment by the Noteholders. The Noteholders are entitled to certain demand and "piggy-back" registration rights in connection with their investment. Assuming full conversion of all remaining outstanding Convertible Notes, 68,000,000 shares of the Company's Common Stock would be issued to the Noteholders.

Two of our directors, Mr. Egan and Ms. Lebowitz, also serve as officers and directors of Dancing Bear Investments, Inc. ("Dancing Bear"). Dancing Bear is a stockholder of the Company and an entity controlled by Mr. Egan, our Chairman.

Several entities controlled by our Chairman have provided services to the Company and various of its subsidiaries, including: the lease of office and warehouse space; the outsourcing of customer service and warehouse functions for the Company's VoIP operation; and the outsourcing of human resources and payroll processing functions for the Parent Company and various of the Company's subsidiaries.

We sublease approximately 15,000 square feet of office space for our executive offices from Certified Vacations, a company which is controlled by our Chairman and CEO Michael Egan. The sublease commenced on September 1, 2003 and expires on July 31, 2007. The initial base rent is \$18.91 per square foot on an annual basis (\$283,650 annually in the aggregate) and will increase on each anniversary

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of the sublease by \$1.50 per square foot. During 2003, approximately \$148,000 of expense was recorded related to the lease of the office space. During the year ended December 31, 2004, approximately \$334,000 of expense was recorded related to the lease of the office space. During the six months ended June 30, 2005 approximately \$177,000 of expense was recorded related to the lease of office space from Certified Vacations. In addition, from August 2003 through August 2004 we outsourced our customer service function from Certified Vacations under renewable short term agreements at incremental cost, for which we paid an aggregate of \$109,000 during the year ended December 31, 2003 and \$134,000 during the year ended December 31, 2004.

Beginning in August, 2003, our subsidiary, Voiceglo Holdings, Inc. ("voiceglo"), began outsourcing warehouse space and related services from Thomas Street Logistics LLC, which is controlled by our Chairman and CEO, Michael Egan, and our President, Edward Cespedes. Our agreement with Thomas Street Logistics included secure warehouse space, equipment rental, insurance, utilities, office space, inventory management, shipping services, personnel and provisioning of our equipment for \$25,000 per month and a nominal shipping and handling fee per item shipped. Effective, April 15, 2004, voiceglo terminated its arrangement with Thomas Street Logistics and has transitioned these functions to voiceglo personnel and warehouse space. During 2003, approximately \$126,000 of expense was recorded for warehouse space and related outsourcing functions. During the year ended December 31, 2004, approximately \$99,000 of expense was recorded for warehouse space and related outsourcing functions.

Beginning April 2005, we outsourced our human resources and payroll processing functions from Certified Vacations and approximately \$8,000 of expense was recorded during the six months ended June 30, 2005 related to these functions.

In addition, as of December 31, 2004, approximately \$90,000 of advances made by the Company to a newly formed entity controlled by our Chairman, Global Voice Network LLC, remained unpaid. At the time these funds were advanced, the entity was anticipated to enter into a joint venture to provide services to voiceglo and the Company was negotiating the terms of such joint venture. The Company and such new entity subsequently agreed to abandon the proposed joint venture and the entity ceased operations in January 2005. Additional advances of approximately \$2,000 were made to the entity during January 2005. E&C Capital Partners LLLP has represented to theglobe.com that the amounts advanced, which approximate \$92,000 as of June 30, 2005, will be repaid to the Company prior to the end of 2005.

Our subsidiary, Tralliance Corporation, which was acquired on May 9, 2005, subleases office space in New York City on a month-to-month basis from an entity controlled by its President and Chief Executive Officer. As of July 2005, the base rent for the office space totals \$3,160 per month.

ARRANGEMENTS WITH RELATIVES. During the six months ended June 30, 2005, payments of approximately \$4,300 were made to the son-in-law of our Chairman and CEO as reimbursements of marketing expenses incurred on the Company's behalf. In March 2004, the Company engaged the services of Pay the Rent, a company controlled by the son-in-law of our Chairman and CEO. Pay the Rent was contracted for the production, audio and video post-production, voice-over, and scoring of a television commercial featuring voiceglo. Payment in full in the amount of \$151,200 was remitted during 2004. In 2003, we reimbursed Pay the Rent \$18,013 for marketing and promotion expenses (at cost) for a separate marketing promotion.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial

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ownership of our Common Stock as of September 15, 2005 (except as otherwise indicated) by (i) each person who owns beneficially more than 5% of our Common Stock, (ii) each of our directors, (iii) each of our "Named Executive Officers" and (iv) all directors and executive officers as a group. A total of 199,329,666 shares of theglobe.com's Common Stock were issued and outstanding on September 15, 2005.

The amounts and percentage of common stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission ("SEC") governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest. Unless otherwise indicated below, the address of each person named in the table below is in care of theglobe.com, inc., P.O. Box 029006, Fort Lauderdale, Florida 33302.

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DIRECTORS, NAMED EXECUTIVE OFFICERS AND 5% STOCKHOLDERS	SHARES BENEFICIALLY OWNED		TITLE OF CLASS
	NUMBER	PERCENT	
Dancing Bear Investments, Inc. (1) ...	8,303,148	4.2%	Common
Michael S. Egan (2) (9) .....	169,397,505	62.0%	Common
Edward A. Cespedes (3) .....	4,213,597	2.1%	Common
Robin S. Lebowitz (4) .....	1,031,121	*	Common
Paul Soltoff (5) .....	10,674,627	5.3%	Common
Albert J. Detz (6) .....	218,750	*	Common
E&C Capital Partners LLLP (7) .....	101,168,886	43.4%	Common
Wellington Management Company, LLP (8)	24,136,050	12.1%	Common
Stockholder Agreement Group (9) .....	169,397,505	62.0%	Common
E&C Capital Partners II Ltd. (10) ....	40,000,000	17.1%	Common
All directors and executive officers as a group (5 persons) .....	175,352,410	62.8%	Common

\* less than 1%

(1) Mr. Egan owns Dancing Bear Investments, Inc.

(2) Includes the shares that Mr. Egan is deemed to beneficially own as the controlling investor of Dancing Bear Investments, Inc., E&C Capital Partners, LLLP, and E&C Capital Partners II Ltd and as the Trustee of the Michael S. Egan Grantor Retained Annuity Trusts for the benefit of his children. Also includes

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(i) 5,593,128 shares of our Common Stock issuable upon exercise of options that are currently exercisable and 469 shares of our Common Stock issuable upon exercise of options that are exercisable within 60 days of September 15, 2005; (ii) 3,541,337 shares of our Common Stock held by Mr. Egan's wife, as to which he disclaims beneficial ownership; and (iii) 204,082 shares of our Common Stock issuable upon exercise of warrants at \$1.22 per share owned by Mr. Egan and his wife.

(3) Includes 4,213,128 shares of our Common Stock issuable upon exercise of options that are currently exercisable and 469 shares of our Common Stock issuable upon exercise of options that are exercisable within 60 days of September 15, 2005.

(4) Includes 1,029,089 shares of our Common Stock issuable upon exercise of options that are currently exercisable and 2,032 shares of our Common Stock issuable upon exercise of options that are exercisable within 60 days of September 15, 2005.

(5) Includes 477,337 shares of Common Stock issuable upon exercise of options that are currently exercisable or exercisable within 60 days of September 15, 2005.

(6) Includes 215,625 shares of our Common Stock issuable upon exercise of options that are currently exercisable and 3,125 shares of our Common Stock issuable upon exercise of options that are exercisable within 60 days of September 15, 2005.

(7) E&C Capital Partners, LLLP is a privately held investment vehicle controlled by our Chairman, Michael S. Egan. Our President, Edward A. Cespedes, has a minority, non-controlling interest in E&C Capital Partners, LLLP. Includes 28,699,874 shares of Common Stock over which E&C holds an irrevocable proxy pursuant to the Stockholders' Agreement. Also includes 34,000,000 shares of our Common Stock issuable upon the conversion of the Convertible Notes.

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(8) The information about Wellington Management Company, LLP is as of December 31, 2004 and is derived from an SEC filing on Schedule 13G by Wellington Management. Wellington Management in its capacity as an investment adviser, may be deemed to have beneficial ownership of 24,136,050 shares of Common Stock that are owned by numerous investment advisory clients, none of which is known to have such interest with respect to more than five percent of the class of shares. Wellington Management has shared voting authority over 11,259,450 shares and shared dispositive power over 24,136,050 shares. Wellington Management is a registered investment advisor under the Investment Advisers Act of 1940, as amended. Wellington Management's mailing address is 75 State Street, Boston, MA 02109.

(9) In connection with the SendTec Acquisition, the Company and certain former executives of SendTec (consisting of Paul Soltoff, Eric Obeck, Donald Gould, Harry Greene and Irv and Nadine Brechner) entered into a Stockholders' Agreement dated September 1, 2004 with Dancing Bear Investments, Inc., E&C Capital Partners, LLLP ("E&C"), Michael S. Egan and Edward Cespedes (the "Stockholders' Agreement"). Pursuant to the Stockholders' Agreement the SendTec executives granted an irrevocable proxy to vote their shares to E&C on all matters (including the election of directors) other than with respect to certain potential affiliated transactions involving Messr. Egan or Cespedes. The amount set forth in the table includes 28,699,874 shares of Common Stock over which E&C holds such irrevocable proxy. The amount set forth in the table also includes 5,593,597 shares of our Common Stock issuable upon exercise of options that are

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currently exercisable or exercisable within 60 days of September 15, 2005 for Michael S. Egan, but does not include options of an aggregate of 1,023,673 held by the other members of the Stockholder Agreement Group. Please also refer to the appropriate footnotes relating to each individual member of the Stockholder Agreement Group.

(10) E&C Capital Partners II Ltd. is a privately held investment vehicle controlled by our Chairman, Michael S. Egan. Includes 34,000,000 shares of our Common Stock issuable upon the conversion of the Convertible Notes.

### DESCRIPTION OF SECURITIES

#### GENERALLY

We are currently authorized to issue 503,000,000 shares of capital stock consisting of:

- o 500,000,000 shares of common stock, par value of \$.001 per share ("Common Stock"), 199,329,666 shares of which were issued and outstanding as of September 15, 2005, and
- o 3,000,000 shares of preferred stock, \$.001 par value, of which as of September 15, 2005, (i) 425,000 shares of which have been designated as "Series F Preferred Stock", of which no shares are issued and outstanding, (ii) 25,000 shares of which have been designated as "Series G Preferred Stock", of which no shares are issued and outstanding, (iii) 180,000 shares of which have been designated as "Series H Preferred Stock" of which no shares are issued and outstanding, and (iv) 250,000 shares of which have been designated Junior Participating Preferred, of which no shares are issued and outstanding, and which was created as part of the Company's stockholder rights plan.

Each holder of Common Stock is entitled to one vote per share on all matters submitted to a vote of stockholders, including the election of directors. The Common Stock does not have cumulative voting rights, which means that (subject to the rights of the holders of any Preferred Stock), the holders of a majority of the shares voting for election of directors can elect all members of the Board of Directors. Subject to the preferential rights of the holders of shares of Preferred Stock, the holders of Common Stock are entitled to share ratably in such dividends, if any, as may be declared and paid by the Board of Directors out of funds legally available therefore. At this time, we do not anticipate paying any cash dividends for the foreseeable future. Upon liquidation or dissolution of the Company, the holders of Common Stock of the Company will be entitled to share ratably in the assets of the Company legally available for distribution to stockholders after payment of liabilities and subject to the prior rights of any holders of Preferred Stock then outstanding. Holders of Common Stock have no conversion, sinking fund, redemption, preemptive or subscription rights. The rights, preferences, and privileges of holders of Common Stock are subject to the rights of the holders of shares of any series of Preferred Stock which the Company may issue in the future.

The Board of Directors is authorized, subject to any limitations prescribed by law, from time to time to issue up to an aggregate of 3,000,000 shares of Preferred Stock in one or more classes or series, each of such class or series to have such preferences, voting powers, qualifications and special or relative rights or privileges as shall be determined by the Board of Directors in a resolution or resolutions providing for the issue of such class or series of Preferred Stock. Thus, any class or series may, if so determined by the Board of Directors, have full voting rights with the Common Stock or superior or limited voting rights, to be convertible into Common Stock or another security of the Company, and have such other preferences, relative rights and limitations as the

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Company's Board of Directors shall determine. As a result, any class or series of Preferred Stock could have rights which could adversely affect the voting power of the Common Stock or which could delay, defer or prevent a change in control of the Company. The shares of any class or series of Preferred Stock need not be identical.

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### OUTSTANDING OPTIONS, WARRANTS AND CONVERTIBLE NOTES

As of June 30, 2005, we had issued and outstanding options to acquire approximately 20,302,000 shares of our Common Stock. As of September 15, 2005, we had issued and outstanding warrants and convertible notes to acquire approximately 7,601,000 and 68,000,000 shares of our Common Stock, respectively. In addition to the warrants described above the Company also holds in escrow warrants to acquire up to 1,500,000 shares of Common Stock, subject to release over approximately the next two years (some of which may accelerate under certain events) upon the attainment of certain performance objectives and may issue warrants to acquire up to an additional 2,500,000 shares of Common Stock upon attainment of certain performance criteria related to the acquisition of SendTec. 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.

### REGISTRATION RIGHTS

The Company filed a registration statement, of which this prospectus is a part and which was originally declared effective on May 11, 2004, pursuant to registration rights which it granted as part of the March 2004 PIPE Offering. Pursuant to the PIPE Offering, the Company agreed to file a registration statement relating to the resale of the shares of common stock and the shares of common stock underlying the warrants (the "Underlying Shares") issued in such Offering no later than April 22, 2004. The Company further agreed to keep such registration statement effective until the earlier of (i) March 15, 2006, (ii) the date by which all of the shares and Underlying Shares have been sold pursuant to such registration statement, and (iii) the date by which the shares and Underlying Shares are eligible to be sold by non-affiliates of the Company under Rule 144(k) promulgated under the Securities Act.

Holder of substantially all other privately placed securities of the Company also have certain registration rights, including various demand registration rights which, subject to certain qualifications and deferrals, may be exercised by certain of the investors commencing after the effective date of the registration statement of which this prospectus is a part, and as to others, commencing in July 2004 and thereafter. The Company has voluntarily included, on a "piggy-back" basis, in this prospectus shares to be offered by other selling stockholders who were granted registration rights by the Company prior to the PIPE Offering.

As part of the SendTec Acquisition on September 1, 2004, the Company agreed to file a registration statement relating to the resale of the shares of Common Stock issued in the SendTec Acquisition (including the shares of Common Stock which were issued upon the conversion of Preferred Stock issued in such Acquisition) and the resale of up to 2,499,997 shares of Common Stock potentially issuable upon exercise of certain warrants which may be earned upon attainment of designated performance criteria and to cause the effectiveness of such registration on or before September 1, 2005. The Company also agreed to keep the registration effective until at least September 1, 2007 (the third anniversary of the closing of the SendTec Acquisition). We have not yet filed such a registration statement, primarily due to our efforts to sell SendTec and

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reacquire substantially all of the shares which we issued in connection with our acquisition of SendTec. Because we have not filed and caused such registration statement to become effective on or before September 1, 2005, we may be held liable for damages suffered by holders of such stock. Upon registration all such shares will be eligible for resale over the open market. Even if not registered, the shares issued in the SendTec acquisition are eligible for resale over the public markets pursuant to and subject to the limitations of Rule 144. If we successfully redeem the majority of the shares issued as part of the SendTec acquisition (or approximately 28,900,000 shares) in connection with the sale of SendTec's business to RelationServe Media, Inc. as discussed in the "Recent Events" section of this registration statement, we would substantially mitigate our risks related to our failure to timely register these shares.

We also granted "piggy-back" registration rights relating to the shares of our Common Stock issued in connection with the Tralliance acquisition and shares issued in settlement of certain contractual obligations with a vendor.

On April 22, 2005, the Company entered into a Note Purchase Agreement with E&C Capital Partners, LLLP and E&C Capital Partners II, Ltd. (the "Noteholders"), pursuant to which the Noteholders acquired convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of \$4,000,000. The Convertible Notes are convertible at anytime prior to payment into shares of the Company's Common Stock at the rate of \$0.05 per share. Through September 15, 2005, an aggregate of \$600,000 of Convertible Notes were converted by the Noteholders into an aggregate of 12,000,000 shares of the Company's Common Stock. Assuming full conversion of all remaining outstanding Convertible Notes, an additional 68,000,000 shares of the Company's Common Stock would be issued to the Noteholders. The Noteholders are entitled to certain demand and piggy-back registration rights in connection with their investment.

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### LIMITATION ON LIABILITY

Our certificate of incorporation limits or eliminates the liability of our directors or officers to us or our stockholders for monetary damages to the fullest extent permitted by the Delaware General Corporation Law, or DGCL, as amended. The DGCL provides that a director of our company shall not be personally liable to us or our stockholders for monetary damages for a breach of fiduciary duty as a director, except for liability:

- o for any breach of such person's duty of loyalty;
- o for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law;
- o for the payment of unlawful dividends and some other actions prohibited by Delaware corporate law; and
- o for any transaction resulting in receipt by such person of an improper personal benefit.

The certificate of incorporation also provides that the directors shall be entitled to the benefits of all limitations on the liability of directors generally that now or hereafter become available under the DGCL.

The certificate of incorporation also contains provisions indemnifying our directors, officers and employees to the fullest extent permitted by the DGCL.

We maintain directors' and officers' liability insurance to provide our

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directors and officers with insurance coverage for losses arising from claims based on breaches of duty, negligence, error and other wrongful acts.

### RIGHTS AGREEMENT

Our board of directors adopted a Rights Agreement. Under the Rights Agreement:

- o our board of directors declared a dividend of one preferred stock purchase right (a "Right") for each outstanding share of our common stock; and
- o each Right entitles the registered holder a purchase from us one one-thousandth of a share of a new series of junior participating preferred stock, par value \$.001 per share (the "Junior Preferred Stock"), at a price to be determined by our board of directors, per one one-thousandth of a share (the "Purchase Price"), with adjustment.

The description and terms of the Rights are described in a Rights Agreement between us and the designated Rights Agent. The description presented below is intended as a summary only and is qualified in its entirety by reference to the Rights Agreement, a form of which has been filed as an exhibit to one of previous registration statements. See "Where You Can Find More Information".

The Rights are attached to all certificates representing outstanding shares of our common stock, and no separate Right Certificates were distributed. The Rights will separate from the shares of our common stock as soon as one of the following two events occur:

- o a public announcement that, without the prior consent of our board of directors, a person or group (an "Acquiring Person"), including any affiliates or associates of that person or group, acquired beneficial ownership of securities having 15% or more of the voting power of all our outstanding voting securities. Dancing Bear Investments, Michael S. Egan, certain other designated individuals or any entities controlled by these persons are not included in the definition of Acquiring Person; and
- o ten (10) business days, or a later date as our board of directors may determine, following the commencement of, or announcement of an intention that remains in effect for five (5) business days to make, tender offer or exchange offer that would result in any person or group becoming an Acquiring Person.

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We refer to the earlier of these dates as the "Distribution Date." The first date of public announcement that a person or group has become an Acquiring Person is the "Stock Acquisition Date."

Until the Distribution Date, Rights will be transferred with and only with the shares of our Common Stock. In addition, until the Distribution Date, or earlier redemption or expiration, of the Rights:

- o new common stock certificates issued upon transfer or new issuance of shares of common stock will contain a notation incorporating the Rights Agreement by reference; and
- o the surrender for transfer of any certificates for shares of common stock outstanding, even without a notation, will also constitute the



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transfer of the Rights associated with the shares of common stock represented by the certificate.

As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of the shares of common stock as of the close of business on the Distribution Date, and to each initial record holder of various shares of common stock issued after the Distribution Date. The separate Right Certificates alone will evidence the Rights. The Rights are not exercisable until the Distribution Date and will expire at 5:00 P.M., New York, New York time, on the tenth (10th) anniversary of the date of issuance, unless earlier redeemed by us as described below.

If any person becomes an Acquiring Person, except by a Permitted Offer as defined below, each holder of a Right will have, under the terms of the Rights Agreement, the right (the "Flip-In Right") to receive upon exercise the number of shares of common stock, or, in the discretion of our board of directors, the number of one-thousandths of a share of Junior Preferred Stock, or, in some circumstances, our other securities, having a value immediately before the triggering event equal to two times the Purchase Price. Notwithstanding the description above, following the occurrence of the event described above, all Rights that are, or generally were, beneficially owned by any Acquiring Person or any affiliate or associate of an Acquiring Person will be null and void.

A "Permitted Offer" is a tender or exchange offer for all outstanding shares of common stock which is at a price and on terms determined, before the purchase of shares under the tender or exchange offer, by a majority of Disinterested Directors, as defined below, to be adequate, taking into account all factors that the Disinterested Directors deem relevant, and otherwise in our best interests and our stockholders' best interest, other than the person or any affiliate or associate on whose behalf the offer is being made, taking into account all factors that the Disinterested Directors may deem relevant.

"Disinterested Directors" are our directors who are not our officers and who are not Acquiring Persons or affiliates or associates of Acquiring Persons, or representatives of any of them.

If, at any time following the Stock Acquisition Date,

- o we are acquired in a merger or other business combination transaction in which the holders of all of the outstanding shares of common stock immediately before the consummation of the transaction are not the holders of all of the surviving corporation's voting power; or
- o more than 50% of our assets or earning power is sold or transferred with or to an Interested Stockholder; or
- o if in the transaction all holders of shares of common stock are not offered the same consideration as any other person; then each holder of a Right, except Rights which previously have been voided as described above, shall afterwards have the right (the "Flip-Over Right") to receive, upon exercise, shares of common stock of the acquiring company having a value equal to two times the Purchase Price. The holders of a Right will continue to have the Flip-Over Right whether or not the holder exercises or surrenders the Flip-In Right.

The Purchase Price payable, and the number of one-thousandths of a share of Junior Preferred Stock or other securities issuable, upon exercise of the Rights may be adjusted from time to time to prevent dilution in the event of any one of the following:

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- o a stock dividend on, or a subdivision, combination or reclassification of, the shares of Junior Preferred Stock; the grant to holders of the shares of Junior Preferred stock of various rights or warrants to subscribe for or purchase shares of Junior Preferred Stock at a price;

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- o or securities convertible into shares of Junior Preferred Stock with a conversion price, less than the then current market price of the shares of Junior Preferred Stock; or
- o the distribution to holders of the shares of Junior Preferred Stock of evidences of indebtedness or assets, excluding regular quarterly cash dividends, or of subscription rights or warrants, other than those referred to above.

The Purchase Price payable, and the number of one-thousandths of a share of Junior Preferred Stock or other securities issuable, upon exercise of the Rights may also be adjusted in the event of a stock split of the shares of common stock, or a stock dividend on the shares of common stock payable in shares of common stock, or subdivisions, consolidations or combinations of the shares of common stock occurring, in any case, before the Distribution Date.

With some exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in the Purchase Price. No fractional one-thousandths of a share of Junior Preferred Stock will be issued and, instead, an adjustment in cash will be made based on the market price of the shares of Junior Preferred Stock on the last trading day before the date of exercise.

At any time before the earlier to occur of (1) a person becoming an Acquiring Person or (2) the expiration of the Rights, we may redeem the Rights in whole, but not in part, at a price of \$.001 per Right (the "Redemption Price"), which redemption shall be effective upon the action of our board of directors. Additionally, we may redeem the then outstanding Rights in whole, but not in part, at the Redemption Price at any one of the following times:

- o after the triggering of the Flip-In Right and before the expiration of any period during which the Flip-In Right may be exercised in connection with a merger or other business combination transaction or series of transactions involving us in which all holders of shares of our common stock are not offered the same consideration but not involving an Interested Stockholder, as defined in the Rights Agreement;
- o following an event giving rise to, and the expiration of the exercise period for, the Flip-In Right if and for as long as no person beneficially owns securities representing 15% or more of the voting power of our voting securities; and
- o when the Acquiring Person reduces his ownership below 5% in transactions not involving us.

The redemption of Rights described above shall be effective only as of the time when the Flip-In Right is not exercisable, and in any event, only after ten (10) business days' prior notice. Upon the effective date of the redemption of the Rights, the right to exercise the Rights will terminate and the only rights of the holders of Rights will be to receive the Redemption Price.

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The shares of Junior Preferred Stock purchasable upon exercise of the Rights will be nonredeemable and junior to any other series of preferred stock we may issue, unless otherwise provided in the terms of the stock. Each share of Junior Preferred Stock will have a preferential quarterly dividend in an amount equal to 1,000 times the dividend declared on each share of common stock, but in no event less than \$1.00. In the event of liquidation, the holders of Junior Preferred Stock will receive a minimum preferred liquidation payment equal to the greater of \$1.00 or 1,000 times the payment made per each share of common stock. Each share of Junior Preferred Stock will have 1,000 votes, voting together with the shares of common stock. In the event of any merger, consolidation or other transaction in which shares of common stock are exchanged, each share of Junior Preferred Stock will be entitled to receive 1,000 times the amount and type of consideration received per share of common stock. The rights of the Junior Preferred Stock as to dividends, liquidation and voting, and in the event of mergers and consolidations are protected by customary anti-dilution provisions. Fractional shares of Junior Preferred Stock will be issuable; however, we may elect to distribute depositary receipts in lieu of fractional shares. In lieu of fractional shares other than fractions that are multiples of one one-thousandth of a share, an adjustment in cash will be made based on the market price of the Junior Preferred Stock on the last trading date before the date of exercise.

Until a Right is exercised, the holder will have no rights as our stockholder, including, without limitation, the right to vote or to receive dividends. While the distribution of the Rights was not taxable to our stockholders, stockholders may, depending upon the circumstances, recognize taxable income should the Rights become exercisable or upon the occurrence of some subsequent events.

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The Rights have various anti-takeover effects. The Rights will cause substantial dilution to a person or group of persons that attempts to acquire us on terms not approved by our board of directors. The Rights should not interfere with any merger of other business combination approved by our board of directors before the time that a person or group has acquired beneficial ownership of fifteen percent (15%) or more of our Common Stock since the Rights may be redeemed by us at the Redemption Price until that time.

"Interested Stockholder" means any Acquiring Person or any of their affiliates or associates, or any other person in which an Acquiring Person or their affiliates or associates have in excess of five percent (5%) of the total combined economic or voting power, or any person acting in concert or on behalf of any Acquiring Person or their affiliates or associates.

### DELAWARE LAW AND VARIOUS CHARTER AND BY-LAWS PROVISIONS

DELAWARE LAW. We must comply with the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three (3) years after the date of the transaction in which the person becomes an interested stockholder, unless the business combination is approved in a prescribed manner.

A "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or, in some cases, within three (3) years prior, did own, fifteen percent (15%) or more of the corporation's voting stock. Under Section 203, a business combination between the Company and an interested stockholder is prohibited unless it satisfies one of the following three (3) conditions:

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- o our board of directors must have previously approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- o upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding, for purposes of determining the number of shares outstanding, shares owned by (1) persons who are directors and also officers and (2) employee stock plans, in some instances; and
- o the business combination is approved by our board of directors and authorized at an annual or special meeting of the stockholders by the affirmative vote of the holders of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

SPECIAL MEETINGS. Our by-laws provide that special meetings of stockholders for any purpose or purposes can be called only upon the request of our chairman of the board, our president, our board of directors, or the holders of shares entitled to at least a majority of the votes at the meeting.

AMENDMENT OF OUR BY-LAWS. To adopt, repeal, alter or amend the provisions of our by-laws, our by-laws require either the affirmative vote of the holders of at least a majority of the voting power of all of the issued and outstanding shares of our capital stock entitled to vote on the matter or by our board of directors.

ADVANCE NOTICE PROVISIONS FOR STOCKHOLDER NOMINATIONS AND PROPOSALS. Our by-laws establish advance notice procedures for stockholders to make nominations of candidates for election as directors, or bring other business before an annual meeting of our stockholders. These procedures provide that only persons who are nominated by or at the direction of our board of directors, or by a stockholder who has given timely written notice to our secretary before the meeting at which directors are to be elected, will be eligible for election as one of our directors. Further, these procedures provide that at an annual meeting, the only business that may be conducted is the business that has been specified in the notice of the meeting given by, or at the direction of, our board of by a stockholder who has given timely written notice to our secretary of such stockholder's intention to bring that business before the meeting.

Under these procedures, notice of stockholder nominations to be made or business to be conducted at an annual meeting must be received by us not less than 60 days nor more than 90 days before the date of the meeting, or, if less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to the stockholders, the 10th day following the earlier of (1) the day notice was mailed, or (2) the day public disclosure was made. Under these procedures, notice of a stockholder nomination to be made at a special meeting at which directors are to be elected must be received by us not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever occurs first.

Under our by-laws, a stockholder's notice nominating a person for election as a director must contain specific information about the proposed nominee and the nominating stockholder. If our chairman determines that a nomination was not

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made in the manner described in our by-laws, the nomination will be disregarded. Similarly, a stockholder's notice proposing the conduct of business must contain specific information about the business and about the proposing stockholder. If our chairman determines that business was not properly brought before the meeting in the manner described in our by-laws, the business will not be conducted.

By requiring advance notice of nominations by stockholders, our by-laws afford our board an opportunity to consider the qualifications of the proposed nominee and, to the extent deemed necessary or desirable by our board, to inform stockholders about these qualifications. By requiring advance notice of other proposed business, our by-laws also provide an orderly procedure for conducting annual meetings of stockholders and, to the extent deemed necessary or desirable by our board, provides our board with an opportunity to inform stockholders, before meetings, of any business proposed to be conducted at the meetings, together with any recommendations as to our board's position regarding action to be taken with respect to the business, so that stockholders can better decide whether to attend a meeting or to grant a proxy regarding the disposition of any business.

Although our certificate does not give our board any power to approve or disapprove stockholder nominations of the election of directors or proposals for action, the foregoing provisions may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal, without regard to whether consideration of these nominees or proposals might be harmful or beneficial to us and our stockholders.

### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

### VALIDITY OF SECURITIES

Proskauer Rose LLP will pass on the validity of the common stock offered under this prospectus for the Company.

### EXPERTS

The consolidated financial statements of theglobe.com are included herein and in the registration statement in reliance upon the report of Rachlin Cohen & Holtz LLP, independent registered public accounting firm, and upon the authority of said firm as experts in accounting and auditing.

### DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Section 145 of the Delaware General Corporation Law ("DGCL") provides that, to the extent a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding, whether civil, criminal, administrative or investigative or in defense of any claim, issue, or matter therein (hereinafter a "Proceeding"), by reason of the fact that person is or was a director, officer, employee or agent of a corporation or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise (collectively an "Agent" of the corporation) that person shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith.

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The DGCL also provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened Proceeding by reason of the fact that person is or was an Agent of the corporation, against expenses (including attorney's fees), judgment, fines and amounts paid in settlement actually and reasonably incurred by that person in connection with such action, suit or proceeding if that person acted in good faith and in a manner that person reasonably believed to be in, or not opposed to, the best interest of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that person's conduct was unlawful; provided, however, that in an action by or in the right of the corporation, the corporation may not indemnify such person in respect of any claim, issue, or matter as to which that person is adjudged to be liable to the corporation unless, and only to the extent that, the Court of Chancery or the court in which such proceeding was brought determined that, despite the adjudication of liability but in view of all the circumstances of the case, such person is reasonably entitled to indemnity.

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Article VI of the By-laws requires the Company to indemnify any person who was or is a party or is threatened to be made a party to or is involved (including, without limitation, as a witness) in any threatened, pending or completed action, suit, arbitration, alternative dispute mechanism, investigation, administrative hearing or any other proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) brought by reason of the fact that he or she is or was a director or officer of the Company, or, while a director or officer of the Company, is or was serving at the request of the Company as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefits plan against expenses (including attorneys' fees, judgments, fines, excise taxes under the Employee Retirement Income Security Act of 1974, penalties and amounts paid in settlement) incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Article VI of the Company's Fourth Amended and Restated Certificate of Incorporation (the "Certificate") provides that to the fullest extent that the DGCL, as it now exists or may hereafter be amended, permits the limitation or elimination of the liability of directors, a director of the Company shall not be liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director.

The Company has entered into indemnification agreements with certain of its directors and officers. These agreements provide, in general, that the Company will indemnify such directors and officers for, and hold them harmless from and against, any and all amounts paid in settlement or incurred by, or assessed against, such directors and officers arising out of or in connection with the service of such directors and officers as a director or officer of the Company or its Affiliates (as defined therein) to the fullest extent permitted by Delaware Law.

The Company maintains directors' and officers' liability insurance which provides for payment, on behalf of the directors and officers of the Company and its subsidiaries, of certain losses of such persons (other than matters uninsurable under law) arising from claims, including claims arising under the Securities Act, for acts or omissions by such persons while acting as directors

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or officers of the Company and/or its subsidiaries, as the case may be.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that, in the opinion of the Commission, such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

### DESCRIPTION OF BUSINESS

As of September 2005, theglobe.com, inc. (the "Company" or "theglobe") managed four primary lines of business. One line of business, Voice over Internet Protocol ("VoIP") telephony services, includes voiceglo Holdings, Inc., a wholly-owned subsidiary of theglobe that offers VoIP-based phone services and features. The term VoIP refers to a category of hardware and software that enables people to use the Internet to make phone calls. The second line of business consists of our historical network of three wholly-owned businesses, each of which specializes in the games business by delivering games information and selling games in the United States and abroad. These businesses are: our print publication business, which consists of Computer Games and Now Playing magazines; our online website business, which consists of our Computer Games Online website ([www.cgonline.com](http://www.cgonline.com)) and our Now Playing Online website ([www.nowplayingmag.com](http://www.nowplayingmag.com)), which are the online counterparts to our magazine publications; and our Chips & Bits, Inc. ("Chips & Bits") games distribution company ([www.chipsbits.com](http://www.chipsbits.com)). We entered into a third line of business, marketing services, on September 1, 2004, with our acquisition of SendTec, Inc. ("SendTec"), a direct response marketing services and technology company. On May 9, 2005, the Company entered into a fourth line of business when it exercised its option to acquire Tralliance Corporation ("Tralliance"), a company which had recently entered into an agreement to become the registry for the ".travel" top-level Internet domain.

During 2002 and 2003, the Company's computer games business segment provided 100% and 90%, respectively, of our consolidated net revenue. In 2004, our SendTec business, which comprises our marketing services business segment, and our computer games business segment provided 78% and 19% of consolidated net revenue, net of intersegment eliminations, respectively. As of September 2005, the Company's revenue continues to be derived principally from the operations of SendTec, and to a lesser extent from the operations of our computer games related businesses. Our VoIP products and services have yet to produce any significant revenue. Tralliance does not expect to begin generating revenue until sometime during the fourth quarter of 2005.

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During the first quarter of 2005, management began actively re-evaluating the Company's primary business lines, particularly in view of the Company's critical need for cash and the overall net losses of the Company. As a result, management is currently exploring a number of strategic alternatives for the Company and/or its businesses, including continuing to operate the businesses, selling certain businesses or assets, or entering into new lines of businesses.

### HISTORICAL OVERVIEW

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 experiences 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

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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 continues to operate its Computer Games print magazine and the associated website Computer Games Online ([www.cgonline.com](http://www.cgonline.com)), as well as the games distribution business of Chips & Bits, Inc. ([www.chipsbits.com](http://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 and is now pursuing opportunities related to this acquisition. 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 February 25, 2003, theglobe.com entered into a Loan and Purchase Option Agreement, as amended, with Tralliance, an Internet related business venture, pursuant to which it agreed to fund, in the form of a loan, at the discretion of the Company, Tralliance's operating expenses and obtained the option to acquire all of the outstanding capital stock of Tralliance in exchange for, when and if exercised, \$40,000 in cash and the issuance of an aggregate of 2,000,000 unregistered restricted shares of theglobe's Common Stock (the "Option"). On May 5, 2005, Tralliance and the Internet Corporation for Assigned Names and Numbers ("ICANN") entered into an agreement designating Tralliance as the registry for the ".travel" top-level domain. On May 9, 2005, the Company exercised its option to acquire all of the outstanding capital stock of Tralliance. 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. The warrants are exercisable for a period of five years at an exercise price of \$0.11 per share. The Common Stock issued as a result of the acquisition of Tralliance is entitled to certain "piggy-back" registration rights.

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 transaction included an earn-out arrangement whereby the former stockholders of DPT may earn additional warrants to acquire up to 2,750,000 shares of the Company's Common Stock at an exercise price of \$0.72 per share upon the attainment of certain performance targets by DPT over approximately a three year period following the date of acquisition. The performance targets for the first 500,000 of these earn-out warrants were not achieved and expired on March 31, 2004. An additional 750,000 of the warrants were forfeited effective March 31, 2005, as performance targets for the second of the three year periods were not achieved. Subject to certain qualifications, the warrants will accelerate and be deemed earned in the event of a "change in control" of the Company, as defined in the acquisition documents.

DPT was a specialized international communications carrier providing VoIP communications services to emerging countries. The DPT network had provided "next generation" packet-based telephony and value added data services to carriers and businesses in the United States and internationally. 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. As a result, the Company wrote off the goodwill associated with the purchase of DPT and has since employed these physical assets in the build out of the retail VoIP network.



On September 1, 2004, the Company closed upon an Agreement and Plan of Merger dated August 31, 2004, pursuant to which the Company acquired all of the issued and outstanding shares of capital stock of SendTec, a direct response marketing services and technology company. Pursuant to the terms of the Merger, in consideration for the acquisition of SendTec, theglobe paid consideration consisting of: (i) \$6,000,000 in cash, excluding transaction costs, (ii) the issuance of an aggregate of 17,500,024 shares of theglobe's Common Stock, (iii) the issuance of an aggregate of 175,000 shares of Series H Automatically Converting Preferred Stock (which as more fully described below, was subsequently converted into approximately 17,500,500 shares of theglobe's Common Stock), and (iv) the issuance of a subordinated promissory note in the amount of \$1 million. In addition, warrants to acquire shares of the Company's Common Stock would be issued to the former shareholders of SendTec when and if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending December 31, 2005. The number of earn-out warrants would range from an aggregate of approximately 250,000 to 2,500,000 (if actual operating income exceeds the forecast by at least 10%). If and to the extent the warrants are earned, the exercise price of the performance warrants would be \$0.27 per share and they will be exercisable for a period of five years. The Company also issued an aggregate of approximately 4,000,000 replacement options to acquire theglobe's Common Stock for each of the issued and outstanding options to acquire SendTec shares held by the former employees of SendTec. The subordinated promissory note bears interest at the rate of 4% per annum and matured in one lump sum of principal and interest on September 1, 2005. Due to its short-term liquidity problems, the Company did not pay such promissory note when due, and it went into default under the promissory note on September 6, 2005. The note bears interest at the rate of 15% per annum while in default and the Company is obligated to pay the noteholders' collection costs, if any.

Each share of the Series H Preferred Stock was automatically converted into 100 shares of theglobe's Common Stock on December 1, 2004, the effective date of the amendment to the Company's certificate of incorporation increasing its authorized shares of Common Stock from 200,000,000 shares to 500,000,000 shares.

#### OUR LINES OF BUSINESS

##### OUR VOIP TELEPHONY BUSINESS

The use of the Internet to provide voice communications services is becoming more prevalent as new providers enter the market and the technology becomes more accepted. According to Insight Research, VoIP-based services will grow from \$13.0 billion in 2002 to nearly \$197.0 billion in 2007. VoIP technology translates voice into data packets, transmits the packets over data networks and reconverts them into voice at their destination. Unlike traditional telephone networks, VoIP does not require dedicated circuits to complete telephone calls. Instead, VoIP networks can be shared by multiple users for voice, data and video simultaneously. These types of data networks are more efficient than dedicated circuit networks because they are not restricted by "one-call, one-line" limitations of traditional telephone networks. Accordingly, improved efficiency creates cost savings that can be passed on to the consumer in the form of lower rates.

##### Development of our VoIP Business.

On November 14, 2002, we entered the VoIP business by acquiring certain software assets from Brian Fowler. Today those assets serve as the foundation of the retail VoIP products and services that we provide to our customers.

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On May 28, 2003, the Company acquired DPT, a company engaged in VoIP wholesale telephony services. At the time we acquired DPT, it was a specialized international communications carrier providing wholesale VoIP communications services to emerging countries. In the first quarter of 2004, we decided to suspend DPT's wholesale business and dedicate the DPT physical and intellectual assets to our retail VoIP 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 allow consumers and enterprises to communicate using VoIP technology for dramatically reduced pricing compared to traditional telephony networks. The services also offer traditional telephony features such as voicemail, caller ID, call forwarding, and call waiting for no additional cost to the consumer, as well as incremental services that are not currently 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 enables users to chat via voice or text across multiple platforms using their preferred instant messenger service. Additionally, during the second quarter of 2005, the Company released a number of new VoIP products and features which allow users to communicate via mobile phones, traditional land line phones and/or computers.

The Company now provides the following VoIP services, on a retail basis, to individual consumers and businesses:

- o Browser-Based - full functioning voice and messaging capabilities that reside on the computer desktop and also include web-based solutions. The only system requirements are a browser and an Internet connection. The Company is seeking various patents to protect its position. The browser-based products work on broadband, dial-up and wi-fi Internet connections and can optionally be used with a USB phone or other peripheral devices.

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- o Hardware-Based - a long-distance or phone line replacement service. Requires an Internet connection and can optionally be used with an adapter or regular, cellular, wi-fi or USB phone directly over a user's computer if desired. The service works on broadband, dial-up and wi-fi Internet connections.

The Company's retail VoIP products are provided under various tradenames including "voiceglo", "GloPhone" and "tglo". Customers choose their levels of service from a number of available packages and complete online registrations and credit card payment transactions via websites maintained by the Company. The Company's browser-based plans require the customers to download a simple "plug-in" to their browsers to enable voice and messaging communications. Certain of the Company's hardware-based plans require the customer to either register the phones (and phone numbers) that the customer will be using and/or to purchase and install certain peripheral equipment such as adapters or bridge devices prior to activating service.

Sales and Marketing.

The Company is continuing to develop its future product sales and distribution strategy, which is primarily focused on promoting the new products and features that were released in the second quarter of 2005. The Company intends to market its services through both direct and indirect retail sales channels, primarily through Internet advertising, structured customer referral programs and partnerships with established third party retailers.

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Development of our Network and Carrier Relationships; Equipment Suppliers.

In order to offer our services we have invested substantial time, capital and other resources on the development of our VoIP network. Our VoIP network is comprised of switching hardware and software, servers, billing and inventory systems, and telecommunication carrier services. We own and operate VoIP equipment located in leased data center facilities in Miami, New York, Atlanta and Boston, and interconnect these switches utilizing a leased transport network through numerous carrier agreements with third party providers. Through these carrier relationships we are able to carry the traffic of our customers over the Internet and interact with the PSTN. These carrier relationships also provide the Company with a leased network for telephone numbers, or "footprint," in more than 100 area codes in approximately 34 states. The network also provides for both domestic and international call termination. We generally enter into one year agreements with these data centers and carriers, with the terms of several agreements extending to three to five years. The capacity of our VoIP network, presently greatly exceeds the current level of customer demand and usage. The Company has been successful in recently terminating substantially all of the minimum usage requirement commitments for which it was previously obligated under certain of its carrier agreements. Additionally, the Company is currently negotiating to reduce the amounts payable during 2005 for other network data center and carrier circuit interconnection services.

Research and Development.

Internet telephony is a technical service offering. As a technology, basic VoIP service, although complex, is well-understood and has been adapted by many companies that are selling basic services to consumers and businesses worldwide. The Company, however, believes that in order to be competitive and differentiate itself among its peers, it must continuously upgrade its service offering. To that end, the Company is engaged in a program of continuous development of its products. Since the initial launch of its VoIP service, the Company has introduced a number of new features which have increased the functionality of its products and has plans to introduce additional new products and features in the future.

OUR COMPUTER GAMES BUSINESS

Computer Games Magazine and Now Playing Magazine

- As a leading consumer print publication for games, Computer Games magazine boasts: a reputation for being a reliable, trusted, and engaging games magazine; more editorial, tips and hints than most other similar magazines; a knowledgeable editorial staff providing increased editorial integrity and content; and, broad-based editorial coverage, appealing to a wide audience of gamers.

- 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 covers movies, DVD's, television, music, games, comics and anime, and is designed to fulfill the wider pop culture interests of our current readers and to attract a more diverse group of advertisers; autos, television, telecommunications and film to name a few.

Computer Games Online

Computer Games Online ([www.cgonline.com](http://www.cgonline.com)) is the online counterpart to Computer Games magazine.

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Computer Games Online is a source of free computer games news and information for the sophisticated gamer, featuring news, reviews and previews.

- Features of Computer Games Online include: game industry news; truthful, concise reviews; first looks, tips and hints; multiple content links; thousands of archived files; and easy access to game buying.

### Now Playing Online

Now Playing Online ([www.nowplayingmag.com](http://www.nowplayingmag.com)) is the online counterpart for Now Playing magazine. Now Playing Online provides free, up-to-date entertainment news and information for the pop culture consumer.

- Features of Now Playing Online include: industry news in music, movies and games; reviews of concerts, movies and DVDs; and exclusive video interviews by Now Playing writers done with well-known Hollywood stars.

### Chips & Bits

Chips & Bits ([www.chipsbits.com](http://www.chipsbits.com)) is a games distribution business that attracts customers in the United States and abroad. Chips & Bits covers all the major game platforms available, including Macintosh, Window-based PCs, Sony PlayStation, Sony PlayStation2, Microsoft's Xbox, Nintendo 64, Nintendo's GameCube, Nintendo's Game Boy, and Sega Dreamcast, among others.

### Advertising.

During the years ended December 31, 2004 and 2003, no single advertiser accounted for more than 10% of total net revenue from our computer games division. For the twelve months ended December 31, 2004, 42 clients advertised in our Computer Games magazine. Following a series of cost reduction measures and restructuring, we currently have an internal advertising sales staff of two account executives, both of whom are dedicated to selling advertising space in our Computer Games and Now Playing print magazines and online. Although these professionals focus on developing long-term strategic relationships with clients as they sell advertisements in our Computer Games print magazine, most of our actual advertising contracts are for periods of one to three months.

### OUR MARKETING SERVICES BUSINESS

On September 1, 2004, the Company acquired SendTec, a direct response marketing services and technology company. SendTec provides clients a complete offering of direct marketing products and services to help their clients market their products both on the Internet ("online") and through traditional media channels such as television, radio and print advertising ("offline"). By utilizing SendTec's marketing products and services, SendTec's clients seek to increase the effectiveness and the return on investment of their advertising campaigns. SendTec's online and offline direct marketing products and services include strategic campaign development, creative development, creative production and post-production, media buying and tracking, campaign management, campaign analysis and optimization, technology systems implementation and integration for campaign tracking and many other agency type services. In addition, SendTec has a suite of technology solutions, Results, Optimization, Yield ("ROY"), SendTec Optimization and Reporting ("SOAR") and iFactz, which enable it to deliver, track, and optimize direct marketing campaigns across multiple distribution channels, including television, radio, direct mail, print and the Internet. The combination of SendTec's direct marketing capabilities, technology and experience in both online and offline marketing, enable its clients to optimize their advertising campaigns across a broad spectrum of advertising mediums. SendTec is organized into two primary product line divisions, the DirectNet Advertising Division and the Creative South Division. Additionally, its

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proprietary iFactz technology provides software tracking solutions that benefit both the DirectNet Advertising and Creative South businesses.

A substantial portion of SendTec's revenue is derived from a limited number of customers. During the first half of 2005, two customers of SendTec accounted for approximately 45% of SendTec's total net revenue and during the four months ended December 31, 2004, two customers of SendTec accounted for approximately 52% of SendTec's total net revenue. Two of SendTec's customers, Sureclick Promotions LLC and DDB Worldwide Communications Group, Inc., each accounted for greater than 10% of the Company's consolidated net revenue for the year ended December 31, 2004. For the six months ended June 30, 2005, SendTec customers who individually comprised over 10% of the Company's consolidated net revenue included Sureclick Promotions LLC and RealNetworks, Inc. The loss of any one or more of these customers could have a material adverse effect on SendTec's business.

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We are currently under contract to sell the SendTec business. See the "Recent Events" section for additional information on the proposed transaction.

### DirectNet Advertising (DNA)

DNA is the digital marketing services division of SendTec. DNA offers a variety of products and services that enable online advertisers and publishers to generate performance based results through online marketing channels such as, web advertising, e-commerce up-sells, affiliate marketing, search marketing and email marketing. DNA's broad range of products and services include creative strategy and execution, strategic offer development, production planning, media planning, media buying and search optimization. Through these products and services DNA's clients can address all aspects of the marketing continuum, from strategic planning through execution, including results management and campaign refinements. DNA's proprietary technologies, including its ROY online tracking software, allow advertisers and publishers to track, report and optimize online campaign activity all the way to the "conversion level" (which means a consumer's actual response to the offer, as for example, by making a purchase). DNA's knowledge of digital advertising strategies, targeting methods, media placements and creative executions combined with its innovative and dependable technology help DNA's clients to improve their advertising performance and return on investment.

### Creative South

Creative South is the creative strategy, production and media buying division of SendTec. Creative South services both online and offline clients of SendTec, and its production capabilities cover a range of distribution media including television, radio, direct mail, print and digital. Creative South has developed, produced and distributed numerous direct response television campaigns for clients and has received national awards for its creative and production work. Creative South maintains in-house two state-of-the-art non-linear digital video editing suites. Creative South's production department includes experienced directors, producers and editors on staff. Creative South's media buying department provides a full range of services including strategic media planning, media trafficking, media buying, media tracking and post-buy media and financial analysis. Creative South's media buying department has executed media buying assignments for all types of television (broadcast and cable), radio and print formats and Creative South's long time relationships with its media partners have enabled SendTec to provide its clients competitive media prices.

iFactz

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iFactz is SendTec's Application Service Provider or "ASP" technology that tracks and reports the online responses that are generated from offline direct response advertising. Historically, advertisers have lacked the ability to accurately track which offline advertising yields results online and thus advertisers have been unable to properly optimize their media buys. iFactz intelligently tracks and reports web activity from all offline advertising - TV (even national cable), radio, print and direct mail - in real time. iFactz's Intelligent Sourcing(TM) is a patent-pending media technology that informs the user where online customers come from, and what corresponding activity they produced on the user's website. The iFactz patent was filed in November of 2001 and SendTec expects the patent application for iFactz to be reviewed during 2005. iFactz's ASP design enables advertisers to implement and access the technology in a timely and cost efficient manner, as there are no cumbersome, time-consuming and costly implementation expenses and lead times. iFactz is licensed to clients both as a stand alone technology solution and as part of an overall campaign offering.

### OUR INTERNET SERVICES BUSINESS

Tralliance, headquartered in New York City, 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 registry for the ".travel" top-level domain for a period of ten years. Effective May 9, 2005, theglobe exercised its option to purchase Tralliance.

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As the registry for the ".travel" top-level domain, Tralliance will be responsible for the administration and maintenance of the master directory and database of all second-level ".travel" domain names. In addition, Tralliance will be offering, free of charge, to all ".travel" top-level domain registrants the ".travel" directory, a global online source of travel data organized according to a unique vocabulary for the travel industry. Tralliance has outsourced or is planning to outsource to third parties many of the processes required to operate as the ".travel" registry. Expected to launch in the 2005 fourth quarter, the full introduction of ".travel" will be preceded by a start up period for limited registration of pre-authenticated ".travel" registrants during the third quarter of 2005. Tralliance does not expect to begin collecting fees from ".travel" registrars for its services until sometime in the fourth quarter 2005.

### COMPETITION

#### VoIP Telephony Business

The telecommunications industry has experienced a great deal of instability during the past several years. During the 1990s, forecasts of very high levels of future demand brought a significant number of new entrants and new capital investments into the industry. New global carriers were joined by many of the largest traditional carriers and built large global or regional networks to compete with the global wholesalers. However, in the last several years many of the new global carriers and many industry participants have either gone through

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bankruptcy or no longer exist. The networks were built primarily to meet the expected explosion in bandwidth demand from data, with specific emphasis upon Internet applications. Those forecasts have not materialized, telecommunications capacity now far exceeds actual demand, and the resulting marketplace is characterized by fierce price competition as traditional and next generation carriers compete to secure market share. Resulting lower prices have eroded margins and have kept many carriers from attaining positive cash flow from operations.

During the past several years, a number of companies have introduced services that make Internet telephony or voice services over the Internet available to businesses and consumers. All major telecommunications companies, including entities like AT&T, Verizon, Sprint and MCI, as well as iBasis, Net2Phone and deltathree, compete or can compete directly with us. A number of cable operators have also begun to offer VoIP telephony services via cable modems which provide access to the Internet.

Our competitors can be divided into domestic competitors and international competitors. The international market is highly localized. In markets where telecommunications have been fully deregulated, the competition continues to increase. In newly deregulated markets even new entrants to the VoIP space can rapidly capture significant market share. Competitors in these markets include both government-owned and incumbent phone companies, as well as emerging competitive carriers. The principle competitive factors in this marketplace include: price, quality of service, distribution, customer service, reliability, network capacity, and brand recognition. The long distance market in the United States is highly competitive. There are numerous competitors in the pure play VoIP space and we expect to face continuing competition from these existing, as well as new, competitors. The principal competitive factors in the marketplace include those identified above, as well as enhanced communications services. Our competitors include VoIP services companies such as Net2Phone, Skype, Vonage, Go2Call and deltathree.

Many of our competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater brand recognition and more established relationships in the industry than we have. As a result, certain of these competitors may be able to adopt more aggressive pricing policies which may hinder our ability to market our voice services.

### Computer Games Business

Competition among games print magazines is high. We compete for advertising and circulation revenues principally with publishers of other technology and games magazines with similar editorial content as our magazines. The technology magazine industry has traditionally been dominated by a small number of large publishers. We believe that we compete with other technology and games publications based on the nature and quality of our magazines' editorial content and the attractive demographics of our readers.

The computer games marketplace has become increasingly competitive due to acquisitions, strategic partnerships and the continued consolidation of a previously fragmented industry. In addition, an increasing number of major retailers have increased the selection of video games offered by their traditional "bricks and mortar" locations and their online commerce sites, resulting in increased competition.

### Marketing Services Business

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The direct response advertising market is highly competitive. We compete with a variety of large and small advertising agencies but our primary competitors are interactive marketing companies such as ValueClick, aQuantive, Advertising.com and Performics. Currently, the online performance based advertising market in which we compete is still evolving and it is expected that certain government regulations may be implemented to better define acceptable practices and methodologies.

Many current and potential competitors have advantages over us, such as longer operating histories, greater name recognition, larger client bases, greater access to advertising space on high-traffic websites and significantly greater financial, technical and marketing resources. In addition, existing or future competitors may develop or offer services that provide significant performance, price, creative or other advantages over those offered by us.

Current and potential competitors may establish cooperative relationships among themselves or with third parties to increase the ability of their products and services to address the needs of our clients and prospective clients. As a result it is possible that new competitors may emerge and rapidly acquire significant market share. If we fail to compete effectively against other advertising service companies, we could lose clients or advertising inventory and our revenue could decline. We expect competition to continue to increase because there are no significant barriers to entry.

Our Results, Optimization, Yield ("ROY") online tracking software provides the Company with a unique competitive advantage by enabling us to optimize campaigns and by enabling advertising clients and distribution partners to access real-time conversion information. Additionally, our iFactz software provides an excellent complementary platform for our ROY tracking software and enables us to offer a complete technology tracking solution for online and offline direct response marketing. We believe that iFactz currently provides SendTec with a significant competitive advantage in its marketing services business and we are not aware of any similar technologies available in the market today.

Historically, a high percentage of SendTec's marketing services revenue has been generated from a few major customers. We believe that a limited number of clients will continue to be the source of a substantial portion of SendTec's marketing services revenue for the foreseeable future. Key factors in maintaining SendTec's relationships with these clients include SendTec's performance on individual campaigns, the strength of SendTec's professional reputation and the relationships of SendTec's key executives with client personnel. To the extent that SendTec's performance does not meet client expectations, or SendTec's reputation or relationships with one or more major clients are impaired, SendTec's marketing services revenue could decline and its operating results could be adversely affected.

### INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

We regard substantial elements of our websites and underlying technology as proprietary. In addition, we have developed in our VoIP business and direct response marketing business certain technologies which we believe are proprietary. Further, we are investigating other opportunities and are seeking to develop additional proprietary technology. We attempt to protect these assets by relying on intellectual property laws. We also generally enter into confidentiality agreements with our employees and consultants and in connection with our license agreements with third parties. We also seek to control access to and distribution of our technology, documentation 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. We pursue the registration of our trademarks in the United States and internationally. We are



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also currently pursuing patent protection for certain of our VoIP technologies, including certain technology related to our linkage of a telephone number to an IP address and our browser to telephone interface, and for SendTec's direct response marketing business' iFactz Intelligent Sourcing(TM) media technology.

Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our services are made available through the Internet. Policing unauthorized use of our proprietary information is difficult. Existing or future trademarks or service marks applied for or registered by other parties and which are similar to ours may prevent us from expanding the use of our trademarks and service marks into other areas. Enforcing our patent rights could result in costly litigation. Our patent applications could be rejected or any patents granted could be invalidated in litigation. Should this happen, we may lose a significant competitive advantage. Additionally, our competitors or others could be awarded patents on technologies and business processes that could require us to significantly alter our technology, change our business processes or pay substantial license and royalty fees.

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### GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES

#### In General

We are subject to laws and regulations that are applicable to various Internet activities. There are an increasing number of federal, state, local and foreign laws and regulations pertaining to the Internet and telecommunications, including Voice over Internet Protocol ("VoIP"). In addition, a number of federal, state, local and foreign legislative and regulatory proposals are under consideration. Laws or regulations have been and may continue to be adopted with respect to the Internet relating to, among other things, fees and taxation of VoIP telephony services, 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, including public safety issues like enhanced 911 emergency service ("E911"), the Communications Assistance for Law Enforcement Act ("CALEA"), 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 traditional telephony, and otherwise harm our business.

Currently, decisions of the U.S. Supreme Court restrict the imposition of obligations to collect state and local sales and use taxes with respect to electronic commerce. However, a number of states, as well as the U.S. Congress, have been considering various initiatives that could limit or supersede the Supreme Court's position regarding sales and use taxes on electronic commerce. If any of these initiatives addressed the Supreme Court's constitutional concerns and resulted in a reversal of its current position, we could be required to collect sales and use taxes. The imposition by state and local governments of various taxes upon electronic commerce could create administrative burdens for us and could adversely affect our VoIP business

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operations, and ultimately our financial condition, operating results and future prospects.

Regardless of the type of state tax imposed, the threshold issue involving state taxation of any transaction is always whether sufficient nexus, or contact, exists between the taxing entity and the taxpayer or the transaction to which the tax is being applied. The concept of nexus is constantly changing and no bright line exists that would sufficiently alert a business as to whether it is subject to tax in a specific jurisdiction. All states which have attempted to tax Internet access or online services have done so by asserting that the sale of such telecommunications services, information services, data processing services or other type of transaction is subject to tax in that particular state.

A handful of states impose taxes on computer services, data processing services, information services and other similar types of services. Some of these states have asserted that Internet access and/or online information services are subject to these taxes.

Most states have telecommunications sales or gross receipts taxes imposed on interstate calls or transmissions of data. A sizable minority tax only intrastate calls. Although these taxes were enacted long before the birth of electronic commerce and VoIP, several states have asserted that Internet access and/or online information services are subject to these taxes.

For example, in the 2005 Florida legislative session, Florida incorporated into the tax imposed by Chapter 202, Florida Statutes, (the Communications Services Tax) language which establishes tax nexus in Florida for VoIP. The Florida legislature inserted this language to protect the scope of the tax base for the Communications Services Tax. The language could have the effect of imposing the Communications Services Tax on VoIP services not based in the state of Florida.

The Florida legislature borrowed the language that it used to amend the Florida Statute from the national Streamlined Sales Tax Project. This project is being touted by many states as a proposed tax simplification plan. If adopted by other states, the language included in the Florida law could have a far reaching effect in many states in the United States.

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 or VoIP telephony services, may impose additional burdens on electronic commerce or may alter how we do business.

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New laws and regulations may increase our costs of compliance and doing business, decrease the growth in Internet use, decrease the demand for our services or otherwise have a material adverse effect on our business.

### VoIP Regulation

The use of the Internet and private IP networks to provide voice services over the Internet is a relatively recent market development. Although the provision of such services is currently permitted by United States federal law and largely unregulated within the United States, several foreign governments have adopted

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laws and/or regulations that could restrict or prohibit the provision of voice communications services over the Internet or private IP networks.

### Federal Communications Commission Regulation

In the United States, the Federal Communications Commission (the "FCC") has so far declined to make a general conclusion that all forms of VoIP services constitute telecommunications services (rather than information services). The FCC's Internet Policy Working Group was established to assist the FCC in identifying, evaluating, and addressing policy issues that will arise as traditional telecommunications services migrate to Internet based platforms. The FCC has held a forum on VoIP to study and discuss issues including regulatory classification and has held two solutions summits regarding VoIP: the first solutions summit focused on VoIP solutions for E911 issues and the second solutions summit focused on VoIP solutions for disability access issues.

On March 10, 2004, the FCC released its IP-Enabled Services Notice of Proposed Rulemaking which included guidelines and questions upon which it is seeking public comment to determine what regulation, if any, will govern companies that provide VoIP services. Specifically, the FCC has expressed an intention to further examine the question of whether certain forms of phone-to-phone VoIP services are information services or telecommunications services. The two classifications are treated differently in several respects, with certain information services being regulated to a lesser degree than telecommunications services. The FCC has noted that certain forms of phone-to-phone VoIP services bear many of the same characteristics as more traditional voice telecommunications services and lack the characteristics that would render them information services. The FCC has indicated that the mechanisms for contributing to the Universal Service Fund, issues as to applicability of access charges and other matters will be considered in that context.

On March 10, 2004, (on the same day that the FCC released its IP-Enabled Services Notice of Proposed Rulemaking), in a response to a petition by Pulver.com which sought a declaration that Pulver.com's Free World Dialup ("FWD") is neither telecommunications nor a telecommunications service, the FCC ruled that Pulver.com's FWD offering is an unregulated information service subject to the FCC's jurisdiction. The ruling specifically does not address whether traditional phone regulations might apply to VoIP services in which end users interconnect with the traditional telephone system.

In April 2004, in response to a petition by AT&T which sought a declaration to preclude local exchange carriers from imposing access charges on certain AT&T "phone-to-phone" IP telephony services the FCC ruled that the service that AT&T described is a telecommunications service upon which interstate access charges may be assessed. However, the FCC emphasized that its decision is limited to the type of service described by AT&T in that proceeding, i.e., an interexchange service that: (1) uses ordinary customer premises equipment (CPE) with no enhanced functionality; (2) originates and terminates on the public switched telephone network (PSTN); and (3) undergoes no net protocol conversion and provides no enhanced functionality to end users due to the provider's use of IP technology.

In November 2004, the FCC issued a Memorandum Opinion and Order ("MO&O") which preempted an order of the Minnesota Public Utilities Commission applying its traditional telephone company regulations to Vonage's DigitalVoice service, which provides VoIP service and other communications capabilities. The FCC issued this MO&O in response to a petition that Vonage filed with the FCC. The FCC concluded that the DigitalVoice service cannot be separated into interstate and intrastate communications for compliance with Minnesota's requirements without negating valid federal policies and rules. In so doing, the FCC clarified that it, not the state commissions, has the responsibility and obligation to decide whether certain regulations apply to DigitalVoice and other

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IP-enabled services having the same capabilities. The FCC stated that for such services, comparable regulations of other states must likewise yield to important federal objectives. However, in this MO&O, the FCC did not express an opinion on the applicability to Vonage of Minnesota's general laws governing entities conducting business within Minnesota, such as laws concerning taxation; fraud; general commercial dealings; and marketing, advertising, and other business practices. The FCC stated that it expects that as it moves forward in establishing policies and rules for DigitalVoice and other IP-enabled services, states will continue to play their vital role in protecting consumers from fraud, enforcing fair business practices, for example, in advertising and billing, and generally responding to consumer inquiries and complaints.

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At the same time as Vonage filed its petition with the FCC, it filed a lawsuit in the district court in Minnesota against the Minnesota Public Utilities Commission ("Minnesota Commission") to challenge the Minnesota Commission's order asserting regulatory jurisdiction over Vonage and ordering Vonage to comply with all state statutes and regulations relating to the offering of telephone service in Minnesota. In October 2003, the district court entered a permanent injunction in favor of Vonage. In January 2004, the court denied a motion by the Minnesota Commission for reconsideration, and an appeal to the U.S. Court of Appeals for the Eighth Circuit is pending. However, other states are not bound by this decision and may reject the VoIP operator's position and may seek to subject us to regulation.

If the FCC or any state determines to regulate VoIP, they may impose surcharges, taxes, licensing or additional regulations upon providers of VoIP. These surcharges could include access charges payable to local exchange carriers to carry and terminate traffic, contributions to the Universal Service Fund or other charges. In August 2004, the FCC issued a Notice of Proposed Rulemaking in which it tentatively concluded that providers of VoIP services that the Department of Justice, Federal Bureau of Investigation, and Drug Enforcement Agency (collectively, "Law Enforcement") characterize as "managed" or "mediated" are subject to the CALEA as telecommunications carriers under the "Substantial Replacement Provision." The Substantial Replacement Provision describes the unique definition of "telecommunications carrier" in CALEA to include entities that provide "a replacement for a substantial portion of the local telephone exchange service." Law Enforcement describes managed or mediated VoIP services as those services that offer voice communications calling capability whereby the VoIP provider acts as a mediator to manage the communication between its end points and to provide call set up, connection, termination, and party identification features, often generating or modifying dialing, signaling, switching, addressing or routing functions for the user. Law Enforcement distinguishes managed communications from "non-managed" or "peer-to-peer" communications, which involve disintermediated communications that are set up and managed by the end user via its customer premises equipment or personal computer. In these non-managed, or disintermediated, communications, the VoIP provider has minimal or no involvement in the flow of packets during the communication, serving instead primarily as a directory that provides users' Internet web addresses to facilitate peer-to-peer communications. In this proceeding, the FCC has requested comment on the appropriateness of this distinction between managed and non-managed VoIP communications for purposes of CALEA.

Regulations requiring compliance with CALEA could also place a significant financial burden on us. The imposition of any such additional fees, charges, taxes, licenses and regulations on VoIP services could materially increase our costs and may reduce or eliminate the competitive pricing advantage we seek to enjoy.

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On June 3, 2005, the FCC released the "IP-Enabled Services and E911 Requirements for IP-Enabled Service Providers, First Report and Order and Notice of Proposed Rulemaking" (the "E911 Order"). The E911 Order requires, among other things, that VoIP service providers that interconnect to the public switched telephone network ("Interconnected VoIP Providers") supply enhanced emergency 911 dialing capabilities ("E911") to their subscribers no later than 120 days from the effective date of the E911 Order. The effective date of the E911 Order is July 29, 2005. As part of such E911 capabilities, Interconnected VoIP Providers are required to mimic the 911 emergency calling capabilities offered by traditional landline phone companies. Specifically, all Interconnected VoIP Providers must deliver 911 calls to the appropriate local public safety answering point ("PSAP"), along with call back number and location, where the PSAP is able to receive that information. Such E911 capabilities must be included in the basic service offering of the Interconnected VoIP Providers; it cannot be an optional or extra feature. The PSAP delivery obligation, along with call back number and location information must be provided regardless of whether the service is "fixed" or "nomadic." User registration of location is permissible initially, although the FCC is committed to an advanced form of E911 that will determine user location without user intervention, one of the topics of the further Notice of Proposed Rulemaking to be released.

Additionally, the E911 Order required that, by July 29, 2005 (the effective date of the E911 Order), each Interconnected VoIP Provider must have: (1) specifically advised every new and existing subscriber, prominently and in plain language, of the circumstances under which the E911 capabilities service may not be available through its VoIP services or may in some way be limited by comparison to traditional landline E911 services; (2) obtained and kept a record of affirmative acknowledgement from all subscribers, both new and existing, of having received and understood the advisory described in the preceding item (1); and (3) distributed to its existing subscribers warning stickers or other appropriate labels warning subscribers if E911 service may be limited or not available and instructing the subscriber to place them on or near the equipment used in conjunction with the provider's VoIP services. We have complied with the requirements set forth in the preceding items (1) and (3). However, despite engaging in significant efforts, as of August 10, 2005, we have received the affirmative acknowledgements required by the preceding item (2) from less than 15% of our VoIP subscribers.

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On July 26, 2005, noting the efforts made by Interconnected VoIP Providers to comply with the E911 Order's affirmative acknowledgement requirement, the Enforcement Bureau of the FCC (the "EB") released a Public Notice communicating that, until August 30, 2005, it would not initiate enforcement action against any Interconnected VoIP Provider with respect to such affirmative acknowledgement requirement on the condition that the provider file a detailed report with the FCC by August 10, 2005. The report must set forth certain specific information relating to the provider's efforts to comply with the requirements of the E911 Order. Furthermore, the EB stated its expectation that that if an Interconnected VoIP Provider has not received such affirmative acknowledgements from 100% of its existing subscribers by August 29, 2005, then the Interconnected VoIP Provider would disconnect, no later than August 30, 2005, all subscribers from whom it has not received such acknowledgements. On August 26, 2005, the EB released another Public Notice communicating that it would not, until September 28, 2005, initiate enforcement action regarding the affirmative acknowledgement requirement against those providers that: (1) previously filed reports on or before August 10, 2005 in accordance with the July 26 Public Notice; and (2) file two separate updated reports with the FCC by September 1, 2005 and September 22, 2005 containing certain additional required

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information relating to such provider's compliance efforts with respect to the E911 Order's requirements. The EB further stated in the second Public Notice its expectation that, during the additional period of time afforded by the extension, all Interconnected VoIP Providers that qualified for such extension would continue to use all means available to them to obtain affirmative acknowledgements from all of their subscribers.

Our VoIP services that are subject to the E911 Order account for a material portion of our current VoIP revenues. However, our current VoIP net revenues are not substantial and for the six months ended June 30, 2005 were approximately \$163,000. Although we continue to engage in efforts to comply with all of the requirements of the E911 Order, we may not be able to provide the E911 capabilities required by the E911 Order to all of our subscribers by 120 days after the effective date thereof. Moreover, although we have complied with the reporting requirements of the EB's July 26, 2005 and August 26, 2005 Public Notices and, accordingly, the Company qualifies for the September 28, 2005 extension, as of August 10, 2005, we have received the required affirmative acknowledgements from less than 15% of our VoIP subscribers. Therefore, while we continue to be engaged in efforts to obtain affirmative acknowledgements from all of our VoIP subscribers, we expect that we will not receive such affirmative acknowledgements from 100% of our VoIP subscribers by the September 28, 2005 deadline. Moreover, we can provide no assurances as to whether the percentage of our VoIP subscribers that provide us with the required affirmative acknowledgements will rise significantly or at all. If we are unable to comply with one or more of the requirements of the E911 Order, including the requirement to obtain affirmative acknowledgements from 100% of our VoIP subscribers by the FCC's stated deadlines, the EB may bring an enforcement action against the Company and/or we may need to suspend delivery of our VoIP services to those of our customers with respect to which we have not complied with the requirements of the E911 Order. Although the EB has thus far granted two extensions to its deadline for obtaining affirmative acknowledgements from 100% of Interconnected VoIP Providers' subscribers, the EB may or may not provide additional extensions to such deadline and the Company may or may not qualify for such extensions. If we are required by the EB to suspend VoIP service to a material portion of our VoIP subscribers for a material period of time due to our non-compliance with the E911 Order, our revenues and operating results from our current VoIP operations will deteriorate.

Even assuming our full compliance with the E911 Order, such compliance and our efforts to achieve such compliance, will increase our cost of doing business in the VoIP arena and may adversely affect our ability to deliver our VoIP telephony services to new and existing customers in all geographic regions.

### State Regulation

Although VoIP services are presently largely unregulated by the state governments, such state governments and their regulatory authorities may assert jurisdiction over the provision of intrastate IP communications services where they believe that their telecommunications regulations are broad enough to cover regulation of IP services. A number of state regulators have recently taken the position that VoIP providers are telecommunications providers and must register as such within their states. VoIP operators have resisted such registration on the position that VoIP is not, and should not be, subject to such regulations because VoIP is an information service, not a telecommunications service and because VoIP is interstate in nature, not intrastate. Various state regulatory authorities have initiated proceedings to examine the regulatory status of Internet telephony services, and in several cases rulings have been obtained to the effect that the use of the Internet to provide certain intrastate services does not exempt an entity from paying intrastate access charges in the

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jurisdictions in question. However, in the Vonage MO&O, the FCC found that the characteristics of Vonage's DigitalVoice service preclude any practical identification of, and separation into, interstate and intrastate communications for purposes of effectuating a dual federal/state regulatory scheme. Therefore, because it is a jurisdictionally mixed service, the FCC has exclusive jurisdiction under the Act to determine the policies and rules, if any, that govern the interstate aspect of DigitalVoice service. In fact, the FCC stated that multiple state regulatory regimes would likely violate the Commerce Clause because of the unavoidable effect that regulation on an intrastate component would have on interstate use of the service. As state governments, courts, and regulatory authorities continue to examine the regulatory status of Internet telephony services, they could render decisions or adopt regulations affecting providers of VoIP or requiring such providers to pay intrastate access charges or to make contributions to universal service funding. Should the Commission determine to regulate IP services, states may decide to follow the FCC's lead and impose additional obligations as well.

### Other Regulation

The regulatory treatment of IP communications outside the United States varies significantly from country to country. Some countries currently impose little or no regulation on Internet telephony services, as in the United States. Other countries, including those in which the governments prohibit or limit competition for traditional voice telephony services, generally do not permit Internet telephony services or strictly limit the terms under which those services may be provided. Still other countries regulate Internet telephony services like traditional voice telephony services, requiring Internet telephony companies to make various telecommunications service contributions and pay other taxes. We may incur substantial liabilities for expenses necessary to comply with these laws and regulations or penalties for any failure to comply. Compliance with these laws and regulations may also cause us to have to change or limit our business practices in a manner adverse to our business.

More aggressive regulation of Internet telephony providers and VoIP services may adversely affect our VoIP business operations, and ultimately our financial condition, operating results and future prospects.

### Certain Other Regulation Affecting The Internet

Today, there are still relatively few laws specifically directed towards online services. However, due to the increasing popularity and use of the Internet and online services, many laws and regulations relating to the Internet are being debated at all levels of governments around the world and it is possible that such laws and regulations will be adopted. It is not clear how existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel and defamation, obscenity, and personal privacy apply to online businesses. The vast majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. In the United States, Congress has recently adopted legislation that regulates certain aspects of the Internet, including online content, user privacy and taxation. In addition, Congress and other federal entities are considering other legislative and regulatory proposals that would further regulate the Internet. Congress has, for example, considered legislation on a wide range of issues including Internet spamming, database privacy, gambling, pornography and child protection, Internet fraud, privacy and digital signatures. For example, Congress recently passed and the President signed into law several proposals that have been made at the U.S. state and local level that would impose additional taxes on the sale of goods and services through the Internet. These proposals, if adopted, could substantially impair the growth of

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e-commerce, and could diminish our opportunity to derive financial benefit from our activities. For example, in December 2004, the U.S. federal government enacted the Internet Tax Nondiscrimination Act (the "ITNA"). While the ITNA generally extends through November 2007 the moratorium on taxes on Internet access and multiple and discriminatory taxes on electronic commerce, it does not affect the imposition of tax on a charge for voice or similar service utilizing Internet Protocol or any successor protocol. In addition, the ITNA does not prohibit federal, state, or local authorities from collecting taxes on our income or from collecting taxes that are due under existing tax rules. Various states have adopted and are considering Internet-related legislation. Increased U.S. regulation of the Internet, including Internet tracking technologies, may slow its growth, particularly if other governments follow suit, which may negatively impact the cost of doing business over the Internet and materially adversely affect our business, financial condition, results of operations and future prospects. Legislation has also been proposed that would clarify the regulatory status of VoIP service. The Company has no way of knowing whether legislation will pass or what form it might take. Domain names have been the subject of significant trademark litigation in the United States and internationally. The current system for registering, allocating and managing domain names has been the subject of litigation and may be altered in the future. The regulation of domain names in the United States and in foreign countries may change. Regulatory bodies are anticipated to establish additional top-level domains and may appoint additional domain name registrars or modify the requirements for holding domain names, any or all of which may dilute the strength of our names. 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.

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Internationally, the European Union has also enacted several directives relating to the Internet. The European Union has, for example, adopted a directive that imposes restrictions on the collection and use of personal data. Under the directive, citizens of the European Union are guaranteed rights to access their data, rights to know where the data originated, rights to have inaccurate data rectified, rights to recourse in the event of unlawful processing and rights to withhold permission to use their data for direct marketing. The directive could, among other things, affect U.S. companies that collect or transmit information over the Internet from individuals in European Union member states, and will impose restrictions that are more stringent than current Internet privacy standards in the U.S. In particular, companies with offices located in European Union countries will not be allowed to send personal information to countries that do not maintain adequate standards of privacy. Compliance with these laws is both necessary and difficult. Failure to comply could subject us to lawsuits, fines, criminal penalties, statutory damages, adverse publicity, and other losses that could harm our business. Changes to existing laws or the passage of new laws intended to address these privacy and data protection and retention issues could directly affect the way we do business or could create uncertainty on the Internet. This could reduce demand for our services, increase the cost of doing business as a result of litigation costs or increased service or delivery costs, or otherwise harm our business. Other laws that reference the Internet, such as the European Union's Directive on Distance Selling and Electronic Commerce has begun to be interpreted by the courts and implemented by the European Union member states, but their applicability and scope remain somewhat uncertain. Regulatory agencies or courts may claim or hold that we or our users are either subject to licensure or prohibited from conducting our business in their jurisdiction, either with respect to our services in general, or with respect to certain categories or items of our services. In addition, because our services are accessible worldwide, and we facilitate VoIP telephony services to users worldwide, foreign jurisdictions may claim that we are required to comply



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with their laws. For example, the Australian high court has ruled that a U.S. website in certain circumstances must comply with Australian laws regarding libel. As we expand our international activities, we become obligated to comply with the laws of the countries in which we operate. Laws regulating Internet companies outside of the U.S. may be less favorable than those in the U.S., giving greater rights to consumers, content owners, and users. Compliance may be more costly or may require us to change our business practices or restrict our service offerings relative to those in the U.S. Our failure to comply with foreign laws could subject us to penalties ranging from criminal prosecution to bans on our services.

### EMPLOYEES

As of September 15, 2005, we had approximately 118 active full-time employees. Our future success depends, in part, on our ability to continue to attract, retain and motivate highly qualified technical and management personnel. Competition for these persons is intense. From time to time, we also employ independent contractors to support our network operations, research and development, marketing, sales and support and administrative organizations. Our employees are not represented by any collective bargaining unit and we have never experienced a work stoppage. We believe that our relations with our employees are good.

### RECENT EVENTS - AGREEMENT TO SELL ALL OF THE ASSETS OF OUR SUBSIDIARY, SENDTEC, INC.

#### DESCRIPTION OF THE PROPOSED ASSET SALE

On August 10, 2005, theglobe entered into an Asset Purchase Agreement (as amended, the "Purchase Agreement") with RelationServe Media, Inc. a Nevada corporation ("RelationServe"), whereby theglobe.com, inc. ("theglobe") agreed to sell all of the assets of its subsidiary, SendTec, Inc., ("SendTec"), to RelationServe for \$37.5 million in cash, subject to certain adjustments (the "Asset Sale"). On August 23, 2005 we entered into Amendment No. 1 to the Asset Purchase Agreement with RelationServe. The Company also entered into or plans to enter into several ancillary agreements to the Purchase Agreement (the "Ancillary Agreements"), including the Redemption Agreement dated August 23, 2005, whereby the Company will redeem 28,879,097 shares of its Common Stock from six members of SendTec management for an aggregate redemption price of approximately \$11.6 million and one or more Termination Agreements whereby the Company will terminate certain options and warrants held by or issuable to SendTec's management for aggregate consideration of approximately \$400,000. The following summaries of the Purchase Agreement and the Redemption Agreement are qualified in their entirety to the actual agreements which are available for inspection as exhibits to our prior filings. We currently anticipate that the closing of the Asset Sale will occur on or about October 11, 2005.

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#### THE PURCHASE AGREEMENT

##### Purchase and Sale of Assets

In exchange for \$37,500,000 and the assumption by RelationServe of certain existing ordinary course SendTec liabilities as of the closing date, SendTec and theglobe will sell and transfer to RelationServe all rights, properties and assets held or used by theglobe or SendTec in connection with SendTec's direct marketing advertising business. The principal assets being sold to RelationServe are: cash and accounts receivable, property and equipment, all rights to SendTec's proprietary software, customer lists, contracts with customers,

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equipment, leases, use of the SendTec name, as well as contracts, records and documents maintained and used by SendTec in connection with its direct marketing advertising business, including personal property, contract rights, intellectual property, governmental licenses, permits, and all books, records and other documents maintained by SendTec and the goodwill of the business in connection with its operation of its business.

### Payment of Purchase Price

The \$37.5 million purchase price will be paid in the following manner:

- o Thirty-Six Million Five Hundred Thousand Dollars (\$36,500,000) will be paid as follows at closing:
  - o Thirty-Five Million Five Hundred Thousand Dollars (\$35,500,000) will be paid in immediately available funds by wire transfer to the bank account of theglobe; and
  - o One Million Dollars (\$1,000,000), which will be released pursuant to the terms of an Escrow Agreement by and between RelationServe, theglobe and Proskauer Rose LLP (the "Escrow Agent"), and sent by wire transfer to the bank account of theglobe; and
- o One Million Dollars in cash (\$1,000,000), together with a number of shares of our restricted Common Stock having an aggregate value of Seven Hundred and Fifty Thousand Dollars (\$750,000) (valued at the average closing price of theglobe's Common Stock over a trailing ten (10) day period prior to the Closing), will be held by the Escrow Agent pursuant to the terms of an Escrow Agreement to secure theglobe's indemnification obligations under the Purchase Agreement, portions of which sum are subject to release beginning upon the earlier of six months or completion by RelationServe of an audit of SendTec's business for the year ended December 31, 2005 following the closing of the asset sale. If at the time a claim is made for indemnification, the escrow shares have diminished below \$750,000, then theglobe must make up the difference of any shortfall (up to the \$750,000 amount) in cash. theglobe may also elect to pay cash in lieu of releasing any of the escrow shares in the event of a claim. Any shares released from escrow will be entitled to customary "piggy-back" registration rights.

### Working Capital

The Purchase Agreement provides that the Purchase Price will be adjusted upward or downward to the extent that SendTec's estimated closing date working capital is greater than or less than zero. On August 11, 2005, theglobe distributed \$2 million from SendTec to itself following the signing of the Purchase Agreement. SendTec's remaining working capital as of the date of closing is anticipated to range from \$1.5 to \$2.0 million, assuming that the asset sale closes on or about October 11, 2005 and no further working capital distributions are made prior to the closing date. The Purchase Agreement also provides for a post-closing audit of the closing date working capital. In the event the audit reveals an amount other than the estimated working capital number used for the closing, there will be an adjustment to the Purchase Price.

### Representations, Warranties, and Covenants

The Purchase Agreement contains substantial representations and warranties of theglobe regarding SendTec's direct marketing advertising business and the assets being transferred to RelationServe. These representations are effective as of the date of signing of the Purchase Agreement and as of the date of the

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closing of the asset sale, except as to certain representations relating to the operation of SendTec which theglobe did not give until it received comparable representations from management of SendTec in the Redemption Agreement. The representations and warranties include many that the parties have defined as "Operational Representations" and which relate primarily to various operational aspects of the SendTec business and assets. As to these Operational Representations, theglobe is only responsible for a breach of such Operational Representations if:

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- o SendTec management did not breach corresponding representations and warranties given by them to theglobe in the Redemption Agreement; or
- o if the damages suffered by RelationServe exceed the amount which RelationServe is able to recover from SendTec management (which pursuant to a separate agreement between RelationServe and SendTec management is anticipated to be limited to recovery of up to 200,000 shares of RelationServe common stock to be owned by SendTec management).

The primary representations and warranties made by theglobe are as follows:

Organization; Authority. theglobe is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with full corporate power and authority to conduct its respective business as it is being conducted. theglobe and SendTec each have the necessary power to own the assets and to carry on the SendTec business as it is being conducted. Each has all requisite power and authority to enter into and perform under the Purchase Agreement and the ancillary agreements to the Purchase Agreement, and the execution and delivery of the Purchase Agreement and the ancillary agreements to the Purchase Agreement has been duly authorized by all necessary corporate action and constitute valid and binding obligations of theglobe and SendTec.

Non-Contravention. The execution and performance of the Purchase Agreement will not cause theglobe or SendTec to be in breach of its certificate of incorporation, bylaws or any contract binding upon it and will not conflict with or violate any applicable law, rule or regulation.

Financial Statements and SEC Reports. The financial statements provided by theglobe to RelationServe were prepared in accordance with GAAP and present fairly in all material respects the financial position, assets and liabilities of theglobe, and in the case of the financial statements of SendTec, of SendTec. Certain annual and quarterly reports of theglobe filed with the SEC since August 30, 2004, do not contain any untrue statement of a material fact or omit to state a material fact, and such SEC filings comply in all material respects with the Securities Exchange Act of 1934.

Absence of Changes. SendTec has conducted its business in the ordinary course since June 30, 2005 and since that date there has not been a material adverse change in its operations and it has not taken nor suffered various other acts or obligations.

Title to Properties. SendTec has good, clear and marketable title to all of the assets being transferred free of any liens or encumbrances except as permitted by the Purchase Agreement.

Intellectual Property. SendTec owns or has exclusive right to use the intellectual property to be transferred to RelationServe, and has taken steps to protect such intellectual property, and that the operation of SendTec's business

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does not infringe on any intellectual property owned by any third parties.

No Prior Claims Against Prior SendTec Owners. theglobe has not asserted any historical claims against the sellers of the SendTec business since theglobe acquired it on September 1, 2004;

Other Customary Representations. theglobe has also made various customary representations and warranties (most of which are considered Operational Representations) in the Purchase Agreement including representations and warranties with respect to following matters:

- o absence of any material liabilities relating to the SendTec business, other than the liabilities being assumed;
- o lack of any consents to consummation of the asset sale;
- o lack of any pending litigation except as otherwise disclosed;
- o labor and employee benefit plans and related matters;
- o the nature and types of certain contracts being transferred as part of SendTec's business and the lack of any breach by SendTec of such contracts;

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- o environmental matters relating to the operation of the SendTec business;
- o tax matters and the payment of taxes relating to the SendTec business;
- o SendTec's relationship with its suppliers and customers, including identification of its major customers; and
- o absence of any knowing material misstatements or omissions in Purchase Agreement.

In general, the representations and warranties of theglobe and SendTec will survive for a period of one year and 45 days after the closing. With a few exceptions in which theglobe's survival period is longer, the operational representations which theglobe received from SendTec management will survive for the same period of time.

The representations and warranties made by RelationServe cover the following topics as they relate to RelationServe:

- o organization and good standing;
- o authorization, execution and delivery of the Purchase Agreement and related agreements by RelationServe;
- o the absence of conflicts between the Purchase Agreement and RelationServe's certificate of incorporation or bylaws;
- o the lack of any necessary consents;
- o that it is not involved any litigation, except as noted; and
- o that it has received financing commitments in the amount of at least

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\$30 million.

### Operation of the SendTec Business Pending Closing

During the period between the signing of the Purchase Agreement and the closing of the asset sale as contemplated by the Purchase Agreement, theglobe is restricted from taking a significant number of actions that could impact the SendTec business or any of the assets to be transferred to RelationServe. Without the prior written consent of RelationServe, SendTec has agreed that until the closing it shall do the following with respect to the SendTec business:

- o continue to operate the SendTec business consistent with past practice and not take action with respect to the SendTec business outside of the ordinary course of business;
- o use its reasonable best efforts to preserve its business intact, the value of its assets and comply with applicable laws;
- o not to split, repurchase or take certain other actions involving its capital stock;
- o amend its charter or bylaws;
- o enter into certain mergers or acquisitions of others;
- o incur any indebtedness except for short term borrowings in the ordinary course of business;
- o amend any benefit plan or increase the rate of pay of its employees except increases in the ordinary course of business;
- o not terminate or modify any of the contracts to be assumed by RelationServe; and
- o certain other restrictions with respect to the conduct of the SendTec business.

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### Additional Covenants

#### Covenants of theglobe

Until the closing of the asset sale, theglobe has agreed to take certain actions to help ensure that all of the conditions to closing the asset sale are satisfied and that theglobe uses its best efforts to preserve the value of the assets to be purchased by RelationServe. These actions include:

- o using its best efforts to preserve the accuracy of its representations and warranties in the Purchase Agreement;
- o using its best efforts to satisfy all the conditions precedent to closing the asset sale;
- o notifying RelationServe of certain matters, including an adverse change in the SendTec business or any material default under the contacts being assumed by RelationServe;
- o providing access to information about SendTec and its assets;

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- o undertaking to secure stockholder approval within 7 days of the date of the Purchase Agreement which was secured by the written action; and
- o undertaking to prepare, file and mail a definitive Information Statement to theglobe.com's stockholders.

### Covenants of RelationServe

Prior to the closing, RelationServe has agreed to undertake certain actions to help ensure that the conditions to the closing of the asset sale are all satisfied. These actions include:

- o using its best efforts to preserve the accuracy of its representations and warranties in the Purchase Agreement; and
- o using its best efforts to satisfy the conditions precedent to closing the asset sale agreement.

### No Solicitation of Alternative Transactions

In addition to the covenants discussed above, until the asset sale has been completed or the Purchase Agreement has been terminated, theglobe has agreed not to allow any of its officers, directors, employees, or other agents to, directly or indirectly, take any of the following actions:

- o solicit, initiate, or encourage an "acquisition proposal;"
- o engage in negotiations with, or disclose any nonpublic information relating to theglobe to, any person that would encourage or facilitate the making of an acquisition proposal; or
- o enter into any letter of intent, memorandum of understanding or definitive agreement with respect to an acquisition proposal.

Notwithstanding the foregoing, theglobe and its board of directors shall not be prevented from engaging in discussion with any person in connection with an unsolicited, bona fide written acquisition proposal (a "Third Party Proposal") that is superior to the proposal offered by RelationServe if:

- o a majority of theglobe's Board of Directors determines in good faith (after consultation with its financial advisors) that the transactions contemplated by such Third-Party Proposal are capable of being completed and that such Third-Party Proposal is or is reasonably expected to result in a Superior Transaction (as defined herein);
- o a majority of theglobe's Board of Directors determines in good faith (after receiving the advice of outside legal counsel) that the failure to pursue such Superior Proposal would likely result in a reasonable possibility of a breach of their fiduciary duties as directors under applicable law; and
- o theglobe complies in all material respects with its obligations to inform and provide to RelationServe of such Proposals.

In the event that the Board of Directors determines to accept a Superior

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Proposal and terminate the asset sale with RelationServe, theglobe has agreed to pay RelationServe a break-up fee of \$1 million as liquidated damages.

A "Superior Proposal" means a bona fide Third-Party Proposal to purchase at least a majority of the outstanding equity securities of either theglobe or SendTec pursuant to a stock purchase agreement, tender offer or exchange offer or to effect any merger, consolidation, business combination or sale of all or substantially all of the assets being acquired pursuant to the Purchase Agreement, recapitalization or similar transaction involving SendTec, on terms which a majority of theglobe's Board of Directors determines in good faith (after consultation with its financial advisors) to be superior to theglobe and its shareholders (in their capacity as shareholders) from a financial point of view (taking into account, among other things, all legal, financial, regulatory and other aspects of the proposal and identity of the offeror) as compared to

- o the transactions contemplated by the asset sale with RelationServe and
- o any alternative proposed by RelationServe in response to such Third-Party Proposal (taking into account the same factors, including whether it is reasonably capable of being consummated) (any such transaction is referred to as a "Superior Transaction").

### Conditions Precedent to the Closing of the Asset Sale

Conditions Precedent to Obligations of both theglobe (and SendTec) and RelationServe. The obligations of RelationServe and theglobe to complete the asset sale are subject to the satisfaction or waiver of several closing conditions, including the following:

- o All necessary consents of third parties to the asset sale shall have been obtained;
- o There shall not be pending or threatened any action before any governmental entity challenging or otherwise seeking to prevent the consummation of the asset sale;
- o The parties shall have received all necessary permits and approvals of governmental entities;
- o theglobe shall have entered into the Redemption Agreement and the Termination Agreement;
- o theglobe, RelationServe and the Escrow Agent shall have entered into the Escrow Agreement;
- o theglobe shall have received Operational Representations from SendTec's management;
- o all proceedings in connection with the asset sale shall be satisfactory in all reasonable respects to the parties and their counsel, including expiration of the applicable waiting period after the date the definitive Information Statement was first mailed to theglobe's stockholders; and
- o theglobe shall have received a favorable fairness opinion from Thomas Weisel Partners.

Each of the conditions listed above may be severally waived by RelationServe or theglobe without notice, liability or obligation to any person.

Conditions Precedent to Obligations of RelationServe. RelationServe's

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obligations to complete the asset sale are subject to the satisfaction or waiver of several conditions precedent, including each of the following conditions, at or prior to the closing of the transactions contemplated by the Purchase Agreement:

- o The representations and warranties of theglobe shall be true and correct as of the date of the Purchase Agreement and shall be true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date, except for those representations and warranties which speak as of a specific date, and theglobe shall have complied with all covenants and agreements and satisfied all conditions on theglobe's part in the Purchase Agreement, and theglobe shall have provided RelationServe with a certificate with respect to the foregoing signed by an authorized officer of theglobe;

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- o All encumbrances on the assets shall have been released (with certain exceptions);
- o RelationServe shall have received from Florida and Delaware counsel for theglobe, a written opinion dated the Closing Date and addressed to RelationServe, in substantially the form attached to the Purchase Agreement;
- o RelationServe will have received such bills of sale and other documents of transfer relating to transfer of the assets;
- o theglobe shall have entered into and delivered to RelationServe the non-competition and confidentiality agreement;
- o RelationServe shall have entered into employment agreements, stock agreements and related documents with each member of SendTec management;
- o No material adverse effect shall have occurred since the signing of the Purchase Agreement; and
- o certain other matters.

Each of the conditions listed above is solely for the benefit of RelationServe and may be waived by RelationServe without notice, liability or obligation to any person.

Conditions Precedent to Obligations of theglobe and SendTec. theglobe's and SendTec's obligations to complete the asset sale are subject to the satisfaction or waiver of the following conditions at or prior to the closing of the transactions contemplated by the Purchase Agreement:

- o the representations and warranties of RelationServe in the agreement shall be true and correct as of the date of the Purchase Agreement and be true and correct in all material respects on and as of the closing, except for those representations and warranties which speak as of a specific date, and RelationServe shall have complied with all covenants and agreements and satisfied all conditions on RelationServe's part in the Purchase Agreement, and RelationServe shall have provided theglobe and SendTec with a certificate with respect to the foregoing signed by an authorized officer of RelationServe;



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- o certain employees of SendTec (besides management) designated by theglobe shall have entered into termination agreements with respect to certain options and warrants which they hold to acquire shares of theglobe's common stock; and
- o theglobe shall have received from counsel for RelationServe, a written opinion dated the Closing Date and addressed to theglobe and SendTec, in substantially the form attached to the Purchase Agreement.

Each of the conditions listed above is solely for the benefit of theglobe and SendTec and may be waived by theglobe and SendTec without notice, liability or obligation to any person.

### Post-Closing Obligations

Following the closing, theglobe and RelationServe have agreed to undertake various actions, including the following:

- o that RelationServe will offer employment to each SendTec's employees employed by SendTec on the closing date and the transitioning of various employee benefits;
- o theglobe will provide RelationServe with access to certain books and records retained by SendTec;
- o that for a period of one year after closing (with noted exceptions), theglobe and SendTec will not engage in any advertising agency or similar business primarily engaged in, and deriving a majority of its annual revenue from managing or procuring advertising services for others nor any business engaged in offline direct response marketing technology;
- o that for the same one year period neither theglobe nor SendTec will solicit or raid customers or personnel of the business being sold;

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- o theglobe will use its commercially reasonable efforts to collect account receivables relating to the SendTec business; and
- o each party will take such further actions and execute such further documents as is necessary to carry out the transactions contemplated by the Purchase Agreement.

### Indemnification and Escrow

theglobe and SendTec are jointly obligated to indemnify RelationServe in the following circumstances:

- o any failure to perform or breach of any representation or warranty (other than an Operational Representation, which is addressed below), covenant, obligation or undertaking made by either Globe or Seller in any of the transaction documents (including the Schedules and Exhibits hereto or thereto), or in any other statement, certificate or other instrument delivered pursuant hereto or thereto, or any misrepresentation contained therein;
- o the ownership or operation of the SendTec business prior to the

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Closing Date other than as to liabilities being assumed by RelationServe;

- o any of the assets of SendTec being retained by SendTec and not included in the asset sale; and
- o any breach of an Operational Representation, but only if:
- o such breach of an Operational Representation is not also a breach of the corresponding Operational Representation made by SendTec's management in the Redemption Agreement (or other agreement that contains Operational Representations by Seller Management) or
- o if the damages suffered by RelationServe exceed the amount which RelationServe is able to recover from SendTec management (which pursuant to a separate agreement between RelationServe and SendTec management is anticipated to be limited to recovery of up to 200,000 shares of RelationServe common stock to be owned by SendTec management).

theglobe will not be liable for any indemnification claims made by RelationServe unless the aggregate amount of damages incurred by RelationServe is in excess of \$175,000, in which case theglobe will be liable only for the portion in excess of \$75,000.

In the absence of intentional fraud, RelationServe's sole and exclusive recourse against SendTec and theglobe are the right to:

- o offset losses against the cash and the escrowed shares pursuant to the Holdback Escrow Agreement;
- o to require payment of any deficit in the share value of the shares of common stock being held in the escrow; and
- o to require payment arising in connection with any adjustment relating to the working capital adjustment to the purchase price.

### Termination

At any time prior to the closing, the Purchase Agreement may be terminated by either party as follows:

- o by mutual written consent each of RelationServe, theglobe and SendTec;
- o by either party if the closing shall not have occurred on or before October 31, 2005;

theglobe and SendTec may, on or prior to the closing, terminate this Agreement without liability if:

- o there shall have been a material breach of any representations or warranties set forth in the Purchase Agreement on the part of RelationServe or if any representations or warranties of RelationServe shall have become untrue, provided that neither theglobe nor SendTec have materially breached any of their obligations;

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- o there shall have been a material breach by RelationServe of any of its covenants of agreements and the breach would materially and adversely affect the ability of RelationServe or SendTec to consummate the asset sale, and RelationServe has not cured such breach within 10 business days after notice; provided that neither theglobe nor SendTec has materially breached any of their obligations; or
- o any condition precedent to theglobe's or SendTec obligation to close is not fulfilled by RelationServe or waived by SendTec by the closing date.

RelationServe may, on or prior to the closing, terminate the Purchase Agreement without liability if:

- o there shall have been a material breach of any representations or warranties set forth in the Purchase Agreement on the part of either theglobe or SendTec or if any representations or warranties of either theglobe or SendTec shall have become untrue to the extent it would have a material adverse effect provided that RelationServe has not materially breached any of its obligations hereunder;
- o there shall have been a material breach by SendTec or theglobe of one or more of their respective covenants or agreements having a material adverse effect on SendTec or its business or materially adversely affecting (or materially delaying) the ability of SendTec and RelationServe to consummate the asset sale, and neither theglobe nor SendTec has cured such breach within 10 business days after notice, provided that RelationServe has not materially breached any of its obligations hereunder;
- o any condition precedent to RelationServe's obligation to close is not fulfilled or waived by RelationServe by the closing date.

### Termination Fees

If the Purchase Agreement is terminated because theglobe enters into an acquisition transaction relating to a Superior Proposal, theglobe must pay RelationServe a break-up termination fee of \$1,000,000 in cash promptly following such termination. Provided that RelationServe is not then entitled to terminate the Purchase Agreement, if SendTec exercises certain of its rights to terminate the Purchase Agreement then RelationServe must pay theglobe a termination fee of \$1,000,000.

### ANCILLARY AGREEMENTS TO THE PURCHASE AGREEMENT

#### Redemption Agreement

##### General

In connection with the Asset Purchase Agreement, theglobe entered into a Redemption Agreement dated August 23, 2005 with SendTec's management providing for the redemption by theglobe from them of an aggregate of 28,879,097 shares of theglobe's common stock for an aggregate redemption price of approximately \$11.6 million. The redemption price was arrived at through arms-length negotiation between theglobe and SendTec management as to the value of the stock and reflects theglobe management's judgment as to the amount necessary to be paid for the stock to ensure participation by SendTec management in the transaction. Although the redemption price per share of approximately \$0.40 exceeds the recent trading price of our stock, our stock trades only on the over-the-counter market with very little trading volume, and in the view of management the trading price does not accurately reflect the fair market value of a large block

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of our stock after giving affect to the Asset Sale.

### Representations and Warranties

Each member of SendTec's management will make certain representations and warranties to theglobe in connection with the redemption, including as to:

- o their ownership of the shares being redeemed;

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- o non-contravention of other agreements;
- o the absence of litigation concerning the Redemption Agreement and the shares;
- o their financial experience; and
- o their access to information.

Each member of SendTec's management is also making certain representations and warranties to the best of his or her knowledge, to theglobe concerning operational matters associated with the business of SendTec (which are sometimes referred to as the "Operational Representations"). theglobe is relying on these Operational Representations to make corresponding representations to RelationServe in the Purchase Agreement. RelationServe is also entitled to rely on such Operational Representations from SendTec's management. Generally speaking, these Operational Representations will survive the closing for a period of 1 year and 45 days.

In turn, theglobe is making certain representations and warranties to SendTec's management, including as to:

- o its authority to enter into the Redemption Agreement;
- o the absence of any litigation concerning the Redemption Agreement and the shares being redeemed;
- o that the entering into, and performance of, the Redemption Agreement does not violate law, rule or regulation; and
- o that the entering into of the Redemption Agreement and payment of the redemption price does not violate Delaware corporate law.

### Termination of Stockholders' Agreement

Upon consummation of the redemption, the Stockholders' Agreement to which SendTec's management are a party will be terminated.

### Directors and Officers Liability Insurance

The Redemption Agreement requires that, for so long as any of Michael Egan, Edward Cespedes and Robin Segaul Lebowitz are covered by a policy of directors and officers liability insurance with respect to their service as a current or former director and/or officer of theglobe, but for not more than five years, Paul Soltoff will be afforded the same coverage as is available to Mr. Egan, Mr. Cespedes and/or Ms. Segaul Lebowitz under such policy.

### Conditions Precedent

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There are certain conditions precedent to the obligations of the parties under the Redemption Agreement, including:

- o confirmation of the accuracy of the parties' representations and warranties and compliance with covenants;
- o certification by theglobe as to the resolutions of its Board approving the Redemption Agreement and the incumbency of its officers; and
- o the closing of the Purchase Agreement.

### General Releases

The Redemption Agreement provides for mutual general releases by SendTec's management and theglobe. Excluded from the general release to be provided by SendTec's management are matters involving:

- o the Redemption Agreement itself;
- o theglobe's obligations under the \$1 million promissory note issued to Paul Soltoff as agent for the benefit of SendTec's management and others;

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- o claims for indemnification as a former director or officer of theglobe or its affiliates; and
- o claims based upon their employment.

Excluded from the general release to be provided by theglobe are matters involving the Redemption Agreement itself.

The general releases will become null and void if, pursuant to a final, non-appealable determination of a court of competent jurisdiction:

- o the Redemption Agreement is held to be null and void and unenforceable or the consideration paid by theglobe under the Redemption Agreement is determined to violate the Delaware General Corporation Law, fraudulent transfer laws, or similar laws; and
- o the consideration paid by theglobe under the Redemption Agreement is required to be returned to theglobe.

### Indemnification

The Redemption Agreement provides for mutual indemnification by the parties relating to breaches of their respective representations and warranties and failure to abide by their respective agreements. theglobe, however, will have no recourse against SendTec's management for breach of the Operational Representations, other than recovery of 50% of its legal fees up to an aggregate of \$50,000. Instead, as a third-party beneficiary to the Operational Representations being made by SendTec's management, RelationServe will have the ability to seek indemnification for a breach of those representations. RelationServe's recovery against SendTec's management will be generally limited to recovery of 200,000 shares of RelationServe's stock which theglobe understands RelationServe intends to issue, and hold in escrow, pursuant to a separate agreement between RelationServe and SendTec management.

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### Termination

The Redemption Agreement may be terminated at any time prior to the closing of the Purchase Agreement:

- o by theglobe and Paul Soltoff, with the consent of RelationServe (which consent will be deemed given if the escrow agreement pursuant to which 200,000 shares of RelationServe stock are to be held in escrow is terminated. The 200,000 shares represent shares which we understand RelationServe intends to issue to SendTec management and hold in escrow pursuant to a separate agreement between them in connection with the closing of the asset sale) by mutual written agreement;
- o by theglobe or by Paul Soltoff, if the closing of the Asset Purchase Agreement does not occur on or prior to November 30, 2005;
- o by theglobe or by Paul Soltoff, if the Asset Purchase Agreement is terminated.

### Termination Agreement

#### General

In connection with the Purchase Agreement, theglobe will enter into one or more Termination Agreements with SendTec's management providing for the termination and cancellation, effective upon the closing of the Purchase Agreement, of options and warrants held by, or issuable to, SendTec's management for an aggregate consideration of approximately \$400,000. The Termination Agreement also contains the agreement of SendTec's management to the termination of their employment with SendTec effective upon the closing of the Purchase Agreement. We anticipate entering into similar agreements with a few other employees of SendTec with regard to options and warrants which they own. The Termination Agreement is also anticipated to contain customary representations and warranties. The following summarizes the anticipated general terms of the Termination Agreement.

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#### Release

Each member of SendTec's management will, effective at the closing of the Purchase Agreement, release theglobe, SendTec and their respective affiliates from claims associated with their ownership of the options and warrants and their employment with SendTec.

#### Covenant not to Sue

Each member of SendTec's management will agree not to assert any claim against theglobe, SendTec and/or their respective affiliates that is the subject of his or her release.

#### Survival of Confidentiality Obligations

Each member of SendTec's management that is party to an Employment Agreement with SendTec will agree that his confidentiality obligations under his Employment Agreement will survive the termination of his Employment Agreement.

### Termination

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The Termination Agreement may be terminated at any time prior to the closing of the Purchase Agreement:

- o by theglobe and Paul Soltoff by mutual written agreement;
- o by theglobe or by Paul Soltoff, if the closing of the Purchase Agreement does not occur on or prior to November 30, 2005; or
- o by theglobe or by Paul Soltoff, if the Purchase Agreement is terminated.

### Hold Back Escrow Agreement

The Purchase Agreement provides for the execution and delivery by RelationServe, theglobe, and Olshan Grundman Frome Rosenzweig & Wolosky, LLP, as escrow agent, of an Escrow Agreement. The Escrow Agreement will govern the Escrow Fund described above in "The Purchase Agreement - Indemnification and Escrow" and as further described below.

The Escrow Fund will consist of \$1 million in cash, together with a number of shares of our restricted common stock having an aggregate value of Seven Hundred and Fifty Thousand Dollars (\$750,000) (valued at the average closing price of theglobe's Common Stock over a trailing ten (10) day period prior to the Closing), and its purpose is to secure theglobe's indemnification obligations under the Purchase Agreement. Funds will be released from escrow to theglobe in accordance with the following schedule: \$750,000 in cash after the sooner of 6 months from the date of closing and completion by RelationServe of the audit of SendTec's operations for the period ending December 31, 2005, with the shares constituting the balance of the escrow fund being released after one year and 45 days from the closing date, in each case assuming no claims against the escrow. If at the time a claim is made for indemnification the escrow shares have diminished in value below \$750,000, then theglobe must make up the difference of any shortfall (up to the \$750,000 amount) in cash. theglobe may also elect to pay cash in lieu of releasing any of the escrow shares in the event of a claim. Any shares released from escrow will be entitled to customary "piggy-back" registration rights.

The Escrow Agreement will also set forth the duties of the Escrow Agent and contain various other customary provisions.

### REASONS FOR THE ASSET SALE

SendTec was originally acquired by us on September 1, 2004 in exchange for consideration consisting of:

- o \$6,000,000 in cash,
- o the issuance of an aggregate of approximately 35,000,000 shares of theglobe's Common Stock,
- o a subordinated promissory note in the amount of \$1 million due September 1, 2005; and
- o an undertaking to issue warrants to acquire an additional 2,500,000 shares of Common Stock to the SendTec shareholders when and if SendTec achieves certain earnings before income taxes, depreciation and amortization ("EBITDA") targets for the year ending December 31, 2005.

We also issued various replacement options and earn-out options to employees of SendTec in connection with the acquisition.

During the first quarter of 2005, management began actively re-evaluating theglobe's primary business lines, particularly in view of theglobe's critical need for cash and the overall net losses of theglobe. Since that time, management with the assistance of Thomas Weisel Partners, its financial advisors, has explored a number of strategic alternatives for theglobe and/or its component businesses, including continuing to operate the businesses, selling certain businesses or assets, or entering into new businesses.

As part of the re-evaluation process, theglobe, during the first quarter of 2005, made the decision to discontinue using its SendTec business to perform marketing services for its VoIP telephony business, and to instead dedicate 100% of SendTec's marketing resources to support and grow SendTec's own third party revenue producing customer base. A significant part of the rationale for theglobe's acquisition of SendTec in September 2004 related to the perceived synergies initially thought to be obtainable by having SendTec effectively function as the marketing department for theglobe's VoIP telephony business. By the first quarter of 2005, it became apparent that this marketing strategy was not viable and that the initially perceived synergies would not be realized. It was at this point in time that the continued ownership of SendTec became less strategically important to the Company.

On May 9, 2005, based upon management's expectation of favorable investment returns, theglobe exercised its purchase option and acquired Tralliance Corporation ("Tralliance"), an Internet related business venture. Tralliance was created to develop, operate and administer the ".travel" top-level domain, a new segment of the Internet devoted to the travel industry. Tralliance recently entered into an agreement with the Internet Corporation for Assigned Names and Numbers ("ICANN") to become the registry operator for the ".travel" top-level domain. The Tralliance 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 at \$0.11 per share and \$40,000 in cash.

theglobe's consolidated cash and cash equivalents balance at September 15, 2005 was approximately \$1.6 million. We currently have no access to credit facilities with traditional third party lenders. Notwithstanding the \$4.0 million in total proceeds received from the issuance of convertible promissory notes to partnerships controlled by our Chairman and Chief Executive Officer during April, June and July of 2005, our attempts to raise additional equity capital since the beginning of 2005 have not been successful. Additionally, based upon its current financial condition, management does not believe that theglobe would be able to raise additional equity capital in the foreseeable future. Management also believes that other than its SendTec business, theglobe owns no other business or asset(s) that could likely be sold within the short-term future for significant cash proceeds.

Management believes that theglobe will continue to be unprofitable and use cash in its operations during the remainder of 2005. Additionally, the \$1.0 million promissory note issued in connection with the SendTec acquisition became due on September 1, 2005. Due to its short-term liquidity problems, the Company did not pay such promissory note when due, which constitutes an event of default under the promissory note. Upon default, the Company is required to pay a default rate of interest of 15% per annum and to pay the noteholders' collection costs, if any.

In consideration of the above, theglobe's Board of Directors concluded that their failure to approve the sale of its SendTec business to RelationServe would expose theglobe to the risk of forced asset liquidation and/or further equity



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dilution at or below current market price and/or having to file for bankruptcy protection. The Board further concluded that the net cash proceeds received from the sale of SendTec would provide sufficient liquidity to enable theglobe to complete the development of and begin the implementation of a strategic business plan and to operate its remaining businesses on a going concern basis.

### OUR FUTURE PLANS

The Company's VoIP telephony services and computer games business continue to incur operating losses at the present time. Additionally, our newly-acquired Internet service business, Tralliance, is on the verge of evolving from the start-up phase of its operations and plans to begin collecting fees for its services during the fourth quarter of 2005. Following the consummation of the Asset Sale, we intend to continue to operate our remaining businesses, while we complete the development of our new strategic business plan.

Our new business plan may involve making certain changes to improve the profitability of existing businesses or may instead result in decisions to sell or dispose of certain unprofitable businesses or components. Additionally, we may use the proceeds from the Asset Sale to enter into one or more new lines of business, through either acquisitions or internal development.

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For information showing the pro forma effect of the asset sale, see "Certain Pro Forma Financial Information and Related Data."

### RISK FACTORS RELATING TO THE SENDTEC ASSET SALE AND THE DISPOSITION OF THE SENDTEC BUSINESS

The SendTec Asset Sale Is Subject To Satisfaction Of A Number Of Closing Conditions, Some Of Which May Be Beyond Our Ability To Control.

The consummation of the Asset Sale involves risks, including conditions to the obligation of RelationServe to complete the Asset Sale, all of which must either be satisfied or waived prior to the completion of the Asset Sale. We do not control all of these conditions to closing.

If all closing conditions are not satisfied on a timely basis, the Asset Sale could be delayed. If certain closing conditions are not satisfied at all, the Asset Sale may never be closed. If the Asset Sale breaks up and never closes, the Company may not be able to find an alternative buyer for its SendTec business or otherwise raise sufficient capital needed to operate its businesses. In any of such events, the Company's liquidity and cash resources would likely decrease, resulting in an adverse impact to its business operations and financial condition.

The Anticipated Benefits Of The SendTec Asset Sale May Not Be Realized.

The cash proceeds received from the SendTec Asset Sale are expected to provide sufficient liquidity to enable the Company to operate on a going concern basis and to complete the development of and begin the implementation of a strategic business plan. SendTec currently represents the Company's only profitable business, with its VoIP telephony services and computer games businesses continuing to incur operating losses at the present time. It's newly acquired Internet services business, Tralliance Corporation ("Tralliance"), is on the verge of evolving from the start-up phase of its operations and plans to begin collecting fees for its services in the fourth quarter of 2005.

In order to capitalize on and realize the benefits of the SendTec Asset Sale,

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the Company must either sell or dispose of unprofitable businesses, make changes which transform unprofitable businesses into profitable ones, and/or acquire or internally develop new profitable businesses, including Tralliance. There can be no assurance that the Company will be successful in taking any of the above actions which would enable it to achieve satisfactory investment returns in future periods and realize the benefits of selling its SendTec business.

The Market Price Of theglobe.com's Common Stock May Decline As A Result Of The SendTec Asset Sale.

The market price of our Common Stock may decline as a result of the SendTec Asset Sale if:

- o the sale of the SendTec business, theglobe's only profitable business, is perceived negatively by investors; or
- o investors become skeptical that theglobe can invest the cash proceeds received for the SendTec Asset Sale in businesses that have acceptable returns on investment in future periods.

The market price of theglobe.com's Common Stock could also decline as a result of unforeseen factors related to the SendTec Asset Sale.

theglobe.com, inc.  
CERTAIN PRO FORMA FINANCIAL INFORMATION AND RELATED DATA

INDEX TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

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theglobe.com, inc.  
INTRODUCTION TO PRO FORMA  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

The following pro forma condensed consolidated financial statements give effect to (i) the Asset Purchase Agreement (the "Agreement") with RelationServe Media, Inc. ("RelationServe") entered into by theglobe.com, inc. ("theglobe" or the

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"Company") and SendTec, Inc. ("SendTec") on August 10, 2005, as amended, whereby the Company agreed to sell all of the business and substantially all of the net assets of its SendTec marketing services subsidiary to RelationServe, and (ii) the related ancillary agreements, including the Redemption Agreement and the Termination Agreement (the "Ancillary Agreements") as contemplated by the transaction. The pro forma condensed consolidated balance sheet of theglobe as of June 30, 2005 has been prepared as if the Company's sale of the SendTec business and the redemption and termination of shares pursuant to the Ancillary Agreements had been consummated on June 30, 2005. The pro forma condensed consolidated statements of operations of theglobe for the year ended December 31, 2004 and the six months ended June 30, 2005 are presented as if the Company's sale of the SendTec business and the redemption of shares pursuant to the Redemption Agreement occurred on September 1, 2004 (the original date of acquisition of SendTec by the Company) and the effect was carried forward through the balance of the year 2004 and the six month period ended June 30, 2005. The pro forma condensed consolidated statement of operations for the year ended December 31, 2004 excludes the estimated net gain resulting from the sale of the SendTec business.

Pursuant to the terms of the Agreement, the sales price of the SendTec business will be \$37,500,000 in cash, subject to certain net working capital adjustments. The closing of the transaction is subject to the satisfaction of a number of closing conditions. Pursuant to the terms of the Ancillary Agreements, the Company will redeem approximately 28,900,000 shares of its Common Stock, and terminate certain other options and warrants, owned by management and certain employees of SendTec for approximately \$12,600,000 in cash. These shares and related options and warrants were issued to management and certain employees of SendTec in connection with the Company's acquisition of SendTec on September 1, 2004.

The pro forma condensed consolidated financial statements are based upon available information and certain assumptions considered reasonable by management. The pro forma condensed consolidated financial statement reflect estimated federal and state income tax liabilities which may be subject to further adjustment based on the actual carrying value of net assets sold at the date of closing, among other considerations. The pro forma condensed consolidated financial statements do not represent what the Company's financial position would have been assuming the completion of the Company's sale of the SendTec business and the redemption and termination of shares pursuant to the Ancillary Agreements had occurred on June 30, 2005, or what the Company's results of operations would have been assuming the completion of the Company's sale of the SendTec business and the redemption of shares pursuant to the Redemption Agreement had occurred on September 1, 2004, nor do they project the Company's financial position or results of operations at any future date or for any future period. These pro forma condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 as filed with the Securities and Exchange Commission.

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theglobe.com, inc.  
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2005  
(UNAUDITED)

Securities

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	theglobe HISTORICAL -----	Disposition Adjustments -----	Redemption/ Termination -----
Assets			
Current Assets:			
Cash and cash equivalents	\$ 4,976,487	\$ (3,926,426) (a) 36,200,000 (b) (1,000,000) (c) 2,811,455 (d)	\$ (12,600,000)
Restricted cash	--	1,000,000 (c)	--
Marketable securities	42,736	--	--
Accounts receivable, net	8,210,661	(7,385,596) (a)	--
Inventory, net	247,195	--	--
Prepaid expenses	995,946	(390,767) (a)	--
Deposits on inventory purchases	77,250	--	--
Other current assets	277,647	(2,600) (a)	--
	-----	-----	-----
Total current assets	14,827,922	27,306,066	(12,600,000)
Goodwill	11,709,952	(11,709,952) (a)	--
Intangible assets	2,045,211	(1,500,000) (a)	--
Property and equipment, net	2,931,215	(902,969) (a)	--
Other assets	95,422	(28,604) (a)	--
	-----	-----	-----
Total assets	\$31,609,722 =====	\$ 13,164,541 =====	\$ (12,600,000) =====
Liabilities and Stockholders' Equity			
Current Liabilities:			
Accounts payable	\$ 8,701,615	\$ (6,650,682) (a)	\$ --
Accrued expenses and other current liabilities	3,479,574	(2,104,667) (a) 1,000,000 (e)	--
Deferred revenue	266,719	(138,585) (a)	--
Notes payable and current portion of long-term debt	4,131,379	--	--
	-----	-----	-----
Total current liabilities	16,579,287	(7,893,934)	--
Long-term debt	7,264	--	--
Other long-term liabilities	130,366	--	--
	-----	-----	-----
Total liabilities	16,716,917	(7,893,934)	--
	-----	-----	-----
Stockholders' Equity:			
Common stock	187,355	7,500 (c)	(29,578)
Additional paid-in capital	286,070,574	742,500 (c)	(112,829)
Treasury stock, at cost	(371,458)	--	371,458

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Escrowed shares	--	(750,000)	(c)	--
Accumulated deficit	(270,993,666)	21,058,475	(e)	(12,829,051)
	-----	-----		-----
Total stockholders' equity	14,892,805	21,058,475		(12,600,000)
	-----	-----		-----
Total liabilities and stockholders' equity	\$ 31,609,722	\$ 13,164,541		\$ (12,600,000)
	=====	=====		=====

The accompanying notes are an integral part of these pro forma condensed consolidated financial statements.

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PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)

	theglobe HISTORICAL	Disposition Adjustments	
	-----	-----	
Net revenue	\$16,041,032	\$(13,408,183)	(g)
	-----	865,942	(h)
		-----	
Operating expenses:			
Cost of revenue	18,262,105	(9,670,229)	(g)
		462,863	(h)
Sales and marketing	7,386,637	(691,654)	(g)
		403,079	(h)
Product development	1,053,886	--	
General and administrative	9,102,151	(1,621,146)	(g)
		(234,231)	(i)
Depreciation	1,402,712	(107,270)	(g)
Amortization of intangibles	222,834	(120,000)	(g)
Impairment charge	1,661,975	--	
Loss on settlement of contractual obligation	406,750	--	
	-----	-----	
Total operating expenses	39,499,050	(11,578,588)	
	-----	-----	
Loss from operations	(23,458,018)	(963,653)	
	-----	-----	

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Other expense, net:		
Interest expense, net	(656,633)	(9,715) (g)
Other expense, net	(158,550)	--
	-----	-----
Other expense, net	(815,183)	(9,715)
	-----	-----
Loss before income taxes	(24,273,201)	(973,368)
Income taxes	--	--
	-----	-----
Net loss	\$ (24,273,201)	\$ (973,368)
	=====	=====
Basic and diluted net loss per common share	\$ (0.19)	
	=====	
Weighted average basic and diluted shares outstanding	127,843,000	
	=====	

The accompanying notes are an integral part of these pro forma condensed consolidated financial statements.

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theglobe.com, inc.  
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2005  
(UNAUDITED)

	theglobe HISTORICAL	Disposition Adjustments	
	-----	-----	
Net revenue	\$ 19,425,046	\$ (18,469,603)	(g)
	-----		
		324,717	(h)
		-----	
Operating expenses:			
Cost of revenue	16,638,712	(12,669,759)	(g)
		196,618	(h)
Sales and marketing	2,175,902	(1,063,516)	(g)
		128,099	(h)
Product development	654,257	--	
General and administrative	6,099,641	(2,357,554)	(g)
		(329,310)	(i)
Depreciation	752,539	(169,368)	(g)
Amortization of intangibles	198,800	(180,000)	(g)
	-----	-----	

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Total operating expenses	26,519,851	(16,444,790)
	-----	-----
Loss from operations	(7,094,805)	(1,700,096)
	-----	-----
Other expense, net:		
Interest expense, net	(3,029,574)	(25,032) (g)
Other expense, net	(278,837)	--
	-----	-----
Other expense, net	(3,308,411)	(25,032)
	-----	-----
Loss before income taxes	(10,403,216)	(1,725,128)
Income taxes	15,576	(15,576) (g)
	-----	-----
Net loss	\$ (10,418,792)	\$ (1,709,552)
	=====	=====
Basic and diluted net loss per common share	\$ (0.06)	
	=====	
Weighted average basic and diluted shares outstanding	177,680,000	
	=====	

The accompanying notes are an integral part of these pro forma condensed consolidated financial statements.

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theglobe.com, inc.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

BALANCE SHEET

(a) To reflect the adjustment required to eliminate the assets sold and liabilities assumed in connection with the sale of our SendTec business to RelationServe.

(b) To reflect the \$37,500,000 in cash proceeds as per the Agreement, less a \$1,000,000 fee payable to the Company's financial advisors and \$300,000 in other estimated transaction costs.

(c) To reflect the \$1,000,000 in cash proceeds and common shares valued at \$750,000 which will be escrowed as per the Escrow Agreement.

(d) To reflect the cash proceeds received as a result of the net working capital adjustment as defined in the Agreement, estimated herein using net working capital of SendTec as of June 30, 2005.

(e) To reflect the estimated gain on sale of SendTec assets net of applicable

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estimated Federal and state income taxes and to reflect accruals for such estimated income taxes.

(f) To record the redemption and retirement of 28,879,097 common shares purchased from the management of SendTec pursuant to the terms of the Ancillary Agreements. Also assumes the retirement of the 699,281 shares of treasury stock held by the Company as of June 30, 2005. Also reflects the redemption and cancellation of certain options to acquire common stock of theglobe previously issued to SendTec management and employees.

### STATEMENT OF OPERATIONS

(g) To reflect the adjustment required to eliminate the results of operations of our SendTec subsidiary for the period indicated.

(h) To reflect the adjustment to reverse the elimination of intercompany revenue recorded and the related costs incurred by SendTec for marketing services provided to the Company's VoIP telephony services business for the period indicated.

(i) To reflect the elimination of deferred compensation recorded related to replacement stock options issued to SendTec employees in connection with the acquisition of SendTec on September 1, 2004 for the period indicated.

(j) The weighted average basic and diluted shares outstanding for the twelve months ended December 31, 2004 assumes the common shares redeemed were split evenly between those issued as of September 1, 2004, the SendTec acquisition date, and those issued December 1, 2004 as a result of the conversion of preferred shares issued at acquisition into theglobe.com Common Stock, and that such shares were redeemed on their respective date of issuance. The weighted average basic and diluted shares outstanding for the six months ended June 30, 2005 assumes the common shares were redeemed as of January 1, 2005.

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### INFORMATION ABOUT SENDTEC, INC. ("SENDTEC")

#### SENDTEC, INC. BUSINESS

For a description of SendTec's business, please refer to "Description of Business - Our Marketing Services Business" included elsewhere herein.

#### SELECTED SENDTEC, INC. FINANCIAL DATA (1)

The selected balance sheet data as of December 31, 2004 and 2003 and as of June 30, 2005 and the selected operating data for the years ended December 31, 2004, 2003 and 2002 and the six months ended June 30, 2005 and June 30, 2004 have been derived from SendTec's unaudited financial statements included elsewhere herein. The selected balance sheet data as of December 31, 2002, 2001 and 2000 and as of June 30, 2004 and the selected operating data for the years ended December 31, 2001 and 2000 have been derived from SendTec's unaudited financial statements not included herein. The selected SendTec financial data presented below, together with the accompanying notes, should be read in conjunction with SendTec's unaudited financial statements and related notes and SendTec's Management's Discussion and Analysis of Financial Condition and Results of Operation contained elsewhere in this Registration Statement.

Six Months Ended



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	June 30,		Year Ended December 31,		
	2005 (2)	2004	2004 (2)	2003	2002
	(In thousands)				
Operating Data:					
Net revenue	\$ 18,470	\$ 13,922	\$ 32,652	\$ 15,441	\$ 8,569
Gross profit	5,800	4,740	10,089	6,751	3,316
Operating expenses	3,771	2,875	7,171	4,130	2,988
Income (loss) from Operations	2,029	1,865	2,918	2,621	328
Net income (loss)	1,275	1,134	1,722	1,603	178
Balance Sheet Data (at end of period):					
Total assets	\$ 30,538	\$ 8,060	\$ 27,649	\$ 7,458	\$ 4,244

(1) Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the net income (loss) previously reported by SendTec, Inc. ("SendTec").

(2) On September 1, 2004, theglobe acquired 100% of the issued and outstanding capital stock of SendTec for a total purchase price of approximately \$18.4 million. For financial reporting purposes, theglobe's purchase price was "pushed down" into the accounts of SendTec, resulting effectively in a recapitalization of SendTec as of September 1, 2004. The allocation of theglobe's purchase price to the SendTec acquired assets resulted in the establishment of goodwill and intangible assets related to non-compete agreements of \$11.7 million and \$1.8 million, respectively, on SendTec's balance sheet as of the date of acquisition. The balance sheet data presented above at June 30, 2005 and December 31, 2004 reflects such purchase price allocation. Amortization expense related to the non-compete intangibles of \$180 thousand and \$120 thousand is included in the operating data results above for the six months ended June 30, 2005 and the year ended December 31, 2004, respectively.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF SENDTEC'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### BASIS OF PRESENTATION OF FINANCIAL STATEMENTS; GOING CONCERN

Certain matters discussed below under "Liquidity and Capital Resources" related to the liquidity and financial condition of theglobe, SendTec's parent company, raise substantial doubt about theglobe's and SendTec's ability to continue as going concerns. In addition, theglobe received a report from its independent accountants, relating to its December 31, 2004 audited financial statements containing an explanatory paragraph stating that its recurring losses from operations and its accumulated deficit raise substantial doubt about its ability to continue as a going concern. As SendTec is a wholly-owned subsidiary of theglobe, such going concern doubt also extends to SendTec. SendTec's 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, SendTec's financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should it be unable to continue as a going concern.

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### OVERVIEW

SendTec was incorporated in February 2000 in the State of Florida and commenced operations on that date. Originally, SendTec incorporated under the name prizecrazy.com and was envisioned to become a free consumer gaming website that monetized consumer traffic on the website through online "cost-per-impression" or "CPM" advertising. Because of a significant decline in the pricing of online CPM advertising during this period of time, the prizecrazy.com website development was abandoned and the company modified its business strategy so as to become a direct response marketing services company. In conjunction with this change in strategy, prizecrazy.com changed its name to DirectNet Advertising.net ("DNA") to better define the company's operational focus.

At the time, DNA was one of only a few online marketing services companies that was providing performance-based (i.e. cost-per-action, cost-per-lead, cost-per-sale) advertising solutions to advertising clients. As part of its marketing services offering, DNA also began developing proprietary software to facilitate the tracking of actions online for its advertisers and its distribution network. Today, SendTec's Results, Optimization, Yield ("ROY") online tracking software provides the company with a unique competitive advantage by enabling SendTec to optimize campaigns and by enabling advertising clients and distribution partners to access real-time conversion information. In February of 2002, DNA acquired 100% of the stock of iFactz, Inc. ("iFactz") in a merger transaction. iFactz has developed software that enables the tracking of online response to distinct sources of offline advertising. The iFactz software provides an excellent complementary platform for DNA's ROY tracking software and enables DNA to offer a complete technology tracking solution for online and offline direct response marketing. During this same period of time, DNA changed its name to SendTec, Inc. to better define itself in the market.

Today, SendTec is a direct response marketing services and technology company. SendTec provides customers a complete offering of direct marketing products and services to help them market their products both on the Internet ("online") and through traditional media channels such as television, radio and print advertising ("offline"). By utilizing SendTec's marketing products and services, SendTec's clients seek to increase the effectiveness and the return on investment of their advertising campaigns. SendTec's online and offline direct marketing products and services include strategic campaign development, creative development, creative production and post-production, media buying and tracking, campaign management, campaign analysis and optimization, technology systems implementation and integration for campaign tracking and many other agency type services.

On September 1, 2004, theglobe acquired all of the issued and outstanding shares of the capital stock of SendTec for consideration consisting of: (i) \$6.0 million in cash, (ii) the issuance of an aggregate of 17,500,024 shares of theglobe's common stock, (iii) the issuance of an aggregate of 175,000 shares of theglobe's Series H Automatically Converting Preferred Stock (which was subsequently converted into approximately 17,500,500 shares of theglobe's common stock), and (iv) the issuance of a subordinated promissory note in the amount of \$1 million. In addition, warrants to acquire shares of theglobe's common stock would be issued to the former shareholders of SendTec when and if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending December 31, 2005. The number of earn-out warrants would range from an aggregate of approximately 250,000 to 2,500,000 (if actual operating income exceeds the forecast by at least 10%). If and to the extent the warrants are earned, the exercise price of the performance warrants would be \$0.27 per share and they will be exercisable for a period of five years. theglobe also issued an aggregate of approximately 4,000,000 replacement options to acquire theglobe's common stock for each of the issued and outstanding options to acquire SendTec shares held by the former employees of SendTec. The total consideration paid by

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theglobe to acquire SendTec was valued at approximately \$18.4 million. For financial accounting purposes, theglobe's purchase price was "pushed down" into the accounts of SendTec, resulting effectively in a recapitalization of SendTec as of September 1, 2004. The allocation of theglobe's purchase price to the SendTec acquired assets also resulted in the establishment of goodwill and intangible assets related to non-compete agreements of \$11.7 million and \$1.8 million, respectively, on SendTec's balance sheet at the date of acquisition.

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Due to the weak financial condition and liquidity of theglobe, SendTec's parent company (see the "Liquidity and Capital Resources" section for further details), theglobe's management during the first quarter of 2005 engaged financial advisors to assist theglobe in connection with raising capital through a private placement of equity securities in either theglobe or its SendTec wholly-owned subsidiary or alternatively in selling either part or all of theglobe's businesses or assets, including its SendTec business. On August 10, 2005, theglobe entered into an asset purchase agreement, as amended on August 23, 2005 (the "Purchase Agreement") with RelationServe Media, Inc. ("RelationServe") whereby theglobe and SendTec agreed to sell all of the business and substantially all of the net assets of SendTec to RelationServe for \$37.5 million in cash, subject to certain net working capital adjustments. In addition, on August 23, 2005, theglobe entered into a Redemption Agreement with six members of the management of SendTec (the "Redemption Agreement") to redeem approximately 28.9 million shares of theglobe's common stock owned by such management for approximately \$11.6 million in cash. The closing of the redemption of these shares is contingent on, and will occur immediately after, the closing of the Purchase Agreement. theglobe also anticipates that it will be terminating and canceling certain options and warrants held by these six members of management for approximately \$0.4 million in cash. These shares and related options and warrants were issued to SendTec management in connection with theglobe's acquisition of SendTec. theglobe further expects to terminate or cancel the options of a few other employees of SendTec and enter into severance bonus arrangements with others for cash payments totaling approximately \$0.5 million. The closing of the asset sale is subject to the satisfaction of a number of closing conditions including distribution of a definitive information statement describing the asset sale to theglobe's stockholders which was undertaken commencing on September 16, 2005, with the closing anticipated to occur on or about October 11, 2005.

Due to the acquisition of SendTec by theglobe on September 1, 2004, the presentation and discussions below are not in all respects comparable to the discussion of SendTec (and the marketing services segment) contained in theglobe's consolidated financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations found elsewhere in this document.

SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2004

NET REVENUE: Net Revenue totaled \$18.5 million for the six months ended June 30, 2005 as compared to \$13.9 million for the six months ended June 30, 2004. SendTec's net revenue was primarily generated from three areas: online performance advertising, offline direct response television media buying and online and offline strategic marketing services. The increase of \$4.6 million in total net revenue as compared to the first half of 2004 was primarily attributable to increased online performance advertising revenue. Online performance advertising revenue totaled \$16.0 million for the six months ended June 30, 2005 as compared to \$12.3 for the six months ended June 30, 2004. The 30% increase in online performance advertising resulted from the addition of several new online advertising clients. Online performance advertising revenue

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comprised approximately 87.0% and 88.7% of SendTec's total net revenue for the six months ended June 30, 2005 and 2004, respectively.

**COST OF REVENUE:** Cost of revenue consists of third party vendor costs for research, production and post production services plus all third party vendor fees incurred to acquire advertising media, including the actual cost of the media. Cost of revenue totaled \$12.7 million for the six months ended June 30, 2005 as compared to \$9.2 million for the same period of the prior year. Approximately 98.4% of the increase in cost of revenue as compared to the first half of 2004 resulted from an increase in cost of revenue related to online performance advertising. This increase was directly attributable to the increase in online performance based advertising revenue in the six months ended June 30, 2005, as compared to the same period in 2004. Cost of revenue related to online performance advertising represented approximately 95.4% and 94.2% of SendTec's total cost of revenue for the six months ended June 30, 2005 and 2004, respectively. Additionally, cost of revenue resulting from online performance advertising was approximately 75.3% and 70.1% of online performance advertising revenue for the six months ended June 30, 2005 and 2004, respectively.

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**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:** Selling, general and administrative expenses consist primarily of salaries and related personnel costs of sales, operations and general and administrative employees. This expense category also includes costs for facilities rent, legal and professional services, server hosting and bandwidth services, marketing services and other general corporate overhead. Selling, general and administrative expenses totaled \$3.4 million for the six months ended June 30, 2005 as compared to \$2.7 million for the six months ended June 30, 2004. Employee salaries, commissions and benefits represented approximately 77.7% and 78.4% of total selling, general and administrative expenses for the six months ended June 30, 2005 and 2004 respectively. Approximately \$0.5 million of the total increase in selling, general and administrative expenses as compared to the six months ended June 30, 2004 resulted from increased salaries, commissions and benefits paid to employees. The increase in employee costs was primarily a result of an increase in the number of employees as compared to the first half of 2004. SendTec employed 58 and 41 at the end of June 30, 2005 and 2004 respectively.

**DEPRECIATION AND AMORTIZATION:** Depreciation and amortization expense totaled \$0.3 million for the six months ended June 30, 2005. The \$0.2 million increase from the same period of the prior year resulted principally from the amortization of non-compete intangibles recorded as a result of the acquisition of SendTec by theglobe.com.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

**NET REVENUE:** Net Revenue totaled \$32.7 million for the year ended December 31, 2004 as compared to \$15.4 million for the year ended December 31, 2003. SendTec's net revenue was primarily generated from three areas: online performance advertising, offline direct response television media buying and online and offline strategic marketing services. The increase of \$17.3 million in total net revenue as compared to 2003 was primarily attributable to increased online performance advertising revenue. Online performance advertising revenue totaled \$28.4 million during 2004 as compared to \$12.3 during 2003. The 131% increase in online performance advertising resulted from the addition of several new online advertising clients and a \$7.3 million increase in the revenue generated by SendTec's largest existing online performance advertising client. Online performance advertising revenue represented approximately 87.0% and 79.5% of SendTec's total net revenue in 2004 and 2003, respectively.

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**COST OF REVENUE:** Cost of revenue consists of third party vendor costs for research, production and post production services plus all third party vendor fees incurred to acquire advertising media, including the actual cost of the media. Cost of revenue totaled \$22.6 million for 2004 as compared to \$8.7 million for 2003. The increase in cost of revenue related to online performance advertising accounted for the entire increase in total cost of revenue as compared to the year ended December 31, 2003. The increase was directly attributable to the increase in online performance based advertising revenue in 2004 as compared to 2003. Cost of revenue related to online performance advertising represented approximately 95.1% and 85.3% of SendTec's total cost of revenue for 2004 and 2003, respectively. Additionally, online performance advertising cost of revenue was approximately 75.6% and 60.4% of online performance advertising revenue during 2004 and 2003, respectively.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:** Selling, general and administrative expenses consist primarily of salaries and related personnel costs of sales, operations and general and administrative employees. This expense category also includes costs for facilities rent, legal and professional services, server hosting and bandwidth services, marketing services and other general corporate overhead. Selling, general and administrative expenses totaled \$6.8 million for the year ended December 31, 2004 as compared to \$3.9 million for the year ended December 31, 2003. Employee salaries, commissions and benefits represented approximately 76.7% and 80.9% of total selling, general and administrative expenses in 2004 and 2003, respectively. Approximately \$2.0 million of the \$2.9 million increase in selling, general and administrative expenses as compared to 2004 resulted from increased salaries, commissions and benefits paid to employees. This increase in employee costs was principally due to the increase in the number of employees between 2003 and 2004. SendTec employed 51 and 32 at the end of 2004 and 2003, respectively. Additionally, professional fees increased \$0.3 million in 2004 as compared to 2003 primarily due to legal, accounting and investment banking fees related to the acquisition of SendTec by theglobe.com on September 1, 2004.

**DEPRECIATION AND AMORTIZATION:** Depreciation and amortization expense totaled \$0.4 million for the year ended December 31, 2004. The \$0.2 million increase from the prior year was primarily due to the amortization of non-compete intangibles recorded as a result of the acquisition of SendTec by theglobe.com and an increase in depreciation expense as a result of capital expenditures related to SendTec's new office facility.

### YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

**NET REVENUE:** Net Revenue totaled \$15.4 million for the year ended December 31, 2003 as compared to \$8.6 million for the year ended December 31, 2002. SendTec's net revenue was principally generated from three areas: online performance advertising, offline direct response television media buying and online and offline strategic marketing services. The increase of \$6.8 million in total net revenue as compared to 2002 was primarily attributable to increased online performance advertising revenue. Online performance advertising revenue totaled \$12.3 million for 2003 as compared to \$7.0 for 2002. The 76% increase in online performance advertising revenue resulted from the addition of several new online advertising clients and a \$3.3 million increase in the revenues generated by SendTec's largest existing online performance advertising client. Online performance advertising revenue represented approximately 79.5% and 81.4% of SendTec's total net revenue in 2003 and 2002, respectively.

**COST OF REVENUE:** Cost of revenue consists of third party vendor costs for research, production and post production services plus all third party vendor

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fees incurred to acquire advertising media, including the actual cost of the media. Cost of revenue totaled \$8.7 million for 2003 as compared to \$5.3 million for 2002. Approximately \$3.0 million of the total increase in cost of revenue as compared to the prior year resulted from the increase in online performance advertising cost of revenue. The increase in online performance advertising cost of revenue was directly attributable to the increase in online performance based advertising revenue as compared to 2002. Online performance advertising cost of revenue represented approximately 85.3% and 84.1% of total cost of revenue during 2003 and 2002, respectively. Additionally, cost of revenue resulting from online performance advertising represented approximately 60.4% and 63.3% of online performance advertising revenue in 2003 and 2002, respectively.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:** Selling, general and administrative expenses consist primarily of salaries and related personnel costs of sales, operations and general and administrative employees. This expense category also includes costs for facilities rent, legal and professional services, server hosting and bandwidth services, marketing services and other general corporate overhead. Selling, general and administrative expenses totaled \$3.9 million for the year ended December 31, 2003 as compared to \$2.7 million for the year ended December 31, 2002. Employee salaries, commissions and benefits represented approximately 80.9% and 78.7% of total selling, general and administrative expenses in 2003 and 2002, respectively. Approximately \$1.0 million of the total increase in selling, general and administrative expenses as compared to 2002 resulted from increased salaries, commissions and benefits paid to employees. The increase in employee costs was primarily a result of an increase in the number of SendTec employees from 2002 to 2003 and discretionary year-end bonuses of approximately \$0.5 million in 2003. SendTec employed 32 and 26 at the end of 2003 and 2002, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

#### CASH FLOW ITEMS

#### SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2004

As of June 30, 2005, SendTec had approximately \$3.9 million in cash and cash equivalents as compared to \$3.1 million at December 31, 2004. Net cash provided by operating activities was \$2.7 million for the six months ended June 30, 2005 compared to net cash of \$0.1 million used in operating activities for the same period of the prior year. The period-to-period increase in net cash provided by operating activities was due mainly to the favorable impact of working capital changes, related principally to income taxes payable and accrued expenses, in 2005 compared to 2004. During the six months ended June 30, 2005, SendTec made cash advances totaling \$1.5 million to theglobe, its parent company, and made advances related to the providing of advertising services totaling \$0.3 million to an affiliated wholly-owned subsidiary of theglobe.

#### YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

As of December 31, 2004, SendTec had approximately \$3.1 million in cash and cash equivalents as compared to \$3.3 million at December 31, 2003. Net cash provided by operating activities was \$2.9 million and \$2.2 million for the years ended December 31, 2004 and 2003, respectively. The period-to-period increase in net cash provided by operating activities was related primarily to favorable working capital changes in 2004 compared to 2003. During the year ended December 31, 2004, SendTec made cash advances totaling \$1.8 million to theglobe, its parent company, and made advances related to the providing of advertising services totaling \$1.0 million to an affiliated wholly-owned subsidiary of theglobe.

#### YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

As of December 31, 2003, SendTec had approximately \$3.3 million in cash and cash

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equivalents as compared to \$1.2 million at December 31, 2002. Net cash provided by operating activities was \$2.2 million and \$0.7 million for the years ended December 31, 2003 and 2002, respectively. The period-to-period increase in net cash provided by operating activities was related primarily to higher net income earned in 2003 compared to 2002.

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### FUTURE AND CRITICAL NEED FOR CAPITAL

SendTec's parent company, theglobe, continues to incur substantial consolidated net losses and its management believes that theglobe will continue to be unprofitable and use cash in its operations for the foreseeable future. theglobe's consolidated net losses and cash usage during its recent past and projected future periods relate primarily to the operation of its VoIP telephony services business and to a lesser extent to corporate overhead expenses and the operations of its computer games business. SendTec has contributed net income and cash flow since being acquired on September 1, 2004, and management expects that SendTec will continue to be profitable and provide positive cash flow in future periods.

During the first quarter of 2005, theglobe's management began actively re-evaluating theglobe's primary business lines, particularly in view of theglobe's critical need for cash and the overall net losses of theglobe. Since that time, management, with the assistance of its financial advisors has explored a number of strategic alternatives for theglobe and/or its component businesses, including continuing to operate the businesses, selling certain businesses or assets, or entering into new businesses.

As part of the re-evaluation process, theglobe, during the first quarter of 2005, made the decision to discontinue using its SendTec business to perform marketing services for its VoIP telephony business, and to instead dedicate 100% of SendTec's marketing resources to support and grow SendTec's own third party revenue producing customer base. A significant part of the rationale for theglobe's acquisition of SendTec in September 2004 related to the perceived synergies initially thought to be obtainable by having SendTec effectively function as the marketing department for theglobe's VoIP telephony business. By the first quarter of 2005, it became apparent that this marketing strategy was not viable and that the initially perceived synergies would not be realized. It was at this point in time that the continued ownership of SendTec became less strategically important to theglobe and theglobe's management concluded that the best alternative for theglobe was to actively pursue a sale of its SendTec business.

theglobe's consolidated cash and cash equivalents balance at September 15, 2005, was approximately \$1.6 million. theglobe has no access to credit facilities with traditional third party lenders and there can be no assurance that theglobe would be able to raise equity capital within a short-term timeframe.

As discussed earlier in the "Overview" section of this Management's Discussion and Analysis of SendTec's Financial Condition and Results of Operations, on August 10, 2005, theglobe and SendTec entered into a definitive agreement to sell the business and substantially all of the net assets of SendTec to RelationServe. If theglobe is not successful in consummating the RelationServe asset sale or in entering into another financing, sale, or business transaction that otherwise infuses sufficient additional cash resources into theglobe by no later than sometime during the fourth quarter of 2005, theglobe's management believes that theglobe will no longer be able to pay its current financial obligations on a timely basis. In this event, theglobe would likely be required to temporarily or permanently shutdown certain of its unprofitable businesses,

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including its VoIP telephony services business and implement company-wide cost reduction programs. There can be no assurance that theglobe would be successful in implementing such restructuring plans so that theglobe and its wholly-owned subsidiary, SendTec, could continue to operate as going concerns in the future.

### MANAGEMENT'S DISCUSSION OF SENDTEC'S 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 customer 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

Revenue from the distribution of Internet advertising is recognized when Internet users visit and complete actions at an advertiser's website. Revenue consists of the gross value of billings to clients, including the recovery of costs incurred to acquire online media required to execute client campaigns. Recorded revenue is based upon reports generated by SendTec's tracking software.

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Revenue derived from the purchase and tracking of direct response media, such as television and radio commercials, is recognized on a net basis when the associated media is aired. In many cases, the amount SendTec bills to clients significantly exceeds the amount of revenue that is earned due to the existence of various "pass-through" charges such as the cost of the television and radio media. Amounts received in advance of media airings are deferred and included in deferred revenue in the accompanying balance sheet.

Revenue generated from the production of direct response advertising programs, such as infomercials, is recognized on the completed contract method when such programs are complete and available for airing. Production activities generally take eight to twelve weeks and SendTec usually collects amounts in advance and at various points throughout the production process. Amounts received from customers prior to completion of commercials are included in deferred revenue and direct costs associated with the production of commercials in process are deferred and included within other current assets in the accompanying balance sheet.

#### 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 SendTec's historical loss experience, judgments about customer credit risk, and the need to adjust for current economic conditions.

#### GOODWILL AND INTANGIBLE ASSETS



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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:

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

SendTec's long-lived assets, other than goodwill, 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 SendTec 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

SendTec 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 May 2005, the FASB issued SFAS No. 154, "Accounting for Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 applies to all voluntary changes in accounting principles and requires retrospective application to prior periods' financial statements of changes in accounting principles. This statement also requires that a change in depreciation, amortization or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SendTec does not expect the adoption of this standard to have a material impact on its financial condition, results of operations or liquidity.

In March 2005, the FASB issued Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143, "Accounting for Asset Retirement Obligations." The interpretation clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The effective date of this interpretation is no later than the end of fiscal years ending after December 15, 2005. SendTec is currently investigating the effect, if any, that FIN 47 would have on SendTec's financial position, cash flows and results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. This statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. SendTec does not expect the adoption of this standard to have a material impact on its financial condition, results of operations, or liquidity.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This standard replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The standard requires companies to expense the fair value of stock options on the grant date and is effective for annual periods beginning after June 15, 2005. In accordance with the revised statement, the expense attributable to stock options granted or vested subsequent to January 1, 2006 will be required to be recognized. The precise impact of the adoption of SFAS No. 123R cannot be predicted at this time because it will depend on the levels of share-based payments that are granted in the future and whether the related compensation expense is allocated to SendTec by theglobe for the SendTec employees participating in the Parent Company's stock option plans. However, SendTec believes that the adoption of this standard may have a significant effect on SendTec's results of operations or financial position.

In December 2003, the FASB issued FIN No. 46-R "Consolidation of Variable

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Interest Entities." FIN 46-R, which modifies certain provisions and effective dates of FIN 46, sets forth the criteria to be used in determining whether an investment in a variable interest entity should be consolidated. These provisions are based on the general premise that if a company controls another entity through interests other than voting interests, that company should consolidate the controlled entity. SendTec believes that currently, it does not have any material arrangements that meet the definition of a variable interest entity which would require consolidation.

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In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instrument consists of obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, whose shares are mandatorily redeemable. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective from the start of the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material impact on SendTec's results of operations or financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments Hedging Activities." This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 became effective during the third quarter of 2003 and did not have a material impact on SendTec's results of operations or financial position.

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SendTec, Inc.

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SENDTEC, INC.  
BALANCE SHEETS  
(UNAUDITED)

	June 30, 2005	December 31, 2004	
	-----	-----	-----
Assets			
Current Assets			
Cash and cash equivalents	\$ 3,926,426	\$ 3,098,932	\$ 3,2
Accounts receivable	7,385,596	6,620,382	3,4
Prepaid expenses	390,767	648,823	1
Other current assets	2,600	34,557	
	-----	-----	-----
Total current assets	11,705,389	10,402,694	6,8
Goodwill	11,709,952	11,702,317	
Intangible assets	1,500,000	1,680,000	
Property and equipment, net of accumulated depreciation of \$276,638, \$107,270 and \$607,690 at June 30, 2005 and December 31, 2004 and 2003, respectively	902,969	963,757	5
Due from parent company	3,283,350	1,800,000	
Due from affiliated company	1,408,151	1,084,253	
Other assets	28,604	15,593	
	-----	-----	-----
Total assets	\$30,538,415	\$27,648,614	\$ 7,4
	=====	=====	=====
Total Liabilities And Stockholders' Equity			
Current Liabilities			
Accounts payable	\$ 6,650,682	\$ 6,383,502	\$ 2,8
Accrued expenses and other current liabilities	2,104,667	1,083,543	1
Deferred revenue	138,585	575,950	1
Income taxes payable to Parent Company	1,196,029	431,873	
Income taxes payable	--	--	7
Deferred tax liabilities	--	--	
	-----	-----	-----
Total Current Liabilities	10,089,963	8,474,868	3,9
Stockholders' Equity			
Preferred stock	--	--	
Common stock	1	1	
Additional paid-in capital	18,398,019	18,398,019	2,4
Treasury stock, at cost	--	--	(
Notes receivable - common stock	--	--	(
Retained earnings	2,050,432	775,726	1,1
	-----	-----	-----
Total stockholders' equity	20,448,452	19,173,746	3,4
	-----	-----	-----
Total liabilities and stockholders' equity	\$30,538,415	\$27,648,614	\$ 7,4
	=====	=====	=====

See notes to unaudited financial statements.

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SENDTEC, INC.  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Six Months Ended June 30,		Year Ended December	
	2005	2004	2004	2003
Net Revenue:				
Third party customers	\$ 18,144,886	\$ 13,919,138	\$ 31,396,583	\$ 15,440,509
Affiliated company (subsidiary of theglobe.com, inc.)	324,717	3,333	1,255,290	--
	18,469,603	13,922,471	32,651,873	15,440,509
Cost of Revenue	12,669,759	9,182,070	22,563,049	8,689,941
Gross Profit	5,799,844	4,740,401	10,088,824	6,750,568
Operating Expenses:				
Selling, general and administrative	3,421,070	2,748,811	6,767,798	3,908,018
Depreciation	169,368	126,341	283,599	221,892
Amortization of intangible assets	180,000	--	120,000	--
	3,770,438	2,875,152	7,171,397	4,129,910
Income from operations	2,029,406	1,865,249	2,917,427	2,620,658
Other Income (Expense):				
Interest income	25,032	11,635	27,298	--
Other income (expense)	--	(19,974)	(19,974)	23,952
	25,032	(8,339)	7,324	23,952
Income Before Provision For Income Taxes	2,054,438	1,856,910	2,924,751	2,644,610
Provision For Income Taxes	779,732	723,000	1,202,669	1,042,000
Net Income	\$ 1,274,706	\$ 1,133,910	\$ 1,722,082	\$ 1,602,610

See notes to unaudited financial statements.

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SENDTEC, INC.

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## STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Notes Receivable Common Stock
	Shares	Amount			
Balance At					
December 31, 2001	2,362,267	\$ 2,362	\$ 1,913,504	\$ (60,000)	\$ (55)
Issuance of common stock	15,555	15	34,985	--	
Issuance of common stock for iFactz	2,000,000	2,000	538,000	--	
Repurchase of common stock for cash	--	--	--	(580)	
Net income for the year	--	--	--	--	
Balance At					
December 31, 2002	4,377,822	4,377	2,486,489	(60,580)	(55)
Repurchase of common stock stock for cash	--	--	--	(15,000)	
Net income for the year	--	--	--	--	
Balance At					
December 31, 2003	4,377,822	4,377	2,486,489	(75,580)	(55)
Issuance of common stock	1,000	1	2,249	--	
Payoff of notes receivable	--	--	--	--	55
Net income, eight months ended August 31, 2004	--	--	--	--	
Balance August 31, 2004 - Before Recapitalization	4,378,822	4,378	2,488,738	(75,580)	
Recapitalization, September 1, 2004	(4,378,722)	(4,377)	15,909,281	75,580	
Balance After Recapitalization on September 1, 2004	100	1	18,398,019	--	
Net income, four months ended December 31, 2004	--	--	--	--	
Balance At					
December 31, 2004	100	1	18,398,019	--	
Net income for the six months ended June 30, 2005	--	--	--	--	

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Balance At June 30, 2005	100	\$	1	\$ 18,398,019	\$	--	\$
	=====		=====	=====		=====	=====

See notes to unaudited financial statements.

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SENDTEC, INC.  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Six Months Ended June 30,		Year Ended December 31,		
	2005	2004	2004	2003	
Cash Flows From					
Operating Activities					
Net income	\$ 1,274,706	\$ 1,133,910	\$ 1,722,082	\$ 1,602,610	\$
Adjustments to					
reconcile net income					
to net cash and cash					
equivalents provided					
by (used in)					
operating activities:					
Depreciation					
and amortization	349,368	126,341	403,599	221,892	
Loss on disposal					
of property					
and equipment	--	19,974	19,974	--	
Provision for bad debts	--	--	--	--	
Common stock issued					
for services	--	--	--	--	
Changes in					
operating assets and					
liabilities:					
Accounts receivable	(765,214)	(786,497)	(3,272,112)	(1,313,958)	(1,
Prepaid expenses					
and other assets	277,002	(62,774)	(519,392)	(105,004)	
Deferred tax assets	--	(1,000)	--	245,000	
Accounts payable	267,180	(98,326)	3,500,600	1,201,921	
Accrued expenses					
and other					
liabilities	1,013,489	291,046	210,375	34,444	
Deferred revenue	(437,365)	71,127	431,607	(446,587)	
Income taxes					
payable to					
Parent Company	764,156	--	431,873	--	
Income taxes payable	--	(797,000)	--	797,000	
Net cash and	-----	-----	-----	-----	-----
cash equivalents					
provided by					
(used in)					
operating					
activities	2,743,322	(103,199)	2,928,606	2,237,318	
	-----	-----	-----	-----	-----

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Cash Flows From					
Investing Activities					
Advances to					
parent company	(1,483,350)	--	(1,800,000)	--	
Advances to					
affiliated company	(323,898)	--	(976,030)	--	
Proceeds from					
sales of property					
and equipment	--	10,000	10,000	--	
Purchase of property					
and equipment	(108,580)	(310,865)	(384,499)	(144,146)	
	-----	-----	-----	-----	-----
Net cash					
used by					
investing					
activities	(1,915,828)	(300,865)	(3,150,529)	(144,146)	
	-----	-----	-----	-----	-----
Cash Flows From					
Financing Activities					
Sale of common stock	--	2,250	2,250	--	
Proceeds from payoff					
of notes receivable					
- common stock	--	--	55,350	--	
Purchase of					
common stock	--	--	--	(15,000)	
	-----	-----	-----	-----	-----
Net cash					
provided by					
(used in)					
financing					
activities	--	2,250	57,600	(15,000)	
	-----	-----	-----	-----	-----
Net Increase (Decrease)					
In Cash and Cash					
Equivalents	827,494	(401,814)	(164,323)	2,078,172	
Cash and Cash					
Equivalents, Beginning	3,098,932	3,263,255	3,263,255	1,185,083	
	-----	-----	-----	-----	-----
Cash and Cash					
Equivalents, Ending	\$ 3,926,426	\$ 2,861,441	\$ 3,098,932	\$ 3,263,255	\$ 1,185,083
	=====	=====	=====	=====	=====

See notes to unaudited financial statements.

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SENDTEC, INC.  
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

SendTec, Inc. (the "Company" or "SendTec") was incorporated in February 2000 in the State of Florida and commenced operations on that date. SendTec incorporated under the name prizecrazy.com, originally planning a free consumer gaming website that monetized consumer traffic on its website through the sale of online advertising. Due to a significant decline in the pricing of online



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advertising at that time, the Company modified its business strategy to become a direct response marketing services company.

On September 1, 2004 the Company was acquired by theglobe.com, inc. ("theglobe" or the "Parent Company") and became a wholly-owned subsidiary of theglobe as of that date.

Reference should be made to Note 12, "Subsequent Event," regarding theglobe's and the Company's entrance into an asset purchase agreement, dated August 10, 2005, for the sale of the SendTec Business and substantially all of the net assets of SendTec to RelationServe Media, Inc. ("RelationServe").

The Company provides advertising and marketing services for its customers located throughout the United States of America. These services include distribution of internet advertising, purchase of direct response television media for customers, and production of television commercials for direct response advertising.

The accompanying financial statements include the accounts of SendTec and reflect all adjustments consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the period presented.

### (b) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and assumptions relate to estimates of collectibility of accounts receivable, accruals, the impairment of long-lived assets and other factors. Actual results could differ from those estimates.

### (c) Fair Value of Financial Instruments

The carrying amount of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and deferred revenue, approximate their fair value at June 30, 2005 and December 31, 2004 and 2003 due to their short maturities.

### (d) Receivables and Credit Policies

Accounts receivable are uncollateralized customer obligations due under normal trade terms generally requiring payment within 30 days from the invoice date. Follow-up correspondence is made if unpaid accounts receivable go beyond 30 days.

Payments on accounts receivable are allocated to the specific invoices identified on the customer's remittance advice.

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The carrying amounts of accounts receivable approximate management's best estimate of the amounts that will be collected. Management individually reviews all accounts receivable balances that exceed the due date and estimates the portion, if any, of the balance that will not be collected. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to earnings and a credit to trade accounts receivable. Bad debt expense is not material to the financial statements.

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### (e) Unbilled Revenue

Included in accounts receivable at December 31, 2004 and 2003 is unbilled revenue of \$994,686 and \$1,058,590, respectively, and \$103,600 at June 30, 2005.

### (f) Goodwill and Intangible Assets

The Company accounts for goodwill and intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and other intangibles with indefinite lives should no longer be amortized, but rather be 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.

Goodwill is stated at cost. At June 30, 2005, December 31, 2004 and 2003, the Company had no other intangible assets with indefinite lives. Intangible assets subject to amortization, included in the accompanying balance sheets as of June 30, 2005 and December 31, 2004, were being amortized on a straight-line basis over their estimated useful lives or five years.

### (g) Long-Lived Assets

Long-lived assets, including property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." If events or changes in circumstances indicate that the carrying amount of an asset, or an appropriate grouping of assets, may not be recoverable, the Company estimates the undiscounted future cash flows to result from the use of the asset, or asset group. If the sum of the undiscounted cash flows is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the assets. Fair values are based on quoted market values, if available. If quoted market values 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.

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets, as follows:

Furniture and equipment	5-7 years
Software	3 years

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 three years.

### (h) Revenue Recognition

Revenue from the distribution of Internet advertising is recognized when Internet users visit and complete actions at an advertiser's website. Revenue consists of the gross value of billings to clients, including the recovery of costs incurred to acquire online media required to execute client campaigns. Recorded revenue is based upon reports generated by the Company's tracking

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software.

Revenue derived from the purchase and tracking of direct response media, such as television and radio commercials, is recognized on a net basis when the associated media is aired. In many cases, the amount the Company bills to clients significantly exceeds the amount of revenue that is earned due to the existence of various "pass-through" charges such as the cost of the television and radio media. Amounts received in advance of media airings are deferred and included in deferred revenue in the accompanying balance sheet.

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Revenue generated from the production of direct response advertising programs, such as infomercials, is recognized on the completed contract method when such programs are complete and available for airing. Production activities generally take eight to twelve weeks and the Company usually collects amounts in advance and at various points throughout the production process. Amounts received from customers prior to completion of commercials are included in deferred revenue and direct costs associated with the production of commercials in process are deferred and included within other current assets in the accompanying balance sheet.

### (i) Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that the tax change occurs. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

### (j) Stock-Based Compensation

In October 1995, SFAS No. 123, Accounting for Stock-Based Compensation, was issued and provided companies an alternative to accounting for stock-based compensation as prescribed under APB Opinion No. 25. SFAS No. 123 encourages, but does not require, companies to recognize compensation expense for stock-based awards based on their fair market value at the date of grant. SFAS No. 123 allows companies to continue to follow existing accounting rules (intrinsic value method under APB No. 25) provided that pro-forma disclosures are made of what net income would have been had the new fair value method been used. The required disclosures were amended in December 2002 with the issuance of SFAS No. 148, Accounting for Stock Based Compensation - Transition and Disclosure. The Company adopted the disclosure requirements of SFAS No. 123 as amended by SFAS No. 148, but continues to account for stock-based compensation under APB No. 25.

Until its acquisition by theglobe on September 1, 2004, the Company had a stock-based compensation plan which is more fully described in Note 6, "Stock Option Plans." Upon its acquisition by theglobe, the employees of SendTec became eligible to participate in the stock option plans of theglobe. theglobe accounts for its stock option plans in accordance with the measurement provisions of APB No. 25 and has adopted the disclosure provisions of SFAS No. 148.

No stock compensation expense was reflected in net income for the six months

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ended June 30, 2005 or the years ended December 31, 2004, 2003 and 2002. There would have been no effect on net income for the eight months ended August 31, 2004 (the 2004 period prior to the Company's acquisition by theglobe) and the years ended December 31, 2003 and 2002 if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation. Had theglobe determined stock compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123 and allocated the compensation expense to the Company for its employees participating in theglobe's stock option plans, the Company's net income would have been reduced to the pro forma amounts indicated below:

	Six Months Ended June 30, 2005	Year Ended December 31, 2004
	-----	-----
Net income, as reported	\$ 1,274,706	\$ 1,722,082
Stock-based compensation expense, net of tax	(107,496)	(162,410)
	-----	-----
Pro forma net income	\$ 1,167,210	\$ 1,559,672
	=====	=====

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### (k) Recently Issued Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting for Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 applies to all voluntary changes in accounting principles and requires retrospective application to prior periods' financial statements of changes in accounting principles. This statement also requires that a change in depreciation, amortization or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its financial condition, results of operations or liquidity.

In March 2005, the FASB issued Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143, "Accounting for Asset Retirement Obligations." The interpretation clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The effective date of this interpretation is no later than the end of fiscal years ending after December 15, 2005. The Company is currently investigating the effect, if any, that FIN 47 would have on the Company's financial position, cash flows and results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 requires exchanges of

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productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. This statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its financial condition, results of operations, or liquidity.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This standard replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The standard requires companies to expense the fair value of stock options on the grant date and is effective for annual periods beginning after June 15, 2005. In accordance with the revised statement, the expense attributable to stock options granted or vested subsequent to January 1, 2006 will be required to be recognized. The precise impact of the adoption of SFAS No. 123R cannot be predicted at this time because it will depend on the levels of share-based payments that are granted in the future and whether the related compensation expense is allocated to the Company by theglobe for the SendTec employees participating in the Parent Company's stock option plans. However, the Company believes that the adoption of this standard may have a significant effect on the Company's results of operations or financial position.

In December 2003, the FASB issued FIN No. 46-R "Consolidation of Variable Interest Entities." FIN 46-R, which modifies certain provisions and effective dates of FIN 46, sets forth the criteria to be used in determining whether an investment in a variable interest entity should be consolidated. These provisions are based on the general premise that if a company controls another entity through interests other than voting interests, that company should consolidate the controlled entity. The Company believes that currently, it does not have any material arrangements that meet the definition of a variable interest entity which would require consolidation.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instrument consists of obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, whose shares are mandatorily redeemable. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective from the start of the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material impact on the Company's results of operations or financial position.

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In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments Hedging Activities." This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 became effective during the third quarter of 2003 and did not have a

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material impact on the Company's results of operations or financial position.

### (1) Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

### NOTE 2 - GOING CONCERN CONSIDERATIONS

Certain matters related to the liquidity and financial condition of theglobe, SendTec's parent company, raise substantial doubt about theglobe's and SendTec's ability to continue as going concerns. theglobe has suffered recurring losses from operations since inception and theglobe's management believes that theglobe will continue to be unprofitable and use cash in its operations for the foreseeable future. theglobe's consolidated net losses and cash usage during its recent past and projected future periods relate primarily to the operations of its VoIP telephony services business and to a lesser extent to corporate overhead expenses and the operations of its computer games business. SendTec has contributed net income and cash flow since being acquired on September 1, 2004, and management expects that SendTec will continue to be profitable and provide cash flow in future periods. theglobe's consolidated cash and cash equivalents balance at September 15, 2005 was approximately \$1.6 million. theglobe has no access to credit facilities with traditional third party lenders and there can be no assurance that theglobe would be able to raise equity capital within a short-term timeframe.

In addition, theglobe received a report from its independent accountants, relating to its December 31, 2004 audited financial statements containing an explanatory paragraph stating that its recurring losses from operations and its accumulated deficit raise substantial doubt about its ability to continue as a going concern. SendTec's 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, SendTec's financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should it be unable to continue as a going concern.

As further discussed in Note 12, "Subsequent Event," on August 10, 2005, theglobe and SendTec entered into a definitive agreement to sell the business and substantially all of the net assets of SendTec to RelationServe. If theglobe is not successful in consummating the RelationServe asset sale or in entering into another financing, sale, or business transaction that otherwise infuses sufficient additional cash resources into theglobe by no later than sometime during the fourth quarter of 2005, theglobe's management believes that theglobe will no longer be able to pay its current financial obligations on a timely basis. In that event, theglobe would likely be required to temporarily or permanently shutdown certain of its unprofitable businesses, including its VoIP telephony services business and implement company-wide cost reduction programs. There can be no assurance that theglobe would be successful in implementing such restructuring plans so that theglobe and its wholly-owned subsidiary, SendTec, could continue to operate as a going concern in the future.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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### NOTE 3 - RECAPITALIZATION UPON SENDTEC'S ACQUISITION BY THEGLOBE

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On September 1, 2004, theglobe acquired SendTec. In exchange for all of the issued and outstanding shares of capital stock of SendTec. theglobe paid consideration consisting of: (i) \$6,000,000 in cash, excluding transaction costs, (ii) the issuance of an aggregate of 17,500,024 shares of theglobe's common stock, (iii) the issuance of an aggregate of 175,000 shares of theglobe's Series H Automatically Converting Preferred Stock (which was subsequently converted into approximately 17,500,500 shares of theglobe's common stock effective December 1, 2004), and (iv) the issuance of a subordinated promissory note in the amount of \$1,000,009 by theglobe. An aggregate of 3,974,165 replacement options to acquire theglobe common stock were also issued by theglobe for each of the issued and outstanding options to acquire SendTec shares held by the employees of SendTec as of the acquisition date.

For financial reporting purposes, theglobe's purchase price was "pushed down" into the accounts of SendTec, resulting effectively in a recapitalization of SendTec as of September 1, 2004.

In addition, warrants to acquire shares of theglobe common stock would be issued to SendTec stockholders when and if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending December 31, 2005. The number of earn-out warrants may range from an aggregate of 250,000 to 2,500,000, if actual operating income exceeds the forecast by at least 10%. Because the number of warrants that may be earned is not yet determinable, no consideration related to this contingency was included in the determination of the SendTec purchase price.

As part of the SendTec acquisition transaction, certain executives of SendTec entered into new employment agreements with SendTec. The employment agreements each have a term of five years and automatically renew for an additional year at expiration unless either party provides the requisite notice of non-renewal. The agreements also contain certain non-compete provisions for periods as specified by the agreements. The \$1,800,000 value assigned to the non-compete agreements is being amortized on a straight-line basis over 5 years. Annual amortization expense of the non-compete agreements is estimated to be \$360,000 in 2005 through 2008 and \$240,000 in 2009. The related accumulated amortization as of June 30, 2005 and December 31, 2004, was \$300,000 and \$120,000, respectively.

SendTec issued 100 shares of \$0.01 par value common stock to theglobe to capitalize the new entity.

The preliminary SendTec purchase price allocation was as follows:

Cash	\$ 3,610,000
Accounts receivable	5,534,000
Other current assets	194,000
Fixed assets	1,031,000
Non-compete agreements	1,800,000
Goodwill	11,702,000
Other assets	124,000
Assumed liabilities	(5,597,000)
	-----
	\$ 18,398,000
	=====

#### NOTE 4 - ACQUISITION OF IFACTZ

Effective February 2002, the Company acquired all of the outstanding shares of iFactz, Inc. (an entity with stockholders common to both entities) in exchange for 2,000,000 of the Company's shares. The value of the Company's shares was estimated to be \$0.27 per share (based on a recent stock transaction) and totaled \$540,000.

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The sole asset of iFactz was developed software that tracks offline media sources. The Company allocated the full purchase price to software which is included as property and equipment in the accompanying balance sheet. Prior to SendTec's acquisition by theglobe, the software was being amortized on a straight-line basis using a five year life. Effective with the September 1, 2004 acquisition of SendTec by theglobe, the value attributed to the software is being amortized using the straight-line method over an estimated useful life of three years.

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### NOTE 5 - STOCKHOLDERS' EQUITY PRIOR TO THE ACQUISITION OF SENDTEC BY THEGLOBE

#### Preferred Stock

Prior to its acquisition by theglobe, SendTec had authorized a total of 10,000,000 shares of \$0.001 par value preferred stock. No shares had been issued.

#### Common Stock

Prior to its acquisition by theglobe, SendTec had authorized a total of 100,000,000 shares of common stock with 4,377,822 shares issued as of December 31, 2003.

#### Treasury Stock

During 2003, the Company purchased 45,000 shares of its common stock from two stockholders for a total of \$15,000. At December 31, 2003, the Company had a total of 346,028 shares with a total cost of \$75,580 reported as treasury stock in the accompanying balance sheet.

#### Notes Receivable - Common Stock

Prior to 2003, the Company issued 205,000 shares of its common stock to three Company officers in exchange for promissory notes totaling \$55,350. The value of the shares was based upon management's estimate of the fair value of the shares in June 2001. The notes were due in June 2006 with interest at the Mid-Term Applicable Federal Rate in accordance with Section 1274(d) of the Internal Revenue Code of 1986, as amended. The notes receivable were repaid to the Company in 2004 prior to its acquisition by theglobe.

### NOTE 6 - STOCK OPTION PLANS

#### SendTec Stock Option Plan

During 2000 the Company established the SendTec Stock Option Plan (SendTec Plan) which authorized the issuance of a maximum of 750,000 shares of the Company's common stock. Officers, key employees, directors and consultants were eligible for grants under the terms of the SendTec Plan. The maximum term of the stock options granted under the SendTec Plan was 10 years and most optionees vested in the options over a 24 month period.

Options under the SendTec Plan may be options which qualify under Section 422 of the Internal Revenue Code (incentive stock options) or options which do not qualify under Section 422 (nonqualified options).

The following table summarizes SendTec Plan option activity for the period from January 1, 2004 to August 31, 2004 and the year ended December 31, 2003:



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2004 (January 1, thru August 31, 2004)

	Shares	Weighted Average Exercise Price
	-----	-----
Stock option activity outstanding at beginning of year	318,200	\$ 2.25
Granted	288,100	\$ 5.40
Expired or surrendered	(56,000)	\$ 2.25
	-----	-----
Outstanding at end of period	550,300	\$ 3.90
	=====	=====
Exercisable at end of period	85,550	\$ 2.25
	=====	=====

2003

Stock option activity outstanding at beginning of year	87,550	\$ 2.25
Granted	241,150	\$ 2.25
Expired or surrendered	(10,500)	\$ 2.25
	-----	-----
Outstanding at end of year	318,200	\$ 2.25
	=====	=====
Exercisable at end of year	52,050	\$ 2.25
	=====	=====

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The weighted average life of the options was five years. The estimated fair value of stock options at the time of the grant using the Black-Scholes option pricing model was as follows:

	August 31, 2004	December 31, 2003
	-----	-----
Fair value per option	\$ --	\$ --
Assumptions:		
Annualized dividend yield	0%	0%
Expected volatility	0%	0%
Risk free interest rate	5%	4%
Expected option terms (in years)	5	5

theglobe Stock Option Plans

Pursuant to the agreement and plan of merger in connection with the acquisition of the Company on September 1, 2004, theglobe issued an aggregate of 3,974,165 replacement options to acquire shares of theglobe's common stock for each of the issued and outstanding options to acquire shares of SendTec common stock held by employees of SendTec. Of these replacement options, 3,273,668 have exercise prices of \$0.06 and 700,497 have exercise prices of \$0.27 per share. theglobe also agreed to grant an aggregate of 225,000 options to employees of SendTec and 25,000 options to a consultant of SendTec at an exercise price of \$0.34 per share under similar terms as other stock option grants of theglobe. theglobe also granted 1,000,000 stock options at an exercise price of \$0.27 per share in connection with the establishment of a bonus option pool pursuant to which various employees of SendTec could vest in such options if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending

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December 31, 2005.

theglobe is accounting for the replacement options issued in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44") which requires the value of the unvested portion of the stock options issued to be treated as deferred compensation to be recognized in the results of operations over the remaining vesting period. Had theglobe allocated the compensation expense related to the replacement options to the Company, additional expense of \$329,310 and \$234,231 would have been recognized for the six months ended June 30, 2005 and the year ended December 31, 2004.

NOTE 7 - COMMITMENTS

As discussed in Note 3, "Recapitalization Upon SendTec's Acquisition by theglobe," as part of the SendTec acquisition transaction on September 1, 2004, certain executives of SendTec entered into new employment agreements with SendTec. The employment agreements each have a term of five years and automatically renew for an additional year at expiration unless either party provides the requisite notice of non-renewal. The agreements provide for total base salaries of \$900,000 per annum and contain certain non-compete provisions for periods as specified by the agreements.

The Company has noncancelable operating lease agreements for buildings and equipment. Future minimum lease payments required under the operating leases are as follows as of December 31, 2004:

Year Ending December 31,		
2005	\$	223,851
2006		229,447
2007		235,183
2008		241,063
2009		247,089
Thereafter		62,151
		-----
	\$	1,238,784
		=====

Rent expense for all operating leases for the years ended December 31, 2004, 2003 and 2002 was approximately \$208,000, \$133,000 and \$113,000, respectively, and \$145,000 for the six months ended June 30, 2005.

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NOTE 8 - INCOME TAXES

Subsequent to its acquisition by theglobe, SendTec is included in theglobe's consolidated income tax return. Income tax expense in the accompanying statements of operations has been determined in accordance with SFAS No. 109, "Accounting for Income Taxes," as if SendTec were a separate taxpayer for all periods presented. All tax-related balances resulting from such income tax allocation are included in Income Taxes Payable to Parent Company in the accompanying balance sheet at June 30, 2005 and December 31, 2004.

The provision for income taxes consists of the following for:

		December 31,		
	June 30,	-----		
	2005	2004	2003	2002
	-----	-----	-----	-----
Current				

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Federal	\$ 725,939	\$ 1,145,347	\$ 681,000	\$ --
State	124,266	196,060	116,000	--
	-----	-----	-----	-----
	850,205	1,341,407	797,000	--
Deferred				
Federal	(60,173)	(118,460)	209,000	142,000
State	(10,300)	(20,278)	36,000	25,000
	-----	-----	-----	-----
	(70,473)	(138,738)	245,000	167,000
	-----	-----	-----	-----
	\$ 779,732	\$ 1,202,669	\$ 1,042,000	\$ 167,000
	=====	=====	=====	=====

The income tax expense differs from the amount computed using the statutory federal income tax rate as follows:

	June 30,	December 31,		
	2005	2004	2003	2002
	-----	-----	-----	-----
Income tax expense at federal statutory rate	\$ 698,509	\$ 994,416	\$ 899,000	\$ 117,000
State tax expense, net of federal benefit	75,218	116,016	96,000	13,000
Transaction expenses	--	82,620	--	--
Other	6,005	9,617	47,000	37,000
	-----	-----	-----	-----
	\$ 779,732	\$1,202,669	\$1,042,000	\$ 167,000
	=====	=====	=====	=====

The primary components of deferred tax asset and liability amounts relate to differences in book/tax depreciation, amortization and accrued liabilities.

Deferred tax assets and/or liabilities have been included in Income Taxes Payable to Parent in the accompanying balance sheet as of June 30, 2005 and December 31, 2004.

During 2003 and the first eight months of 2004, the Company used federal and state net operating loss carryforwards to offset taxable income of approximately \$602,000 and \$4,894, respectively, prior to its acquisition by theglobe.

NOTE 9 - SIGNIFICANT CUSTOMERS

A significant portion of the Company's revenue is attributable to a small number of customers. Three customers accounted for approximately 56% of the Company's net revenue during the six months ended June 30, 2005. During the years ended December 31, 2004 and 2002, two customers accounted for approximately 59% and 47% of the Company's net revenue, respectively. During the year ended December 31, 2002, three customers accounted for approximately 63% of the Company's net revenue.

Amounts receivable from two of the Company's customers represented approximately \$2,884,000, or 39%, of its total accounts receivable as of June 30, 2005. Three customers represented approximately \$2,868,000, or 43%, of the Company's total accounts receivable as of December 31, 2004. Two customers represented approximately \$2,021,000, or 58%, of the Company's total accounts receivable as of December 31, 2003.

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### NOTE 10 - RETIREMENT PLAN

Effective January 1, 2003, the Company established a SIMPLE IRA savings plan (Plan) for the benefit of all eligible employees who have completed six months of service. The Plan allowed employees to make certain tax deferred voluntary contributions. The Company contributed to the Plan such amounts as deemed appropriate. Contributions made by the Company totaled approximately \$77,000 and \$57,000 for the years ended December 31, 2004 and 2003, respectively. The Plan was terminated on December 31, 2004.

### NOTE 11 - QUARTERLY FINANCIAL INFORMATION

	Quarter Ended	
	June 30, 2005	March 31, 2005
Net revenue	\$ 9,363,783	\$ 9,105,820
Gross profit	3,173,068	2,626,776
Operating expenses	1,944,288	1,826,150
Income from operations	1,228,780	800,626
Net income	767,620	507,086

	Quarter Ended			
	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Net revenue	\$ 10,579,365	\$ 8,150,037	\$ 7,365,707	\$ 6,556,764
Gross profit	2,923,025	2,425,398	2,342,662	2,397,739
Operating expenses	1,944,531	2,351,714	1,538,014	1,337,138
Income from operations	978,494	73,684	804,648	1,060,601
Net income (loss)	642,650	(54,478)	487,905	646,005

	Quarter Ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Net revenue	\$ 4,054,839	\$ 4,356,283	\$ 3,466,091	\$ 3,563,296
Gross profit	1,731,529	1,993,737	1,568,891	1,456,411
Operating expenses	1,476,017	987,309	833,717	832,867
Income from operations	255,512	1,006,428	735,174	623,544
Net income	173,637	597,170	455,449	376,354

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### NOTE 12 - SUBSEQUENT EVENT

On August 10, 2005, the Company and theglobe entered into an asset purchase agreement, as amended on August 23, 2005 (the "Purchase Agreement") with

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RelationServe whereby the Company and theglobe agreed to sell all of the business and substantially all of the net assets of SendTec to RelationServe for \$37,500,000 in cash, subject to certain net working capital adjustments. In addition, on August 23, 2005, theglobe entered into a Redemption Agreement with six members of the management of SendTec (the "Redemption Agreement") to redeem approximately 28.9 million shares of theglobe common stock owned by such management for approximately \$11.6 million in cash. The closing of the redemption of these shares is contingent on, and will occur immediately after, the closing of the Purchase Agreement. theglobe also anticipates that it will be terminating and canceling certain options and warrants held by these six members of management for approximately \$400,000 in cash. These shares and related options and warrants were issued to SendTec management in connection with theglobe's acquisition of SendTec. theglobe further expects to terminate or cancel the options of a few other employees of SendTec and enter into severance bonus arrangements with others for cash payments totaling approximately \$500,000. The closing of the asset sale is subject to the satisfaction of a number of closing conditions including distribution of a definitive information statement describing the asset sale to theglobe's stockholders which was undertaken commencing on September 16, 2005, with the closing anticipated to occur on or about October 11, 2005.

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### SELECTED CONSOLIDATED FINANCIAL DATA OF THEGLOBE.COM, INC. (1)

The selected consolidated balance sheet data as of December 31, 2004 and 2003 and the selected consolidated operating data for the years ended December 31, 2004, 2003 and 2002 have been derived from our audited consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of June 30, 2005 and the selected consolidated operating data for the six months ended June 30, 2005 and 2004 have been derived from our unaudited consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of December 31, 2002, 2001 and 2000 and the selected consolidated operating data for the years ended December 31, 2001 and 2000 have been derived from our audited consolidated financial statements not included herein. The selected consolidated balance sheet data as of June 30, 2004 has been derived from our unaudited consolidated financial statements not included herein. In the opinion of management, the unaudited information has been prepared substantially on the same basis as our audited consolidated financial statements appearing elsewhere herein and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited consolidated quarterly results of operations and unaudited consolidated balance sheet data. The nature of our business has changed significantly from 2000 to 2005. As a result, our historical results are not necessarily comparable. Additionally, our historical results are not necessarily indicative of results for any future period and interim results are not necessarily indicative of results for any future interim period or for a full year. You should read these selected consolidated financial data, together with the accompanying notes, in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Prospectus and our consolidated financial statements and the related notes appearing at the end of this Prospectus.

Six Months Ended June 30,			Year Ended De		
Pro Forma	Actual		Pro Forma	A	
2005 (3)	2005	2004	2004 (3)	2004	2003
2	2	2	2	2	2

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(In thousands, except per share data)

Operating Data:

Net revenue	\$ 1,280	\$ 19,425	\$ 1,682	\$ 3,499	\$ 16,041	\$ 5,284	\$
Operating expenses	10,075	26,520	10,763	27,921	39,499	14,097	
Loss from operations	(8,795)	(7,095)	(9,081)	(24,422)	(23,458)	(8,813)	
Net loss	(12,128)	(10,419)	(10,018)	(25,247)	(24,273)	(11,034)	
Net loss applicable to common stockholders	(12,128)	(10,419)	(10,018)	(25,247)	(24,273)	(19,154)	
Basic and diluted net loss per common share	\$ (0.08)	\$ (0.06)	\$ (0.10)	\$ (0.21)	\$ (0.19)	\$ (0.49)	\$

Balance Sheet Data  
(at end of period):

Total assets	\$ 32,174	\$ 31,610	\$ 34,017	\$ 35,213	\$ 34,017	\$ 7,172	\$
Long-term debt(4)	7	7	27	27	27	1,793	

(1) Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the net losses as previously reported by the Company. Significant events affecting our historical performance in 2002 through the second quarter of 2005 are described in Management's Discussion and Analysis of Results of Operations and Financial Condition.

(2) Net losses in 2000 and 2001 related primarily to certain previously owned Internet-related businesses which were sold or closed during those years and include significant restructuring and impairment charges related to those businesses.

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(3) The selected pro forma consolidated financial data give effect to (i) the Asset Purchase Agreement with RelationServe Media, Inc. (RelationServe) entered into by theglobe.com, inc. and SendTec, Inc. ("SendTec") on August 10, 2005, and as amended on August 23, 2005, whereby we agreed to sell all of the business and substantially all of the net assets of our SendTec marketing services subsidiary to RelationServe, and (ii) the related ancillary agreements, including the Redemption Agreement and the Termination Agreement as contemplated by the transaction. The selected pro forma consolidated balance sheet data as of June 30, 2005 and December 31, 2004 have been prepared as if our sale of the SendTec business and the redemption and termination of shares pursuant to the Ancillary Agreements had been consummated on each of the respective dates. The selected pro forma consolidated operating data for the year ended December 31, 2004 and the six months ended June 30, 2005 have been prepared as if the sale of the SendTec business and the redemption of shares pursuant to the Redemption Agreement occurred on September 1, 2004 (the original date of acquisition of SendTec by us) and the effect was carried forward through the balance of the year 2004 and the six month period ended June 30, 2005. The selected pro forma operating data for the year ended December 31, 2004 excludes the estimated net gain resulting from the sale of the SendTec business.

(4) Represents long-term debt and capital lease obligations, less the current portion.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THEGLOBE.COM, INC.

#### BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS; GOING CONCERN

Certain matters discussed below under "Liquidity and Capital Resources" raise substantial doubt about our ability to continue as a going concern. In addition, we received a report from our independent accountants, relating to our December 31, 2004 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. Our 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 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.

#### OVERVIEW

During 2000 and 2001, the Company restructured its business operations and sold off or closed most of its businesses. As of September 2005, we managed four primary lines of business. One line of business, Voice over Internet Protocol ("VoIP") telephony services, includes voiceglo Holdings, Inc., a wholly-owned subsidiary of theglobe.com that offers VoIP-based phone service. The term "VoIP" refers to a category of hardware and software that enables people to use the Internet to make phone calls. The second line of business consists of our historical network of three wholly-owned businesses, each of which specializes in the games business by delivering games information and selling games in the United States and abroad. These businesses are: our print publication business, which consists of Computer Games and Now Playing magazines; our online website business, which consists of our Computer Games Online website ([www.cgonline.com](http://www.cgonline.com)) and our Now Playing Online website ([www.nowplayingmag.com](http://www.nowplayingmag.com)), which are the online counterparts to our magazine publications; and our Chips & Bits, Inc. ("Chips & Bits") games distribution company ([www.chipsbits.com](http://www.chipsbits.com)). We entered into a third line of business, marketing services, on September 1, 2004, with our acquisition of SendTec, Inc. ("SendTec"), a direct response marketing services and technology company. On May 9, 2005, the Company entered into a fourth line of business when it exercised its option to acquire Tralliance Corporation ("Tralliance"), a company which had recently entered into an agreement to become the registry for the ".travel" top-level Internet domain. (See Note 4, "Acquisitions and Dispositions," of the Notes to Consolidated Financial Statements for further details).

As of September 2005, our revenues were derived principally from the operations of SendTec, as well as from the operations of our games related businesses. Our VoIP products and services have yet to produce any significant revenue. Tralliance does not expect to begin generating revenue until sometime during the fourth quarter of 2005.

During the first quarter of 2005, management began actively re-evaluating the Company's primary business lines, particularly in view of the Company's critical need for cash and the overall net losses of the Company. As a result, management with the assistance of its third party financial advisors has explored a number of strategic alternatives for the Company and/or its component businesses, including continuing to operate the businesses, selling certain businesses or assets, or entering into new businesses.

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On August 10, 2005, the Company entered into an asset purchase agreement, as amended on August 23, 2005 (the "Purchase Agreement") with RelationServe Media, Inc. ("RelationServe") whereby the Company agreed to sell all of the business and substantially all of the net assets of its SendTec marketing services subsidiary to RelationServe for \$37,500,000 in cash, subject to certain net working capital adjustments. In addition, on August 23, 2005, the Company entered into a Redemption Agreement with six members of the management of SendTec (the "Redemption Agreement") to redeem approximately 28.9 million shares of theglobe Common Stock owned by such management for approximately \$11.6 million in cash. The closing of the redemption of these shares is contingent on, and will occur immediately after, the closing of the Purchase Agreement. The Company also anticipates that it will be terminating and canceling certain options and warrants held by these six members of management for approximately \$400,000 in cash. These shares and related options and warrants were issued to SendTec management in connection with theglobe's acquisition of SendTec. The Company further expects to terminate or cancel the options of a few other employees of SendTec and enter into severance bonus arrangements with others for cash payments totaling approximately \$500,000. The closing of the asset sale is subject to the satisfaction of a number of closing conditions including distribution of a definitive information statement describing the asset sale to our stockholders which was undertaken commencing on September 16, 2005, with the closing anticipated to occur on or about October 11, 2005. See the "Recent Events" section of this Registration Statement for additional information.

See the "Liquidity and Capital Resources" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations for a more complete discussion.

### RESULTS OF OPERATIONS

The nature of our business has significantly changed from 2002 to 2005. As a result of our decision to enter into the VoIP business, we have incurred substantial expenditures without corresponding revenue as we developed our VoIP product line and as we put into place the infrastructure for our VoIP products. In addition, we entered into two new business lines, marketing services and Internet services, as a result of our acquisitions of SendTec on September 1, 2004 and Tralliance on May 9, 2005, respectively. The results of operations of SendTec and Tralliance are included in the Company's consolidated operating results from their respective dates of acquisition. Consequently, and primarily as a result of these factors, the results of operations for each of the years ended December 31, 2004, 2003 and 2002 are not necessarily comparable. Similarly, as a result of our entrance into the VoIP business and our acquisitions, our results of operations for the six months ended June 30, 2005 are not necessarily comparable to the six months ended June 30, 2004.

### SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2004

NET REVENUE. Net revenue totaled \$19.4 million for the six months ended June 30, 2005 as compared to \$1.7 million for the six months ended June 30, 2004. The \$17.7 million increase in consolidated net revenue was principally the result of the \$18.1 million in additional net revenue, net of intersegment eliminations, resulting from the operations of SendTec. Partially offsetting this additional revenue was a decline of \$0.4 million in net revenue of our computer games business segment due primarily to a decrease in the volume of games products sold by Chips & Bits, Inc., our retail distribution business. Net revenue generated by our telephony services division totaled approximately \$0.2 million in each of the first six months of 2005 and 2004.

### NET REVENUE BY BUSINESS SEGMENT:

Six months ended:	2005	2004
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Computer games	\$ 1,116,775	\$ 1,474,874
Marketing services	18,469,603	--
VoIP telephony services	163,385	207,353
Intersegment eliminations	(324,717)	--
	-----	-----
	\$ 19,425,046	\$ 1,682,227
	=====	=====

SendTec's DirectNet Advertising division, which provides online interactive marketing services for its clients, generated approximately 87% of the net revenue reported for the marketing services segment for the six months ended June 30, 2005. SendTec also provided marketing services to our VoIP telephony services business segment which resulted in the recording of approximately \$0.3 million of intersegment marketing services revenue during the six months ended June 30, 2005.

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OPERATING EXPENSES BY BUSINESS SEGMENT:

Six months ended:

2005	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization
----	-----	-----	-----	-----	-----
Computer games	\$ 1,215,385	\$ 221,202	\$ 319,127	\$ 324,361	\$
Internet services	--	9,238	--	185,536	
Marketing services	12,669,759	1,063,516	--	2,357,554	
VoIP telephony services	2,950,186	1,010,045	335,130	1,447,165	
Corporate expenses	--	--	--	1,785,025	
Intersegment eliminations	(196,618)	(128,099)	--	--	
	-----	-----	-----	-----	-----
	\$ 16,638,712	\$ 2,175,902	\$ 654,257	\$ 6,099,641	\$
	=====	=====	=====	=====	=====

2005	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization
----	-----	-----	-----	-----	-----
Computer games	\$ 1,105,899	\$ 171,155	\$ 233,909	\$ 271,134	\$
VoIP telephony services	2,387,527	2,551,076	132,275	1,386,330	
Corporate expenses	--	--	--	1,988,936	
	-----	-----	-----	-----	-----
	\$ 3,493,426	\$ 2,722,231	\$ 366,184	\$ 3,646,400	\$
	=====	=====	=====	=====	=====

COST OF REVENUE. Cost of revenue totaled \$16.6 million for the six months ended June 30, 2005, an increase of \$13.1 million from the \$3.5 million reported for the six months ended June 30, 2004. The increase consisted primarily of the inclusion of marketing services cost of revenue related to the operations of SendTec totaling \$12.5 million, net of intersegment eliminations, as well as an

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increase of \$0.6 million in costs incurred by our VoIP telephony services business segment as compared to 2004. Cost of revenue of our computer games segment totaled \$1.2 million for the six months ended June 30, 2005, an increase of \$0.1 million from the same period in 2004, due primarily to the costs associated with our new magazine publication, Now Playing, which we began distributing in March 2005.

Cost of revenue related to our marketing services business segment consists of fees paid to third party vendors for project related research, production and post-production services and products. Additionally, cost of revenue includes third party vendor fees incurred to acquire online advertising media, including the actual cost of the media.

Cost of revenue of our VoIP telephony services business segment is principally comprised of carrier transport and circuit interconnection costs related to our retail products, as well as personnel and consulting costs incurred in support of our Internet telecommunications network. Although VoIP telephony services net revenue was essentially unchanged compared to the first half of 2004, cost of revenue attributable to this segment increased \$0.6 million in comparison to the same period of 2004. Throughout 2004, the Company increased its VoIP network capacity by entering into agreements with numerous carriers for leased equipment and services and with third parties for a number of leased data center facilities. The Company also expanded its internal network support function by hiring additional technical personnel. As a result, the Company incurred higher network operating and support costs during the six months ended June 30, 2005 compared to the six months ended June 30, 2004.

**SALES AND MARKETING.** Sales and marketing expenses consist primarily of salaries and related expenses of sales and marketing personnel, commissions, advertising and marketing costs, public relations expenses and promotional activities. Sales and marketing expenses totaled \$2.2 million for the six months ended June 30, 2005, a decrease of \$0.5 million from the \$2.7 million reported for the same period in 2004. A decline of \$1.5 million in sales and marketing expenses of the VoIP telephony services division as compared to the first half of 2004 was partially offset by the \$0.9 million, net of intersegment eliminations, in sales and marketing expenses of SendTec. The VoIP telephony services business incurred significant costs during the first half of 2004 for Internet and television advertising campaigns, as well as commissions expenses related to its VoIP products. During the first quarter of 2005, the Company reevaluated its existing VoIP telephony services business plan and began the process of terminating and/or modifying certain of its existing product offerings and marketing programs. The Company also began to develop and test certain new VoIP products and features, some of which were completed and released during the 2005 second quarter. As a result, the VoIP telephony services business segment has significantly slowed its sales and marketing efforts, as compared to the first six months of 2004.

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**PRODUCT DEVELOPMENT.** Product development expenses include salaries and related personnel costs; expenses incurred in connection with website development, testing and upgrades; editorial and content costs; and costs incurred in the development of our VoIP telephony products. Product development expenses totaled \$0.7 million for the six months ended June 30, 2005 as compared to \$0.4 million for the six months ended June 30, 2004. The increase in product development expenses as compared to the first half of 2004 was primarily due to increases in personnel costs related to the continued development of our retail VoIP telephony products and services and increases in website development costs incurred by our computer games business.

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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, bad debt expenses and general corporate overhead costs. General and administrative expenses of \$6.1 million for the six months ended June 30, 2005 increased \$2.5 million from the \$3.6 million reported for the same period of 2004. The increase in general and administrative expenses as compared to 2004 was primarily attributable to the inclusion of \$2.4 million and \$0.2 million of general and administrative expenses incurred by the Company's marketing services and Internet services businesses, respectively. SendTec, which comprises our marketing services segment was acquired in September 2004 and Tralliance, which comprises our Internet services segment, was acquired in May 2005. The results of operations of both businesses have been included in our results only since their respective dates of acquisition. Corporate general and administrative expense declined \$0.2 million as compared to the first six months of 2004 primarily due to lower personnel related expenses.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense totaled \$1.0 million for the six months ended June 30, 2005. The \$0.4 million increase from the same period of the prior year resulted primarily from the depreciation and intangible asset amortization expenses incurred by the Company's marketing services business.

INTEREST EXPENSE, NET. Interest expense, net of interest income, totaled \$3.0 million for the first six months of 2005 as compared to \$0.8 million in the same period of the prior year. A total of \$3.0 million of non-cash interest expense was recorded during 2005 related to the beneficial conversion feature of the \$3,000,000 secured demand convertible promissory notes issued by the Company during the 2005 second quarter. During the first six months of 2004, \$0.7 million of non-cash interest expense was recorded related to the beneficial conversion feature of the \$2,000,000 demand convertible promissory note acquired by our Chairman and Chief Executive Officer and his spouse in February 2004.

OTHER EXPENSE, NET. Reserves against the amounts advanced by the Company to Tralliance Corporation prior to its acquisition were the principal components of other expense, net for both the first six months of 2005 and 2004. Such reserves totaled \$0.3 million and \$0.2 million for the six month periods ended June 30, 2005 and 2004, respectively.

INCOME TAXES. The income tax provision of approximately \$16,000 recorded for the first half of 2005 consisted solely of state and local income taxes. No federal income tax or benefit was recorded for the first six months of 2005 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. Our effective tax rate differs from the statutory Federal income tax rate, primarily as a result of the uncertainty regarding our ability to utilize our net operating loss carryforwards. As of December 31, 2004, the Company had net operating loss carryforwards available for U.S. and foreign tax purposes of approximately \$162 million. These carryforwards expire through 2024. 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, commencing in August 1997 through our most recent issuance of convertible notes in July 2005, and assuming conversion of such notes, we may have substantially limited or eliminated 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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YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

NET REVENUE. Net revenue totaled \$16.0 million for the year ended December 31, 2004 as compared to \$5.3 million for the year ended December 31, 2003. The \$10.7 million increase in consolidated net revenue was principally the result of the \$12.5 million in additional net revenue, net of intersegment eliminations, resulting from the operations of SendTec, which was acquired on September 1, 2004 (and for which all presentations below are since such date of acquisition). Partially offsetting this additional revenue were declines of \$1.6 million and \$0.2 million in net revenue of our computer games and VoIP telephony services business segments, respectively.

NET REVENUE BY BUSINESS SEGMENT:

Years ended:	2004	2003
	-----	-----
Computer games	\$ 3,107,637	\$ 4,736,032
Marketing services	13,408,183	--
VoIP telephony services	391,154	548,081
Intersegment eliminations	(865,942)	--
	-----	-----
	\$ 16,041,032	\$ 5,284,113
	=====	=====

Decreases of \$0.8 million in sales of games products by Chips and Bits, Inc., \$0.5 million in print advertisements in our games magazine and \$0.3 million in sales of the games magazine, respectively, accounted for the decline in net revenue experienced by our computer games segment as compared to 2003. As discussed in Note 1(k) of the Notes to Consolidated Financial Statements, we use outside agents to obtain new subscribers for our Computer Games magazine, whereby the agents retain a percentage of the subscription proceeds as their commission. Previously these commissions had been classified as sales and marketing expense within the consolidated statements of operations. Effective June 2004, we changed our method of accounting for these commissions, reporting them as a reduction of magazine sales subscription revenue. We believe this alternative accounting method is a more commonly used industry practice and is preferable under the circumstances. This reclassification had no impact on our net loss as previously reported. Net revenue as presented in the accompanying consolidated statements of operations has been shown net of approximately \$1.1 million and \$1.3 million of agency fees for the years ended December 31, 2004 and 2003, respectively.

SendTec's DirectNet Advertising division, which provides online interactive marketing services for its clients, generated approximately 86% of the net revenue reported for the marketing services segment for the year ended December 31, 2004. SendTec also provided marketing services to our VoIP telephony services business segment which resulted in the recording during 2004 of approximately \$0.9 million of intersegment marketing services revenue since its date of acquisition.

Net revenue generated by our telephony services division totaled \$0.4 million for the year ended 2004 as compared to \$0.5 million in 2003. As part of the Company's strategy to enter the VoIP business, the Company acquired Direct Partner Telecom, Inc. ("DPT"), an international licensed telecommunications carrier engaged in the purchase and resale of telecommunications services over the Internet, in May 2003. Telephony services net revenue generated by DPT during 2003 represented approximately 89% of total telephony services net revenue and was derived principally from the charges to customers for international call completion based on the volume of minutes utilized. During

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the first quarter of 2004, management decided to suspend the wholesale business of DPT and dedicate DPT's physical and intellectual assets to the Company's retail VoIP business. Telephony services net revenue for the year ended 2004 consisted solely of revenue attributable to sale of our retail VoIP products.

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### OPERATING EXPENSES BY BUSINESS SEGMENT:

Years ended:	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization
	-----	-----	-----	-----	-----
2004					
Computer games	\$ 2,114,716	\$ 377,531	\$ 475,785	\$ 571,285	\$
Marketing services	9,670,229	691,654	--	1,621,146	
VoIP telephony services	6,940,023	6,720,531	578,101	3,266,366	
Corporate expenses	--	--	--	3,643,354	
Intersegment eliminations	(462,863)	(403,079)	--	--	
	-----	-----	-----	-----	-----
	\$ 18,262,105	\$ 7,386,637	\$ 1,053,886	\$ 9,102,151	\$
	=====	=====	=====	=====	=====

VoIP telephony services  
 Impairment charge  
 Loss on settlement of  
 contractual obligation

Years ended:	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization
	-----	-----	-----	-----	-----
2003					
Computer games	\$ 3,121,734	\$ 586,420	\$ 543,139	\$ 301,624	\$
VoIP telephony services	1,579,604	1,400,606	341,651	1,175,939	
Corporate expenses	--	--	--	3,808,349	
	-----	-----	-----	-----	-----
	\$ 4,701,338	\$ 1,987,026	\$ 884,790	\$ 5,285,912	\$
	=====	=====	=====	=====	=====

VoIP telephony services  
 Impairment charge

**COST OF REVENUE.** Cost of revenue totaled \$18.3 million for the year ended December 31, 2004, an increase of \$13.6 million from the \$4.7 million reported for the year ended December 31, 2003. An increase of \$5.4 million in costs incurred by our VoIP telephony services business segment, as well as the inclusion of marketing services cost of revenue related to the operations of

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SendTec from date of acquisition (September 1, 2004) totaling approximately \$9.2 million, net of intersegment eliminations, were slightly offset by a decrease of \$1.0 million in cost of revenue reported by our computer games segment as compared to 2003.

Cost of revenue related to our computer games business segment consisted primarily of printing costs of our games magazine, Internet connection charges, personnel costs, maintenance costs of website equipment and the costs of merchandise sold and shipping fees in connection with our online store. Cost of revenue of our computer games segment totaled approximately \$2.1 million in 2004, a decrease of approximately \$1.0 million from 2003, due primarily to the revenue decreases discussed above.

Cost of revenue related to our marketing services business segment consisted of fees paid to third party vendors for project related research, production and post-production services and products. Additionally, cost of revenue included third party vendor fees incurred to acquire online advertising media, including the actual cost of the media. Intersegment eliminations in 2004, represented approximately \$0.5 million of costs incurred by SendTec related to marketing services provided to our VoIP telephony services segment.

Cost of revenue of our VoIP telephony services business segment for the year ended December 31, 2004 totaled \$6.9 million and principally included carrier transport and circuit interconnection costs related to our retail products marketed under the voiceglo and GloPhone brand names, as well as personnel and consulting costs incurred in support of our Internet telecommunications network. Additionally, during the year ended December 31, 2004, cost of revenue included charges of \$1.5 million related to write-downs of telephony equipment inventory (See Note 1(g) of the Consolidated Financial Statements). Cost of revenue of \$1.6 million reported for the VoIP telephony services business during the year ended December 31, 2003, consisted principally of costs related to the wholesale telephony services business marketed by DPT, as well as start up costs of our retail VoIP operation.

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**SALES AND MARKETING.** Sales and marketing expenses consisted primarily of salaries and related expenses of sales and marketing personnel, commissions, advertising and marketing costs, public relations expenses and promotional activities. Sales and marketing expenses totaled \$7.4 million in 2004 versus \$2.0 million in 2003. The rise in consolidated sales and marketing expenses was principally the result of the \$5.3 million increase in sales and marketing expenses of the VoIP telephony services division as compared to 2003. During 2004, the VoIP telephony services division increased Internet and television advertising and incurred increased commissions expenses related to "free" retail VoIP product sign-ups, as well as higher personnel costs. The \$0.7 million of sales and marketing expenses incurred by SendTec subsequent to its acquisition by the Company on September 1, 2004, was partially offset by the \$0.2 million decline in sales and marketing expenses of the computer games business segment as compared to the year ended 2003. As mentioned in the discussion of net revenue above, commissions paid to agents to obtain subscribers to our Computer Games magazine had previously been reported as sales and marketing expenses. Effective June 2004, we changed our method of accounting for these agency fees, reporting them as a reduction of magazine sales subscription revenue, which we believe is a preferable alternative accounting method and a more commonly used industry practice. The \$0.4 million of intersegment sales and marketing expenses eliminated for the 2004 period represented costs incurred by SendTec for services provided to the VoIP telephony services division.

**PRODUCT DEVELOPMENT.** Product development expenses included salaries and related

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personnel costs; expenses incurred in connection with website development, testing and upgrades; editorial and content costs; and costs incurred in the development of our retail VoIP products. Product development expenses totaled \$1.1 million for the year ended December 31, 2004 as compared to \$0.9 million for the year ended December 31, 2003. The year over year increase in product development expenses was principally attributable to increases in personnel and consulting costs related to the development of our retail VoIP telephony products and services.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses consisted 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, bad debt expenses and general corporate overhead costs. General and administrative expenses of \$9.1 million in 2004 increased \$3.8 million from the \$5.3 million reported for 2003. Increases in personnel costs and other general and administrative expenses directly attributable to our VoIP telephony services division, as well as general and administrative expenses incurred by SendTec since date of acquisition by the Company, were principally responsible for the increase in this expense category as compared to 2003. Other expense categories which increased as compared to 2003 largely as a result of the Company's entrance into the VoIP business included legal fees, information-technology consulting, other professional fees and facilities costs.

**DEPRECIATION AND AMORTIZATION.** Depreciation and amortization expense totaled \$1.6 million for the year ended December 31, 2004. The \$1.3 million increase from the prior year resulted principally from investments related to the development of our VoIP network and to a lesser extent to costs incurred in the development of our VoIP telephony customer billing system. As discussed in "Impairment Charge" below, certain long-lived assets of the VoIP telephony services division were written-off effective December 31, 2004, as a result of the Company's review of its long-lived assets for impairment. Approximately \$0.5 million of depreciation and amortization expense related to the assets written-off was recorded during 2004.

**IMPAIRMENT CHARGE.** Due to the significant operating and cash flow losses incurred by the Company's VoIP telephony services division during 2004 and 2003, coupled with management's projection of continued losses in the foreseeable future, the Company performed an evaluation of the recoverability of the division's long-lived assets during the first quarter of 2005 in connection with the preparation of our 2004 annual financial statements. This evaluation indicated that the carrying value of certain of our VoIP division's long-lived assets exceeded the fair value of such assets, as measured by quoted market prices or our estimate of fair value. As a result, we recorded an impairment charge of approximately \$1.7 million in the accompanying consolidated statement of operations for the year ended December 31, 2004. The impairment loss included the write-off of the full value of amounts previously capitalized by the VoIP telephony services division as internal-use software, website development costs, acquired technology and patent costs, as well as certain other assets. As a result of this impairment charge, we expect to realize reductions in depreciation and amortization expense in future periods.

**LOSS ON SETTLEMENT OF CONTRACTUAL OBLIGATION.** Subsequent to year-end 2004, the Company formally terminated its contract with a supplier of VoIP telephony handsets and agreed to settle the unconditional purchase obligation under such contract, which totaled approximately \$3.0 million. The settlement provided for (i) a cash payment of \$0.2 million, (ii) the return of 35,000 VoIP handset units from the Company's inventory, and (iii) the issuance of 300,000 shares of theglobe.com Common Stock. The value attributed to the loss on the settlement of the contractual obligation, which approximated \$0.4 million, was accrued at December 31, 2004, and included as a component of operating expenses reported for 2004.

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INTEREST INCOME (EXPENSE), NET. On February 2, 2004, our Chairman and Chief Executive Officer and his spouse, entered into a Note Purchase Agreement with the Company pursuant to which they acquired a demand convertible promissory note (the "Bridge Note") in the aggregate principal amount of \$2,000,000. Non-cash interest expense of \$0.7 million was recorded during 2004 related to the beneficial conversion feature of the Bridge Note as the Bridge Note was convertible into our Common Stock at a price below the fair market value (for accounting purposes) of our Common Stock, based on the closing price of our Common Stock as reflected on the OTCBB on the issuance date of the Note. Non-cash interest expense of approximately \$1.6 million was recorded during 2003 related to the beneficial conversion features of the \$1,750,000 Secured Convertible Notes and warrant issued on May 22, 2003.

OTHER EXPENSE, NET. Other expense, net, included reserves against the amounts loaned by the Company to Tralliance Corporation, totaling \$0.5 million in each of the years ended December 31, 2004 and 2003 (See Note 4, "Acquisitions and Dispositions," of the Notes to Consolidated Financial Statements). Partially offsetting the 2004 expense, was a favorable settlement of a previously disputed vendor claim by the computer games business segment of approximately \$0.4 million.

INCOME TAXES. No tax benefit was recorded for the years ended December 31, 2004 and 2003 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. Our effective tax rate differs from the statutory Federal income tax rate, primarily as a result of the uncertainty regarding our ability to utilize our net operating loss carryforwards. As of December 31, 2004, the Company had net operating loss carryforwards available for U.S. and foreign tax purposes of approximately \$162 million. These carryforwards expire through 2024. 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. As defined in the Internal Revenue Code of 1986, as amended, due to the change in our ownership interests in August 1997 and May 1999 and the Company's private offering of securities in March 2004 (together with the exercise and conversion of various securities in connection with such private offering of securities) and the issuance of shares in connection with our acquisition of SendTec on September 1, 2004, the Company may have substantially limited or eliminated the availability of its net operating loss carryforwards. There can be no assurance that the Company will be able to avail itself of any net operating loss carryforwards.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

NET REVENUE. Our revenue sources were principally from the sale of print advertisements under short-term contracts in our games information magazine Computer Games; the sale of video games and related products through our games distribution business Chips & Bits, Inc.; the sale of our games information magazine through newsstands and subscriptions; and during 2003, to a lesser extent from the sale of VoIP telephony services.

NET REVENUE BY BUSINESS SEGMENT:

Years ended:	2003	2002
	-----	-----
Computer games	\$4,736,032	\$7,245,276
VoIP telephony services	548,081	--



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\$5,284,113	\$7,245,276
=====	=====

Net revenue totaled \$5.3 million for the year ended December 31, 2003 as compared to \$7.2 million for the year ended December 31, 2002. The \$1.9 million decline in total net revenue was primarily attributable to decreases in net revenue from electronic commerce, advertising and magazine sales, partially offset by net revenue generated by our VoIP telephony services division.

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Advertising revenue from the sale of print advertisements in our games magazine was \$2.6 million, or 48%, of total net revenue for the year ended December 31, 2003, versus \$3.1 million, or 43%, of total net revenue for the prior year. Barter advertising revenue represented approximately 2% of total net revenue for each of the years ended December 31, 2003 and 2002, respectively.

Net revenue attributable to the sale of our games information magazine was \$0.7 million, or 14%, of total net revenue for the 2003 year as compared to \$1.0 million, or 14%, of total net revenue in 2002. As discussed in the comparison of the year ended December 31, 2004 to the year ended December 31, 2003, we changed the classification of agency fees paid to third parties as commissions for obtaining new subscribers to our Computer Games magazine. Previously these commissions had been classified as sales and marketing expense within the consolidated statement of operations. Effective June 2004, we changed our method of accounting for these agency fees, reporting them as a reduction of magazine sales subscription revenue. We believe this alternative accounting method is a more commonly used industry practice and is preferable under the circumstances. This reclassification had no impact on our net loss as previously reported. Net revenue as presented in the accompanying consolidated statements of operations is shown net of approximately \$1.3 million and \$2.4 million of agency fees for the years ended December 31, 2003 and 2002, respectively. The decline in net revenue from the sale of our games magazine as compared to the previous year was primarily the result of a decrease in the circulation base of our games magazine. As rates for print advertising charged to advertisers are driven largely by the circulation of the publication, the decline in the circulation base of our games magazine has also contributed to the decrease in our advertising revenue.

Sales of products through our online store, Chips & Bits, Inc., accounted for \$1.5 million, or 28%, of total net revenue for the year ended December 31, 2003 as compared to \$3.1 million, or 42%, of total net revenue for 2002. The \$1.6 million decrease was primarily the result of advances in technology and the number of releases of console and online games, which traditionally have less sales loyalty to our online store, coupled with the continued decline in the number of major PC game releases, on which our online store relies for the majority of sales. In addition, an increasing number of major retailers have increased the selection of video games offered by both their traditional "bricks and mortar" locations and their online commerce sites resulting in increased competition.

Net revenue from VoIP telephony services totaled \$0.5 million for the year ended December 31, 2003. As discussed in the comparison of the year ended December 31, 2004 to the year ended December 31, 2003, approximately 89% of total telephony services net revenue in 2003 was attributable to the operation of DPT's wholesale business. Net revenue attributable to the launch of the Company's retail VoIP products during the second half of 2003 represented the remaining 11% of total 2003 telephony services net revenue.

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OPERATING EXPENSES BY BUSINESS SEGMENT:

Years ended:	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization
2003					
Computer games	\$ 3,121,734	\$ 586,420	\$ 543,139	\$ 301,624	\$ 62,200
VoIP telephony services	1,579,604	1,400,606	341,651	1,175,939	258,333
Corporate expenses	--	--	--	3,808,349	9,200
	<u>\$ 4,701,338</u>	<u>\$ 1,987,026</u>	<u>\$ 884,790</u>	<u>\$ 5,285,912</u>	<u>\$ 329,733</u>

VoIP telephony services  
Impairment charge

	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization
2002					
Computer games	\$ 5,453,136	\$ 1,101,417	\$ 652,997	\$ 364,025	\$ 85,320
VoIP telephony services	--	--	--	1,196	--
Corporate expenses	--	--	--	2,524,713	3,250
	<u>\$ 5,453,136</u>	<u>\$ 1,101,417</u>	<u>\$ 652,997</u>	<u>\$ 2,889,934</u>	<u>\$ 88,570</u>

**COST OF REVENUE.** Cost of revenue related to our computer games division totaled approximately \$3.1 million and \$5.5 million for the years ended December 31, 2003 and 2002, respectively. The gross margin of the Company's games division approximated 34% in 2003 as compared to 25% in 2002. The overall improvement in the gross margin of the games division as compared to the prior year resulted from the increase in advertising revenue as a percentage of total net revenue, coupled with an improvement in the gross profit margin of Chips & Bits.

VoIP telephony services cost of revenue totaled \$1.6 million in 2003 and included carrier transport and circuit interconnection costs related to the Company's wholesale telephony services business marketed by DPT and the Company's retail VoIP telephony services business. Personnel and consulting costs incurred in support of the Company's Internet telecommunications network, as well as customer equipment costs related to the sale of the Company's retail VoIP service launched during mid-August 2003 were also included in this expense category.

**SALES AND MARKETING.** Sales and marketing expenses were \$2.0 million for the year ended December 31, 2003 as compared to \$1.1 million for the year ended December 31, 2002. Sales and marketing expenses of the VoIP telephony services division

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totaling \$1.4 million were partially offset by a decline of \$0.5 million in sales and marketing expenses of the Company's games division as compared to 2002. As mentioned in the discussion of Net Revenue above, commissions paid to agents to obtain subscribers to our Computer Games magazine had previously been reported as sales and marketing expenses. Effective June 2004, we changed our method of accounting for these agency fees, reporting them as a reduction of magazine sales subscription revenue, which we believe is a preferable alternative accounting method and a more commonly used industry practice. Sales and marketing expenses of the games division represented approximately 12% and 15% of total net revenue attributable to the games division's operations for the years ended December 31, 2003 and 2002, respectively. Costs related to employee salaries, the identification and continuing development of an independent outside sales network and advertising the VoIP product line were the principal components of sales and marketing expenses of the VoIP telephony services division during the year ended December 31, 2003.

PRODUCT DEVELOPMENT. Product development expenses increased to \$0.9 million for the year ended December 31, 2003, as compared to \$0.7 million for the year ended December 31, 2002. The increase was principally attributable to personnel costs and consulting expenses relating to the development of our retail VoIP telephony products and services, which totaled approximately \$0.3 million during 2003.

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GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were \$5.3 million for the year ended December 31, 2003, as compared to \$2.9 million for the year ended December 31, 2002. Increases in headcount and the resulting personnel expenses, as well as other general and administrative expenses directly attributable to the Company's new line of business, VoIP telephony services, were major factors contributing to the \$2.4 million increase in total general and administrative expenses. Other expense categories which increased as compared to 2002 largely as a result of the Company's entrance into the VoIP business, included legal fees, other professional fees and facilities costs.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense of \$0.3 million in 2003 included approximately \$0.1 million representing amortization of the non-compete agreement recorded in connection with the acquisition of DPT prior to its write-off at year-end 2003, as well as amortization of capitalized patent costs related to our retail VoIP products.

IMPAIRMENT CHARGE. During the first quarter of 2004, the Company decided to suspend DPT's wholesale business and decided to dedicate the DPT physical and intellectual assets to its retail VoIP business. As a result, management reviewed the long-lived assets associated with the wholesale VoIP business for impairment. Goodwill of approximately \$0.6 million and the unamortized balance of the non-compete intangible asset of approximately \$0.3 million recorded in connection with the May 2003 acquisition of DPT were written off and recorded as an impairment loss in 2003. No impairment charges were recorded during 2002.

INTEREST INCOME (EXPENSE), NET. Non-cash interest expense of \$1.5 million was recorded in the second quarter of 2003 related to the beneficial conversion feature of the \$1,750,000 in Secured Convertible Notes issued on May 22, 2003. The expense resulted as the Secured Convertible Notes were convertible into our Common Stock at a price below the fair market value of our Common Stock (for accounting purposes), based on the closing price of our Common Stock as reflected on the OTCBB on the issuance date of the notes. In addition, the warrant to acquire 3,888,889 shares of our Common Stock issued to one of the noteholders was exercisable at a price below the fair market value of our Common Stock (for accounting purposes), based on the closing price of our Common Stock as reflected on the OTCBB on the date of issuance. The value assigned to the

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warrant was recorded as a discount to the face value of the Secured Convertible Notes to be amortized to interest expense over the term of the Secured Convertible Notes. Discount amortization of approximately \$0.2 million was included in interest expense, net, during the year ended December 31, 2003.

OTHER EXPENSE, NET. Other expense, net, of \$0.5 million was reported for the year ended December 31, 2003 and consisted of reserves against the amounts loaned by the Company to Tralliance Corporation totaling \$0.5 million (See Note 4, "Acquisitions and Dispositions," of the Notes to Consolidated Financial Statements).

INCOME TAXES. As was the case in the year ended December 31, 2004, no tax benefit was recorded for the year ended December 31, 2003 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. The income tax provision recorded for the year ended December 31, 2002 was based solely on state and local taxes on business and investment capital.

### LIQUIDITY AND CAPITAL RESOURCES

#### CASH FLOW ITEMS

##### SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO SIX MONTHS ENDED JUNE 30, 2004

As of June 30, 2005, we had approximately \$5.0 million in cash and cash equivalents as compared to \$6.8 million as of December 31, 2004. Net cash used in operating activities was \$4.0 million and \$8.2 million, for the six months ended June 30, 2005 and 2004, respectively. The period-to-period decrease in net cash used in operating activities resulted primarily from operating income provided in 2005 from SendTec, which was acquired on September 1, 2004 and the favorable impact of working capital changes in 2005 compared to 2004.

Net cash of \$0.6 million was used in investing activities during the six months ended June 30, 2005 as compared to \$1.7 million in the same period of the prior year. The Company incurred costs totaling \$0.3 million and \$1.7 million for capital expenditures related primarily to the development of its VoIP telephony network and customer billing system during the six months ended June 30, 2005 and 2004, respectively. We also loaned approximately \$0.3 million and \$0.2 million to Tralliance prior to its acquisition by the Company during the six months ended 2005 and 2004, respectively.

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Net cash provided by financing activities was \$2.8 million and \$29.0 million for the six months ended June 30, 2005 and 2004, respectively. As discussed previously, we issued \$3.0 million in Convertible Notes during the second quarter of 2005. During March 2004, the Company completed a private offering of its Common Stock and warrants to acquire its Common Stock, for net proceeds totaling approximately \$27.0 million. In addition, on February 2, 2004, the Company issued a \$2,000,000 Bridge Note which was subsequently converted into our Common Stock in connection with the March 2004 private offering.

##### YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

As of December 31, 2004, we had approximately \$6.8 million in cash and cash equivalents as compared to \$1.1 million as of December 31, 2003. Net cash used in operating activities was \$17.7 million and \$7.1 million, for the years ended December 31, 2004 and 2003, respectively. The period-to-period increase in net cash used in operating activities resulted primarily from the increase in our

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net operating losses, partially offset by the effect of non-cash charges.

Net cash of \$5.4 million was used in investing activities during 2004. As more fully described in the following "Capital Transactions" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 4, "Acquisitions and Dispositions," in the accompanying Consolidated Financial Statements, in connection with its acquisition of SendTec on September 1, 2004, the Company paid cash consideration of approximately \$6.0 million, excluding transaction costs. As of the date of acquisition, SendTec held approximately \$3.6 million of cash. Thus, the Company used a net amount of approximately \$2.4 million of cash to acquire SendTec. Additionally, the Company incurred costs totaling \$2.7 million and \$2.4 million for capital expenditures related primarily to the development of its VoIP telephony network and to a lesser extent to the development of its VoIP telephony customer billing system during the years ended December 31, 2004 and 2003, respectively. We also loaned approximately \$0.5 million to Tralliance Corporation during each of the years of 2004 and 2003, respectively.

Net cash provided by financing activities was \$28.9 million for 2004. As discussed below and in the Notes to the Consolidated Financial Statements, the Company completed a private offering of its Common Stock and warrants to acquire its Common Stock in March 2004 resulting in the issuance of 33,381,647 shares of Common Stock, and warrants to acquire 16,690,824 shares of its Common Stock, for gross proceeds of approximately \$28.4 million. Offering costs included \$1.2 million in cash commissions paid to the placement agent and approximately \$0.2 million in legal and accounting fees. In addition, on February 2, 2004, the Company issued a \$2,000,000 Bridge Note which was subsequently converted into our Common Stock in connection with the March 2004 private offering. Proceeds of approximately \$0.2 million were received from the exercise of stock options and warrants during 2004. Cash provided by financing activities during the year ended December 31, 2003, included proceeds of \$8.6 million, net of offering costs, from the issuance of Series G Automatically Converting Preferred Stock and the associated warrants in July 2003, proceeds of \$0.5 million from the issuance of Series F Convertible Preferred Stock and \$1.75 million in proceeds from Secured Convertible Notes issued during the first half of 2003.

### YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

As of December 31, 2003, we had approximately \$1.1 million in cash and cash equivalents as compared to \$0.7 million as of December 31, 2002. Net cash used in operating activities was \$7.1 million and \$2.0 million for the years ended December 31, 2003 and 2002, respectively. The year-over-year increase in net cash used in operating activities resulted primarily from an increase in our net operating losses, partially offset by the impact of non-cash charges recorded in 2003 and favorable working capital changes recorded in 2002. The most significant of these non-cash charges during 2003 included the non-cash interest expense recorded as a result of the beneficial conversion feature of the \$1,750,000 in Secured Convertible Notes and associated warrants, as well as the non-cash impairment charge related to the write-off of goodwill and a non-compete intangible originally recorded as a result of the acquisition of DPT.

Net cash of \$3.2 million was used in investing activities during the year ended December 31, 2003. The Company incurred \$2.4 million in capital expenditures during 2003, primarily within the VoIP telephony services division. These expenditures included costs incurred in the development of our VoIP telephony network used to support the retail VoIP product line, as well as the Company's wholesale VoIP business. Additionally, in February 2003, the Company committed to fund operating expenses of Tralliance Corporation, at the Company's discretion, in the form of a loan. As of December 31, 2003, approximately \$0.5 million had been advanced to the venture. During 2003, the Company invested approximately \$10.3 million in marketable securities, the funds of which were

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principally from the proceeds received in connection with the issuance of the Company's Series G Automatically Converting Preferred Stock. Approximately \$10.1 million of investments were sold throughout the second half of 2003 as working capital was required to fund operations. Partially offsetting these uses of funds in 2003 was the \$0.1 million in net cash acquired upon the May 2003 acquisition of DPT. The purchase price of DPT consisted of the issuance of 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. Warrants to acquire an additional 2,750,000 shares of our Common Stock could have been issued if certain performance or other criteria were satisfied. To date, 1,250,000 of the earn-out warrants have been forfeited as performance targets have not been achieved. Net cash provided by investing activities in 2002 was \$0.1 million principally resulting from the sale of the assets of the Happy Puppy website.

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Net cash provided by financing activities in 2003 totaled \$10.6 million. As discussed below and in the Notes to the Consolidated Financial Statements, the Company issued \$0.5 million in Series F Convertible Preferred Stock in March 2003, \$1.75 million of Secured Convertible Notes in May 2003, and approximately \$8.6 million, net of offering costs, of Series G Automatically Converting Preferred Stock and associated warrants in July 2003. Immediately after the May 2003 closing of the DPT acquisition, the Company paid \$0.5 million in cash to the former stockholders of DPT in repayment of certain loans which they had extended to DPT prior to its acquisition by theglobe.com.

### CAPITAL TRANSACTIONS

On August 10, 2005, the Company entered into an asset purchase agreement, as amended on August 23, 2005 (the "Purchase Agreement") with RelationServe Media, Inc. ("RelationServe") whereby the Company agreed to sell all of the business and substantially all of the net assets of its SendTec marketing services subsidiary to RelationServe for \$37,500,000 in cash, subject to certain net working capital adjustments. In addition, on August 23, 2005, the Company entered into a Redemption Agreement with six members of the management of SendTec (the "Redemption Agreement") to redeem approximately 28.9 million shares of theglobe Common Stock owned by such management for approximately \$11.6 million in cash. The closing of the redemption of these shares is contingent on, and will occur immediately after, the closing of the Purchase Agreement. The Company also anticipates that it will be terminating and canceling certain options and warrants held by these six members of management for approximately \$400,000 in cash. These shares and related options and warrants were issued to SendTec management in connection with theglobe's acquisition of SendTec. The Company further expects to terminate or cancel the options of a few other employees of SendTec and enter into severance bonus arrangements with others for cash payments totaling approximately \$500,000. The closing of the asset sale is subject to the satisfaction of a number of closing conditions including distribution of a definitive Information Statement describing the asset sale to our stockholders which was undertaken commencing on September 16, 2005, with the closing anticipated to occur on or about October 11, 2005.

On May 9, 2005, we exercised our option to acquire all of the outstanding capital stock of Tralliance. The purchase price consisted of the issuance of 2,000,000 shares of theglobe.com Common Stock, warrants to acquire 475,000 shares of theglobe.com Common Stock and \$40,000 in cash. The warrants are exercisable for a period of five years at an exercise price of \$0.11 per share. As part of the transaction, 10,000 shares of our Common Stock were also issued to a third party in payment of a finder's fee resulting from the acquisition. The Common Stock issued as a result of the acquisition of Tralliance is entitled to certain "piggy-back" registration rights.

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On April 22, 2005, E&C Capital Partners, LLLP and E&C Capital Partners II, Ltd. (the "Noteholders"), entities controlled by the Company's Chairman and Chief Executive Officer, entered into a Note Purchase Agreement (the "Agreement") with theglobe pursuant to which they acquired secured demand convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of \$1,500,000. Under the terms of the Agreement, the Noteholders were also granted the optional right, for a period of 90 days from the date of the Agreement, to purchase additional Convertible Notes such that the aggregate principal amount of Convertible Notes issued under the Agreement may total \$4,000,000 (the "Option"). On June 1, 2005, the Noteholders exercised a portion of the Option and acquired an additional \$1,500,000 of Convertible Notes. On July 18, 2005, the Noteholders exercised the remainder of the Option and acquired an additional \$1,000,000 of Convertible Notes.

The Convertible Notes are convertible at the option of the Noteholders into shares of the Company's Common Stock at an initial price of \$0.05 per share. Through September 15, 2005, an aggregate of \$600,000 of Convertible Notes were converted by the Noteholders into an aggregate of 12,000,000 shares of the Company's Common Stock. Assuming full conversion of all Convertible Notes, 68,000,000 additional shares of the Company's Common Stock would be issued to the Noteholders. The Convertible Notes provide for interest at the rate of ten percent per annum and are secured by a pledge of substantially all of the assets of the Company. The Convertible Notes are due and payable five days after demand for payment by the Noteholders. Based upon its current financial position, the Company would not have the resources to pay the Convertible Notes following any such demand.

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On September 1, 2004, the Company closed upon an agreement and plan of merger dated August 31, 2004, pursuant to which the Company acquired all of the issued and outstanding shares of capital stock of SendTec. Pursuant to the terms of the Merger, in consideration for the acquisition of SendTec, theglobe paid consideration consisting of: (i) \$6,000,000 in cash, excluding transaction costs, (ii) the issuance of an aggregate of 17,500,024 shares of theglobe's Common Stock, (iii) the issuance of an aggregate of 175,000 shares of Series H Automatically Converting Preferred Stock (which as more fully described below, was subsequently converted into approximately 17,500,500 shares of theglobe's Common Stock), and (iv) the issuance of a subordinated promissory note in the amount of \$1 million (the "Note"). In addition, warrants to acquire shares of the Company's Common Stock would be issued to the former shareholders of SendTec when and if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending December 31, 2005 (the "Earn-out Consideration"). The number of earn-out warrants would range from an aggregate of approximately 250,000 to 2,500,000 (if actual operating income exceeds the forecast by at least 10%). If and to the extent the warrants are earned, the exercise price of the performance warrants would be \$0.27 per share and they will be exercisable for a period of 5 years. The Note bears interest at the rate of 4% per annum and matured in one lump sum of principal and interest on September 1, 2005. Due to its short-term liquidity problems, the Company has not paid such promissory note when due and is currently in default under the promissory note. Upon default, the Company is required to pay a default interest rate of 15% per annum and to pay the noteholders' collection costs, if any.

Each share of the Series H Preferred Stock was automatically converted into 100 shares of theglobe's Common Stock on December 1, 2004, the effective date of the amendment to the Company's certificate of incorporation increasing its authorized shares of Common Stock from 200,000,000 shares to 500,000,000 shares.

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The Company agreed to file a registration statement relating to the resale of the shares of Common Stock issued in connection with the Merger and to cause the effectiveness of such registration on or before September 1, 2005. The Company also agreed to keep the registration statement effective until at least the third anniversary of the Closing. We have not yet filed such a registration statement. Because we have not filed and caused such registration statement to become effective before September 1, 2005, we may be held liable for damages suffered by holders of such stock. Upon registration all such shares will be eligible for resale over the open market. Even if not registered, the shares issued in the SendTec acquisition are eligible for resale over the public markets pursuant to and subject to the limitations of Rule 144. If we successfully redeem the majority of the shares issued as part of the SendTec acquisition (or approximately 28,900,000 shares) in connection with the sale of SendTec's business to RelationServe, we would substantially mitigate our risk related to our failure to timely register these shares.

theglobe also issued an aggregate of approximately 4.0 million replacement options to acquire shares of theglobe's Common Stock for each of the issued and outstanding options to acquire shares of SendTec held by the former employees of SendTec. Of these replacement options, approximately 3.27 million have exercise prices of \$0.06 per share and approximately 700 thousand have exercise prices of \$0.27 per share. The terms of these replacement options were as negotiated between representatives of theglobe and the Stock Option Committee for the SendTec 2000 Amended and Restated Stock Option Plan. theglobe also agreed to grant an aggregate of 250,000 options to other employees and a consultant of SendTec at an exercise price of \$0.34 per share. Twenty-five percent of these options vested immediately and the balance will vest in three equal annual installments assuming the continued employment of the option holders. In addition, theglobe also granted 1,000,000 stock options at an exercise price of \$0.27 per share in connection with the establishment of a bonus option pool pursuant to which various employees of SendTec could vest in such options on terms substantially similar to the circumstances in which the Earn-out Consideration may be earned.

In connection with the Merger, the SendTec executives (whom collectively received approximately 82% of the shares of Common Stock and Preferred Stock issued in the Merger), theglobe and Messrs. Michael Egan and Edward Cespedes, our Chairman and Chief Executive Officer and President, respectively (individually and on behalf of certain affiliated entities) entered into a Stockholders' Agreement. Pursuant to the terms of the Stockholders' Agreement, the SendTec executives granted an irrevocable proxy to vote their shares to E&C Capital Partners, LLLP, an affiliate of Mr. Egan on all matters (including the election of directors) other than with respect to certain potential affiliated transactions involving Messrs. Egan or Cespedes. After giving effect to the grant of the proxy (and excluding outstanding options, warrants and convertible notes held or controlled by Mr. Egan), as of September 15, 2005, Mr. Egan has voting power over approximately 95.6 million of the issued and outstanding shares of theglobe representing approximately 48% of the issued and outstanding voting securities of the Company. The SendTec executives were also granted certain pre-emptive rights involving potential new issuances of securities by theglobe, together with a co-sale right to participate in certain qualifying sales of stock by Messrs. Egan, Cespedes and their affiliates. Messrs. Egan, Cespedes and their affiliates were granted a right of first refusal on certain sales (generally, in excess of 10 million shares) by the SendTec executives, together with the right to "drag-along" the SendTec executives with regard to certain major sales of their stock or a sale or merger of theglobe.

In March 2004, the Company completed a private offering of 333,816 units (the "Units") for a purchase price of \$85 per Unit (the "PIPE Offering"). Each Unit consisted of 100 shares of the Company's Common Stock, \$0.001 par value (the "Common Stock"), and warrants to acquire 50 shares of the Company's Common Stock (the "Warrants"). The Warrants are exercisable for a period of five years



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commencing 60 days after the initial closing at an initial exercise price of \$0.001 per share. The aggregate number of shares of Common Stock issued in the PIPE Offering was 33,381,647 shares for an aggregate consideration of \$28,374,400, or approximately \$0.57 per share assuming the exercise of the 16,690,824 Warrants. As of September 15, 2005, approximately 714,000 of the Warrants remain outstanding.

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The securities offered in the PIPE Offering were not registered under the Securities Act of 1933 and may not be offered or resold in the United States absent registration or an applicable exemption from such registration requirements. Pursuant to the terms of the PIPE Offering, the Company filed a registration statement relating to the resale of the Securities on April 16, 2004 which became effective on May 11, 2004. Most of our investors from prior capital raises also elected to register their shares for resale pursuant to that registration statement.

Halpern Capital, Inc., acted as placement agent for the PIPE Offering, and was paid a commission of \$1.2 million and issued a warrant to acquire 1,000,000 shares of Common Stock at \$0.001 per share. As of September 15, 2005, approximately 121,000 of these warrants remain outstanding.

The purpose of the PIPE Offering was to raise funds for use primarily in the Company's developing VoIP business, including the deployment of networks, website development, marketing and capital infrastructure expenditures and working capital. Other intended uses of proceeds included funding requirements in connection with the Company's other existing or future business operations, including acquisitions.

In connection with the PIPE Offering, Mr. Egan, our Chairman, Chief Executive Officer and principal stockholder, together with certain of his affiliates, including E&C Capital Partners, LLLP converted a \$2,000,000 Convertible Bridge Note, \$1,750,000 of Secured Convertible Notes and all of the Company's outstanding shares of Series F Preferred Stock, and exercised (on a "cashless" basis) all of the warrants issued in connection with the foregoing \$1,750,000 Secured Convertible Notes and Series F Preferred Stock, together with certain warrants issued to Dancing Bear Investments, an affiliate of Mr. Egan. As a result of such conversions and exercises, the Company issued an aggregate of 48,775,909 additional shares of Common Stock.

On February 2, 2004, Michael S. Egan and his wife, S. Jacqueline Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired a convertible promissory note due on demand (the "Bridge Note") in the aggregate principal amount of \$2,000,000. The Bridge Note was convertible into shares of the Company's Common Stock. The Bridge Note provided for interest at the rate of ten percent per annum and was secured by a pledge of substantially all of the assets of the Company. Such security interest was shared with the holders of the Company's \$1,750,000 Secured Convertible Notes issued on May 22, 2003 to E&C Capital Partners, LLLP and certain affiliates of Michael S. Egan. In addition, the Egans were issued a warrant to acquire 204,082 shares of Common Stock at an exercise price of \$1.22 per share. This warrant is exercisable at any time on or before February 2, 2009. The exercise price of the warrant, together with the number of shares for which such warrant is exercisable, is subject to adjustment upon the occurrence of certain events.

On July 2, 2003, theglobe.com, inc. completed a private offering of Series G Automatically Converting Preferred Stock for an aggregate purchase price of approximately \$8.7 million. In accordance with the terms of such Preferred stock, the Series G Preferred shares converted into Common Stock at \$0.50 per

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share (or an aggregate of approximately 17.4 million shares) upon the filing of an amendment to the Company's certificate of incorporation to increase its authorized shares of Common Stock from 100,000,000 shares to 200,000,000 shares. Such an amendment was filed on July 29, 2003. Investors also received warrants to acquire approximately 3.5 million shares of Common Stock. The warrants are exercisable for a period of five years at an exercise price of \$1.39 per common share. The exercise price of the warrants, together with the number of warrants issuable upon exercise, are subject to adjustment upon the occurrence of certain events. The purpose of the Series G Automatically Converting Preferred Stock offering was to raise funds for use primarily in the Company's VoIP telephony services business, including the deployment of networks, website development, marketing, and limited capital infrastructure expenditures and working capital.

On May 22, 2003, E&C Capital Partners, LLLP, together with certain affiliates of Michael S. Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired \$1,750,000 of Secured Convertible Notes. The Secured Convertible Notes were convertible into a maximum of approximately 19,444,000 shares of the Company's Common Stock at a blended rate of \$0.09 per share. The Secured Convertible Notes provided for interest at the rate of ten percent per annum payable semi-annually, a one year maturity and were secured by a pledge of substantially all of the assets of the Company. In addition, E&C Capital Partners, LLLP was issued a Warrant to acquire 3,888,889 shares of the Company's Common Stock at an exercise price of \$0.15 per share. The Warrant was exercisable at any time on or before May 22, 2013.

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On March 28, 2003, E&C Capital Partners, LLLP signed a Preferred Stock Purchase Agreement and other related documentation pertaining to a \$500,000 investment via the purchase of shares of a new Series F Preferred Stock of theglobe.com and closed on the investment. Pursuant to the Preferred Stock Purchase Agreement, E&C Capital Partners, LLLP received 333,333 shares of Series F Preferred Stock convertible into shares of the Company's Common Stock at a price of \$0.03 per share. The Series F Preferred Stock had a liquidation preference of \$1.50 per share, provided for payment of a dividend at the rate of 8% per annum and entitled the holder to vote on an "as-converted" basis with the holders of Common Stock. In addition, as part of the \$500,000 investment, E&C Capital Partners, LLLP received warrants to purchase 3,333,333 shares of theglobe.com Common Stock at an exercise price of \$0.125 per share. The warrants were exercisable at any time on or before March 28, 2013 and both the warrants' exercise price and number were subject to adjustment.

As a result of the preferential conversion features of the Series G Automatically Converting Preferred Stock and the Series F Preferred Stock, a total of \$8,120,000 in non-cash dividends to preferred stockholders were recognized during the year ended December 31, 2003.

### FUTURE AND CRITICAL NEED FOR CAPITAL

At June 30, 2005, the Company's sole source of liquidity consisted of \$5.0 million of cash and cash equivalents and as discussed earlier in "Capital Transactions," an additional \$1.0 million subsequently borrowed under the Note Purchase Agreement between the Company and entities controlled by its Chairman and Chief Executive Officer. On July 18, 2005, the Company issued Convertible Notes and borrowed the remaining \$1.0 million available under the Note Purchase Agreement. The Company's cash and cash equivalents balance at September 15, 2005 was approximately \$1.6 million.

The Company continues to incur substantial consolidated net losses and management believes the Company will continue to be unprofitable and use cash in

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its operations for the foreseeable future. The Company's consolidated net losses and cash usage during its recent past and projected future periods relate primarily to the operation of its VoIP telephony services business and to a lesser extent to corporate overhead expenses and the operations of its computer games business. SendTec, the Company's marketing services business, has contributed net income and cash flow since being acquired on September 1, 2004, and management expects that SendTec will continue to be profitable and provide positive cash flow in future periods. However, in connection with our acquisition of SendTec, we also have a \$1.0 million promissory note obligation which became due and payable on September 1, 2005. Due to its short-term liquidity problems, the Company has not paid such promissory note when due and is currently in default under the promissory note. Upon default, the Company is required to pay a default interest rate of 15% per annum and to pay the noteholders' collection costs, if any.

In order to offer our VoIP services, we have invested substantial capital and made substantial commitments related to the development of the VoIP network. The VoIP network is comprised of switching hardware and software, servers, billing and inventory systems, and telecommunications carrier services. We own and operate VoIP equipment located in leased data center facilities in Miami, New York, Atlanta and Boston, and interconnect this equipment utilizing a leased transport network through numerous carrier agreements with third party providers. Through these carrier relationships we are able to carry the traffic of our customers over the Internet and interact with the public switched telephone network. We generally enter into one year agreements with these data centers and carriers, with the term of several agreements extending to three or five years. Based upon our existing contractual commitments at June 30, 2005, minimum amounts payable during the next twelve months for network data center and carrier circuit interconnection service expenses, exclusive of regulatory taxes, fees and charges, are approximately \$1.1 million. The Company believes that the capacity of its VoIP network, including its lease obligations relating to such network, will continue to be greatly in excess of customer demand and usage levels for the foreseeable future. Therefore, the Company is currently negotiating to reduce its total commitment for future network data center and carrier circuit interconnection services, including further reducing the \$1.1 minimum amounts payable during the next twelve months.

The Company has expended, particularly during 2004, significant costs to implement a number of marketing programs geared toward increasing the number of its VoIP retail customers and telephony revenue. None of these programs have proven to be successful to any significant degree. Our inability to generate telephony revenue sufficient to cover the fixed costs of operating our VoIP network, including carrier, data center, personnel and administrative costs, as well as our marketing and other variable costs, has resulted in the Company incurring substantial net losses during 2004 and during 2005.

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During the first quarter of 2005, the Company reevaluated its existing VoIP telephony services business plan and subsequently terminated or is in the process of terminating and/or modifying certain of its existing product offerings and marketing programs. Additionally, the Company began to develop and test certain new VoIP products and features, some of which were completed and released during the second quarter of 2005. The Company also, during the first quarter of 2005, made the decision to discontinue using its SendTec business to perform marketing services for its VoIP business, and to instead dedicate 100% of SendTec's marketing resources to support and grow its own third party revenue producing customer base. Additionally, in order to reduce its near term consolidated net losses and cash usage, the Company implemented a number of cost-reduction actions at its VoIP telephony services business, including

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decreases in personnel and salary levels, carrier and data center costs (including the minimum commitment costs discussed above), and marketing/advertising expenses during the first quarter of 2005.

Management believes that it will be difficult to implement its new VoIP product and marketing plans, once fully developed and tested, without significant additional cash being provided from a prospective financing or sale transaction(s). Should the Company's new VoIP product offerings achieve market acceptance and significantly increase the Company's current customer and revenue base, additional cash resources to fund capital expenditures related to the Company's VoIP network and customer billing systems and to fund future marketing and other business development costs would be required. No significant capital expenditures are expected to be required to accommodate the operation or growth of either the Company's SendTec marketing services business or its computer games business in the near term future.

There can be no assurance that the Company's new VoIP product offerings will be successful in attracting a sufficient number of new customers to its VoIP network and increasing telephony revenue to desired levels. Even if the Company is able to raise additional capital, management may at any time decide to terminate the operations of its VoIP telephony services business, either by asset sale or abandonment, if future investment returns are considered inadequate and/or preferable investment alternatives exist.

On May 9, 2005, the Company exercised its purchase option and acquired Tralliance Corporation, an Internet related business venture. Tralliance was created to develop, operate and administer the ".travel" top-level domain, a new segment of the Internet devoted to the travel industry. Tralliance recently entered into an agreement with the Internet Corporation for Assigned Names and Numbers ("ICANN") to become the registry for the ".travel" top-level domain. The Tralliance purchase price consisted of the issuance of 2,000,000 shares of theglobe.com Common Stock, warrants to acquire 475,000 shares of theglobe.com Common Stock and \$40,000 in cash. The warrants are exercisable for a period of five years at an exercise price of \$0.11 per share. The Common Stock issued as a result of the acquisition of Tralliance is entitled to certain "piggy-back" registration rights. In addition, as part of the transaction, the Company agreed to pay approximately \$0.2 million in outstanding liabilities of Tralliance immediately after the closing of the acquisition.

During October 2004, the Company engaged financial advisors to assist the Company in raising capital through a private placement of its equity securities, or in entering into other business relationships with certain strategic investors. In February 2005, the Company engaged an additional financial advisor to assist the Company in connection with raising capital through a private placement of equity securities in either the Company or its SendTec wholly-owned subsidiary or alternatively in selling either part or all of the Company's businesses or assets, including its SendTec business. We currently have no access to credit facilities with traditional third party lenders and there can be no assurance that we would be able to raise capital or sell any of our businesses or assets. In addition, any financing that could be obtained would likely significantly dilute existing shareholders. As described above, management is exploring a number of strategic alternatives regarding the Company's future business operations and is in the process of developing and implementing internal actions to improve the Company's liquidity and business performance. The Company's future strategic direction is highly dependent upon the outcome of its efforts to raise capital and/or sell certain businesses or assets, including principally its SendTec business. See the "Recent Events" section of this Registration Statement for further information regarding the proposed sale of our SendTec business.

Based upon the foregoing and assuming that we do not conclude the sale of our SendTec business, Company management does not presently believe that cash on

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hand and cash flow generated internally by the company will be adequate to fund the operation of its businesses and the implementation of its current VoIP business plan beyond a short period of time. We received a report from our independent accountants, relating to our December 31, 2004 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. We believe that the funding received in connection with the recent Note Purchase Agreement (total of \$4.0 million as discussed earlier and assuming that no demand for payment is made by the Noteholders) provides the Company with temporary short-term liquidity to operate its businesses while it seeks to raise sufficient additional capital, which, as demonstrated by the proposed sale of SendTec, may involve the potential sale of one or more of the Company's subsidiaries.

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As discussed earlier in the Overview section of this Management's Discussion and Analysis of Financial Condition and Results of Operations, on August 10, 2005, the Company entered into a definitive agreement to sell the business and substantially all of the net assets of its SendTec marketing services subsidiary to RelationServe. If we are not successful in consummating the RelationServe asset sale or in entering into another financing, sale, or business transaction that otherwise infuses sufficient additional cash resources into the Company by no later than sometime during the fourth quarter of 2005, we believe that the Company will no longer be able to continue the implementation of its current VoIP business plan. In this event, we also believe the Company will continue to not be able to pay its current financial obligations on a timely basis, including paying the overdue principal and interest on the \$1.0 million promissory note issued in connection with the SendTec acquisition. As a result, it is likely that we would be required to either temporarily suspend or permanently shutdown the operation of our VoIP telephony services business. Additionally, in such event, management believes that it may also be required to revise the business plan of some or all of its other business segments and/or further implement company-wide cost-reduction programs. There can be no assurance that the Company would be successful in implementing such revised business plans and effectively restructuring its businesses so that the Company would have the ability to continue to operate as a going concern in the future.

If the Company consummates the sale of its SendTec business to RelationServe as planned and on a timely basis, substantial cash resources will be infused into the Company. Assuming that the RelationServe transaction closes as planned, management believes that the estimated net cash proceeds of approximately \$24.0 million received from the sale (and after giving effect to the repurchase of shares and cancellation of options and warrants from SendTec management and certain employees) would provide sufficient liquidity to enable the Company to operate on a going concern basis through at least the end of 2006.

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 also subject to the requirements of Rule 15g-9 of the Exchange Act. Our Common Stock is also considered a penny stock under the Securities Enforcement Remedies and Penny Stock Reform Act of 1990, which defines a penny stock, generally, as any equity security not traded on an exchange or quoted on the Nasdaq SmallCap Market that has a market price of less than \$5.00 per share. Under Rule 15g-9, brokers who recommend our Common Stock 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

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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. Consequently, it has also made it more difficult for us to raise additional capital, although the Company has had some success in offering its securities as consideration for the acquisition of various business opportunities or assets. We may also incur additional costs under state blue sky laws if we sell equity due to our delisting.

### CONTRACTUAL OBLIGATIONS

The following table summarizes theglobe's contractual obligations as of December 31, 2004. These contractual obligations are more fully disclosed in Note 7, "Debt," and Note 11, "Commitments and Contingencies," in the accompanying Notes to Consolidated Financial Statements.

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Debt, including current portion	\$1,304,402	\$1,277,405	\$ 26,997	\$ --	\$
Network commitments	3,653,000	2,063,000	1,376,000	214,000	
Operating leases	2,520,000	867,000	1,150,000	464,000	39
<b>Total contractual obligations</b>	<b>\$7,477,402</b>	<b>\$4,207,405</b>	<b>\$2,552,997</b>	<b>\$ 678,000</b>	<b>\$ 39</b>

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Excluded from the above table were unconditional purchase obligations totaling \$3,000,000 at December 31, 2004 for the purchase of VoIP telephony handsets. Effective January 31, 2005, the Company formally terminated its contract with the VoIP telephony handset supplier and agreed to a settlement of the obligation under such contract which provided for (i) a cash payment of \$200,000, (ii) the return of 35,000 VoIP handset units from the Company's inventory, and (iii) the issuance of 300,000 shares of theglobe.com Common Stock.

### OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2004 and June 30, 2005, we did not have any material off-balance sheet arrangements that have or are reasonably likely to have a material effect on our current or future financial condition, revenues or expenses, results of operations, liquidity, or capital resources.

### EFFECTS OF INFLATION

Due to relatively low levels of inflation in 2004, 2003 and 2002, as well as the first six months of 2005, inflation has not had a significant effect on our results of operations.

### MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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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 customer receivables, valuation of inventories, 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

The Company's revenues were derived principally from the sale of print advertisements under short-term contracts in our games information magazine Computer Games; through the sale of our games information magazine through newsstands and subscriptions; from the sale of video games and related products through our online store Chips & Bits; from the sale of direct response marketing services by our wholly-owned subsidiary, SendTec and from the sale of VoIP telephony services. There is no certainty that events beyond anyone's control such as economic downturns or significant decreases in the demand for our services and products will not occur and accordingly, cause significant decreases in revenue.

#### Computer Games Businesses

Advertising revenues for the Company's magazine publications are recognized at the on-sale date of the magazine.

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

Sales of video games and related products from the online store are recognized as revenue when the product is shipped to the customer. Amounts billed to customers for shipping and handling charges are included in net revenue. The Company provides an allowance for returns of merchandise sold through its online store. The allowance provided to date has not been significant.

#### Marketing Services

Revenue from the distribution of Internet advertising is recognized when Internet users visit and complete actions at an advertiser's website. Revenue consists of the gross value of billings to clients, including the recovery of costs incurred to acquire online media required to execute client campaigns. Recorded revenue is based upon reports generated by the Company's tracking software.

Revenue derived from the purchase and tracking of direct response media, such as television and radio commercials, is recognized on a net basis when the

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associated media is aired. In many cases, the amount the Company bills to clients significantly exceeds the amount of revenue that is earned due to the existence of various "pass-through" charges such as the cost of the television and radio media. Amounts received in advance of media airings are deferred and included in deferred revenue in the accompanying consolidated balance sheet.

Revenue generated from the production of direct response advertising programs, such as infomercials, is recognized on the completed contract method when such programs are complete and available for airing. Production activities generally take eight to twelve weeks and the Company usually collects amounts in advance and at various points throughout the production process. Amounts received from customers prior to completion of commercials are included in deferred revenue and direct costs associated with the production of commercials in process are deferred and included within other current assets in the accompanying consolidated balance sheet.

### VoIP Telephony Services

VoIP telephony services revenue represents fees charged to customers for voice services and is recognized based on minutes of customer usage or as services are provided. The Company records payments received in advance for prepaid services as deferred revenue until the related services are provided. Sales of peripheral VoIP telephony equipment are recognized as revenue when the product is shipped to the customer. Amounts billed to customers for shipping and handling charges are included in net revenue.

### 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.

### VALUATION OF INVENTORIES

Inventories are recorded on a first-in, first-out basis and valued at the lower of cost or market value. We generally manage our inventory levels based on internal forecasts of customer demand for our products, which is difficult to predict and can fluctuate substantially. Our inventories include high technology items that are specialized in nature or subject to rapid obsolescence. If our demand forecast is greater than the actual customer demand for our products, we may be required to record charges related to increases in our inventory valuation reserves. The value of our inventory is also dependent on our estimate of future average selling prices, and, if our projected average selling prices are over estimated, we may be required to adjust our inventory value to reflect the lower of cost or market.

### 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



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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:

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

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### LONG-LIVED ASSETS

Historically, the Company's long-lived assets, other than goodwill, have primarily consisted of property and equipment, capitalized costs of internal-use software, values attributable to covenants not to compete, acquired technology and patent costs.

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 May 2005, the FASB issued SFAS No. 154, "Accounting for Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 applies to all voluntary changes in accounting principles and requires retrospective application to prior periods' financial statements of changes in accounting principles. This statement also requires that a change in depreciation, amortization or depletion method for long-lived, non-financial

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assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its financial condition, results of operations or liquidity.

In March 2005, the FASB issued Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143, "Accounting for Asset Retirement Obligations." The interpretation clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The effective date of this interpretation is no later than the end of fiscal years ending after December 15, 2005. The Company is currently investigating the effect, if any, that FIN 47 would have on the Company's financial position, cash flows and results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. This statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its financial condition, results of operations, or liquidity.

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In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This standard replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The standard requires companies to expense the fair value of stock options on the grant date and is effective for annual periods beginning after June 15, 2005. In accordance with the revised statement, the expense attributable to stock options granted or vested subsequent to January 1, 2006 will be required to be recognized by the Company. The precise impact of the adoption of SFAS No. 123R cannot be predicted at this time because it will depend on the levels of share-based payments that are granted in the future. However, the Company believes that the adoption of this standard may have a significant effect on the Company's results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4." SFAS No. 151 requires all companies to recognize a current-period charge for abnormal amounts of idle facility expense, freight, handling costs and wasted materials. This statement also requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material effect on its consolidated financial statements.

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In December 2003, the FASB issued FIN No. 46-R "Consolidation of Variable Interest Entities." FIN 46-R, which modifies certain provisions and effective dates of FIN 46, sets forth the criteria to be used in determining whether an investment in a variable interest entity should be consolidated. These provisions are based on the general premise that if a company controls another entity through interests other than voting interests, that company should consolidate the controlled entity. The Company believes that currently, it does not have any material arrangements that meet the definition of a variable interest entity which would require consolidation.

### DESCRIPTION OF PROPERTY

Our corporate headquarters is located in Fort Lauderdale, Florida, where we lease approximately 26,000 square feet of office space. 15,000 square feet of this space is sublet from a company which is controlled by our Chairman and the remaining 11,000 square feet is sublet from an unaffiliated company. We maintain approximately 9,500 square feet of office space in two separate locations in Vermont in connection with the operations of our magazine publications and Chips & Bits, Inc. We own one property and the other is a lease which expires in September 2005. In June of 2004, we signed a two year lease for approximately 5,000 square feet of warehouse space in Pompano Beach, Florida. Additionally, we have obtained colocation space in secure telecommunications data centers located in Florida, Georgia, Massachusetts and New York which is used to house certain Internet routing and computer equipment. Our subsidiary, SendTec, Inc., leases approximately 14,500 square feet of office space in St. Petersburg, Florida and approximately 2,500 square feet of office space in New York City. The St. Petersburg lease commenced in April of 2004 and expires in March of 2010. The New York lease commenced in June of 2005 and expires in December of 2009. Our subsidiary, Tralliance Corporation, subleases approximately 1,100 square feet of office space in New York City on a month-to-month basis from an entity controlled by its President and Chief Executive Officer.

### MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### MARKET INFORMATION

The shares of our Common Stock trade in the over-the-counter market on what is commonly referred to as the electronic bulletin board, under the symbol "TGLO.OB". The following table sets forth the range of high and low bid prices of our Common Stock for the periods indicated as reported by the over-the-counter market (the electronic bulletin board). The quotations below reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions:

	2005		2004		2003	
	High	Low	High	Low	High	Low
Fourth Quarter	--	--	\$0.56	\$0.36	\$2.12	\$1.30
Third Quarter	--	--	\$0.65	\$0.24	\$1.97	\$1.12
Second Quarter	\$0.16	\$0.08	\$0.96	\$0.28	\$2.56	\$0.13
First Quarter	\$0.43	\$0.12	\$1.42	\$0.83	\$0.20	\$0.06

The market price of our Common Stock is highly volatile and fluctuates in response to a wide variety of factors. (See "Risk Factors-Our Stock Price is Volatile and May Decline.")

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We had approximately 724 holders of record of Common Stock as of September 15, 2005. This does not reflect persons or entities that hold Common Stock in nominee or "street" name through various brokerage firms.

### DIVIDENDS

We have not paid any cash dividends on our Common Stock since our inception and do not intend to pay dividends in the foreseeable future. Our board of directors will determine if we pay any future dividends.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS AS OF DECEMBER 31, 2004

Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity Compensation plans approved by security holders	4,729,020	\$ 1.40	8,063,897
Equity Compensation plans not approved by security holders	11,255,165	\$ 0.14	2,139,835
Total	15,984,185	\$ 0.51	10,203,732

Equity compensation plans not approved by security holders consist of the following:

- o 200,000 shares of Common Stock of theglobe.com, inc., issued to Charles Peck pursuant to the Non-Qualified Stock Option Agreement dated June 1, 2002 at an exercise price of \$0.035 per share. These stock options vested immediately and have a life of ten years from date of grant.

- o 1,750,000 shares of Common Stock of theglobe.com, inc., issued to Edward A. Cespedes pursuant to the Non-Qualified Stock Option Agreement dated August 12, 2002 at an exercise price of \$0.02 per share. These stock options vested immediately and have a life of ten years from date of grant.

- o 2,500,000 shares of Common Stock of theglobe.com, inc., issued to Michael S. Egan pursuant to the Non-Qualified Stock Option Agreement dated August 12, 2002 at an exercise price of \$0.02 per share. These stock options vested immediately and have a life of ten years from date of grant.

- o 500,000 shares of Common Stock of theglobe.com, inc., issued to Robin S. Lebowitz pursuant to the Non-Qualified Stock Option Agreement dated August 12, 2002 at an exercise price of \$0.02 per share. These stock options vested immediately and have a life of ten years from date of grant.

- o The Company's 2003 Amended and Restated Non-Qualified Stock Option Plan (the "2003 Plan"). The purpose of the 2003 Plan is to strengthen theglobe.com, inc. by providing an incentive to certain employees and consultants (or in certain circumstances, individuals who are the principals of certain consultants) of the Company or any subsidiary of the Company, with a view toward encouraging them to devote their abilities and industry to the success of the Company's business enterprise. The 2003 Plan is administered by a Committee appointed by the Board

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to administer the Plan, which has the power to determine those eligible individuals to whom options shall be granted under the 2003 Plan and the number of such options to be granted and to prescribe the terms and conditions (which need not be identical) of each such option, including the exercise price per share subject to each option and vesting schedule of options granted thereunder, and make any amendment or modification to any agreement consistent with the terms of the 2003 Plan. The maximum number of shares that may be made the subject of options granted under the 2003 Plan is 1,000,000 and no option may have a term in excess of ten years. Options to acquire an aggregate of 41,000 shares of Common Stock have been issued to various independent sales agents at a weighted average exercise price of \$1.54. These stock options vested immediately and have a life of ten years from date of grant. Options to acquire an aggregate of 400,000 shares of Common Stock have been issued to various employees and independent contractors at a weighted average exercise price of \$1.00. These stock options vested immediately and have a life of ten years from date of grant. Options to acquire an aggregate of 110,000 shares of Common Stock have been issued to two independent contractors at a weighted average exercise price of \$1.22. These stock options vested immediately and have a life of five years from date of grant. Options to acquire 200,000 shares of Common Stock were issued to an employee at an exercise price of \$0.01 per share. These stock options, with a life of ten years, were to vest upon attainment of specific performance criteria. However, in January of 2005, the employee was terminated and his options were completely vested as part of his termination agreement.

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o The Company's 2004 Stock Incentive Plan (the "2004 Plan"). The purpose of the 2004 Plan is to enhance the profitability and value of the Company for the benefit of its stockholders by enabling the Company to offer eligible employees, consultants and non-employee directors stock-based and other incentives, thereby creating a means to raise the level of equity ownership by such individuals in order to attract, retain and reward such individuals and strengthen the mutuality of interests between such individuals and the Company's stockholders. The 2004 Plan is administered by a Committee appointed by the Board to administer the Plan, which has the power to determine those eligible individuals to whom stock options, stock appreciation rights, restricted stock awards, performance awards, or other stock-based awards shall be granted under the 2004 Plan and the number of such options, rights or awards to be granted and to prescribe the terms and conditions (which need not be identical) of each such option, right or award, including the exercise price per share subject to each option and vesting schedule of options granted thereunder, and make any amendment or modification to any agreement consistent with the terms of the 2004 Plan. The maximum number of shares that may be made the subject of options, rights or awards granted under the 2004 Plan is 7,500,000 and no option may have a term in excess of ten years. Options to acquire an aggregate of 250,000 shares of Common Stock have been issued to several employees and consultants of SendTec, Inc. at an exercise price of \$0.34 per share. Twenty-five percent of these options vested immediately and the balance will vest in three equal annual installments. These options have a life of five years from date of grant. As part of the merger with SendTec, Inc., replacement options of 3,974,165 were issued to the former SendTec employees. Of these replacement options, 3,273,668 have been issued at an exercise price of \$0.06 per share and 700,497 have been issued at an exercise price of \$0.27 per share. The terms of these replacement options were as negotiated between representatives of theglobe and the Stock Option Committee for the SendTec 2000 Amended and Restated Stock Option Plan. In addition, theglobe also granted 1,000,000 stock options at an exercise price of \$0.27 per share in connection with the establishment of a bonus option pool pursuant to which various employees of SendTec could vest in such options if SendTec exceeds certain performance targets. In October of 2004, options to acquire an aggregate of 330,000 shares of Common Stock were issued to two

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employees. 250,000 were issued at an exercise price of \$0.52, of which 62,500 of these stock options vested immediately and the balance will vest ratably on a quarterly basis over three years. 80,000 were issued at an exercise price of \$0.37 of which 32,000 of these stock options vested immediately and the balance will vest ratably on a quarterly basis over three years, although vesting may be accelerated subject to certain performance criteria. These options have a life of ten years from date of grant.

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### CONSOLIDATED FINANCIAL STATEMENTS

THEGLOBE.COM, INC. AND SUBSIDIARIES

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
theglobe.com, inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of theglobe.com, inc. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years ended December 31, 2004, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of theglobe.com, inc. and Subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the years ended December 31, 2004, 2003 and 2002, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has an accumulated deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

RACHLIN COHEN & HOLTZ LLP

Fort Lauderdale, Florida  
March 23, 2005

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### THEGLOBE.COM, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	June 30, 2005	December 2004
	-----	-----
<b>ASSETS</b>	<b>(Unaudited)</b>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,976,487	\$ 6,82
Marketable securities	42,736	4
Accounts receivable, less allowance for doubtful accounts of approximately \$248,000 (unaudited), \$274,000 and \$113,000, respectively	8,210,661	7,74
Inventory, less reserves of approximately \$315,000 (unaudited), \$1,333,000 and \$109,000, respectively	247,195	58
Prepaid expenses	995,946	1,59
Deposits on inventory purchases	77,250	7
Other current assets	277,647	31
<b>Total current assets</b>	<b>14,827,922</b>	<b>17,18</b>
Goodwill	11,709,952	11,70
Intangible assets	2,045,211	1,68
Property and equipment, net	2,931,215	3,40
Other assets	95,422	4
<b>Total assets</b>	<b>\$ 31,609,722</b>	<b>\$ 34,01</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 8,701,615	\$ 7,44

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Accrued expenses and other current liabilities	3,479,574	2,80
Deferred revenue	266,719	73
Notes payable and current portion of long-term debt	4,131,379	1,27
	-----	-----
Total current liabilities	16,579,287	12,26
Long-term debt	7,264	2
Other long-term liabilities	130,366	20
	-----	-----
Total liabilities	16,716,917	12,49
	-----	-----
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 3,000,000 shares authorized; 333,333 shares issued and outstanding at December 31, 2003; at liquidation value	--	
Common stock, \$0.001 par value; 500,000,000 shares authorized; 187,355,004 (unaudited), 174,315,678 and 50,245,574 shares issued at June 30, 2005, December 31, 2004 and December 31, 2003, respectively	187,355	17
Additional paid-in capital	286,070,574	282,28
Treasury stock, 699,281 common shares, at cost	(371,458)	(37
Accumulated other comprehensive income	--	
Accumulated deficit	(270,993,666)	(260,57
	-----	-----
Total stockholders' equity	14,892,805	21,51
	-----	-----
Total liabilities and stockholders' equity	\$ 31,609,722	\$ 34,01
	=====	=====

See notes to consolidated financial statements

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

	Six Months Ended June 30,		Year En
	2005	2004	2004
	(Unaudited)		
Net Revenue	\$ 19,425,046	\$ 1,682,227	\$ 16,041,032
Operating Expenses:			
Cost of revenue	16,638,712	3,493,426	18,262,105
Sales and marketing	2,175,902	2,722,231	7,386,637
Product development	654,257	366,184	1,053,886
General and administrative	6,099,641	3,646,400	9,102,151
Depreciation	752,539	492,350	1,402,712
Amortization of intangible assets	198,800	42,343	222,834
Impairment charge	--	--	1,661,975
Loss on settlement of contractual obligation	--	--	406,750
	-----	-----	-----
	26,519,851	10,762,934	39,499,050
	-----	-----	-----



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Loss from Operations	(7,094,805)	(9,080,707)	(23,458,018)
Other Income (Expense):			
Interest income (expense), net	(3,029,574)	(802,123)	(656,633)
Other expense, net	(278,837)	(134,829)	(158,550)
	(3,308,411)	(936,952)	(815,183)
Loss Before Provision for Income Taxes	(10,403,216)	(10,017,659)	(24,273,201)
Provision for Income Taxes	15,576	--	--
Net Loss	\$ (10,418,792)	\$ (10,017,659)	\$ (24,273,201)
Basic and Diluted Net Loss Per Common Share	\$ (0.06)	\$ (0.10)	\$ (0.19)
Weighted Average Common Shares Outstanding	177,680,000	102,914,000	127,842,923

See notes to consolidated financial statements.

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THEGLOBE.COM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Preferred Stock	Common Stock	
		Shares	Amount
Balance at December 31, 2001	\$ --	31,081,574	\$ 31,081,574
Year Ended December 31, 2002:			
Net loss	--	--	--
Disposal of Attitude Network-translation loss	--	--	--
Net unrealized (loss) on securities	--	--	--
Comprehensive loss	--	--	--
Issuance of stock options:			
Severance arrangement	--	--	--
Acquisition	--	--	--
Balance, December 31, 2002	--	31,081,574	31,081,574
Year Ended December 31, 2003:			

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Net loss	--	--	
Net unrealized gain on securities	--	--	
Comprehensive loss	--	--	
Issuance of preferred stock:			
Series F Preferred Stock	500,000	--	
Series G Automatically Converting Preferred Stock	7,315,000	--	
Issuance of common stock:			
Conversion of Series G Automatically Converting Preferred Stock	(7,315,000)	17,360,000	17,360,000
Acquisition of Direct Partner Telecom, Inc.	--	1,375,000	1,375,000
Exercise of stock options	--	429,000	429,000
Beneficial conversion feature of Convertible Notes	--	--	
Employee stock-based compensation	--	--	
Issuance of stock options to non-employees	--	--	
Contributed capital in lieu of salary by officer	--	--	
	-----	-----	-----
Balance, December 31, 2003	500,000	50,245,574	50,245,574
Year Ended December 31, 2004:			
Net loss	--	--	
Realized gain on securities	--	--	
Comprehensive loss	--	--	
Issuance of common stock:			
Private offering, net of offering costs	--	33,381,647	33,381,647
Conversion of Series F Preferred Stock and exercise of associated warrants	(500,000)	19,639,856	19,639,856
Conversion of \$1,750,000 Convertible Notes	--	22,829,156	22,829,156
Conversion of \$2,000,000 Bridge Note	--	3,527,337	3,527,337
Acquisition of SendTec	17,500	17,500,024	17,500,024
Conversion of Series H Preferred Stock	(17,500)	17,500,500	17,500,500
Exercise of warrants owned by Dancing Bear Investments	--	2,779,560	2,779,560
Exercise of stock options	--	639,000	639,000
Exercise of warrants	--	6,273,024	6,273,024
Beneficial conversion feature of \$2,000,000 Bridge Note and warrants	--	--	
Employee stock-based compensation	--	--	
Issuance of stock options to non-employees	--	--	
	-----	-----	-----
Balance, December 31, 2004	--	174,315,678	174,315,678
Six Months Ended June 30, 2005 (unaudited):			
Net loss	--	--	

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Issuance of common stock:			
Settlement of contractual obligation	--	300,000	3
Acquisition of Tralliance	--	2,010,000	2,0
Exercise of stock options	--	218,226	2
Exercise of warrants	--	10,511,100	10,5
Beneficial conversion features of \$3,000,000 in Convertible Notes	--	--	
Employee stock-based compensation	--	--	
Issuance of stock options to non- employees	--	--	
	-----	-----	-----
Balance, June 30, 2005 (unaudited)	\$ --	187,355,004	\$ 187,3
	=====	=====	=====

	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	-----	-----	-----
Balance at December 31, 2001	\$ (120,866)	\$ (214,532,615)	\$ 3,26
Year Ended December 31, 2002:			
Net loss	--	(2,614,661)	(2,61
Disposal of Attitude Network-translation loss	121,516	--	12
Net unrealized (loss) on securities	(650)	--	-----
Comprehensive loss	--	--	(2,49
Issuance of stock options:			
Severance arrangement	--	--	1
Acquisition	--	--	4
	-----	-----	-----
Balance, December 31, 2002	--	(217,147,276)	82
Year Ended December 31, 2003:			
Net loss	--	(11,034,397)	(11,03
Net unrealized gain on securities	1,562	--	-----
Comprehensive loss	--	--	(11,03
	-----	-----	-----
Issuance of preferred stock:			

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Series F Preferred Stock	--	(500,000)	50
Series G Automatically Converting Preferred Stock	--	(7,620,000)	8,64
Issuance of common stock:			
Conversion of Series G Automatically Converting Preferred Stock	--	--	
Acquisition of Direct Partner Telecom, Inc.	--	--	63
Exercise of stock options	--	--	11
Beneficial conversion feature of Convertible Notes	--	--	1,75
Employee stock-based compensation	--	--	41
Issuance of stock options to non-employees	--	--	22
Contributed capital in lieu of salary by officer	--	--	10
	-----	-----	-----
Balance, December 31, 2003	1,562	(236,301,673)	2,18
Year Ended December 31, 2004:			
Net loss	--	(24,273,201)	(24,27
Realized gain on securities	(1,562)	--	(
			-----
Comprehensive loss	--	--	(24,27
			-----
Issuance of common stock:			
Private offering, net of offering costs	--	--	26,97
Conversion of Series F Preferred Stock and exercise of associated warrants	--	--	
Conversion of \$1,750,000 Convertible Notes	--	--	1,67
Conversion of \$2,000,000 Bridge Note	--	--	2,00
Acquisition of SendTec	--	--	11,19
Conversion of Series H Preferred Stock	--	--	
Exercise of warrants owned by Dancing Bear Investments	--	--	
Exercise of stock options	--	--	18
Exercise of warrants	--	--	1
Beneficial conversion feature of \$2,000,000 Bridge Note and warrants	--	--	68
Employee stock-based compensation	--	--	41
Issuance of stock options to non-employees	--	--	46
	-----	-----	-----
Balance, December 31, 2004	--	(260,574,874)	21,51
Six Months Ended June 30, 2005 (unaudited):			
Net loss	--	(10,418,792)	(10,41
Issuance of common stock:			
Settlement of contractual obligation	--	--	7

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Acquisition of Tralliance	--	--	19
Exercise of stock options	--	--	
Exercise of warrants	--	--	1
Beneficial conversion features of \$3,000,000 in Convertible Notes	--	--	3,00
Employee stock-based compensation	--	--	36
Issuance of stock options to non- employees	--	--	13
Balance, June 30, 2005 (unaudited)	\$ --	\$ (270,993,666)	\$ 14,89

See notes to consolidated financial statements.

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

	Six Months Ended June 30,		
	2005	2004	2004
	(Unaudited)		
Cash Flows from Operating Activities:			
Net loss	\$ (10,418,792)	\$ (10,017,659)	\$ (24,27
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:			
Depreciation and amortization	951,339	534,693	1,62
Provision for excess and obsolete inventory	43,839	16,515	1,28
Provision for uncollectible accounts receivable	--	121,509	19
Non-cash interest expense	3,000,000	735,416	73
Reserve against amounts loaned to Tralliance prior to acquisition	280,000	222,500	50
Employee stock compensation	367,870	168,304	41
Compensation related to non-employee stock options	139,597	332,094	46
Contingent commissions expenses	--	155,968	13
Non-cash impairment charge	--	--	1,66
Write-down of inventory deposit	--	--	22
Loss on settlement of contractual obligation	--	--	40
Non-cash compensation	--	--	
Loss on disposal or write-off of equipment	--	--	6
Non-cash gain on settlements of liabilities	--	--	(35
Disposal of Attitude Network-translation loss	--	--	
Gain on sale of Happy Puppy	--	--	
Other, net	(324)	9,347	1
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable, net	(469,969)	138,497	(1,30

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Inventory, net	298,545	(548,346)	(1,10)
Prepaid and other current assets	638,908	(690,108)	(39)
Accounts payable	1,178,175	315,443	1,31
Accrued expenses and other current liabilities	439,275	268,123	60
Deferred revenue	(472,946)	3,113	4
	-----	-----	-----
Net cash and cash equivalents used in operating activities	(4,024,483)	(8,234,591)	(17,73)
	-----	-----	-----
Cash Flows from Investing Activities:			
Purchases of marketable securities	--	--	
Proceeds from sales and maturities of marketable securities	--	225,070	22
Net cash acquired (paid) in acquisition of businesses	14,450	--	(2,38)
Proceeds from sale of properties	--	--	
Purchases of property and equipment	(277,384)	(1,696,525)	(2,68)
Amounts loaned to Tralliance prior to Acquisition	(280,000)	(182,500)	(46)
Patent costs incurred	--	(66,079)	(10)
Other, net	(52,466)	(14,500)	2
	-----	-----	-----
Net cash and cash equivalents provided by (used in) investing activities	(595,400)	(1,734,534)	(5,39)
	-----	-----	-----
Cash Flows from Financing Activities:			
Borrowings on notes payable and long-term debt	3,000,000	2,000,000	2,00
Payments on notes payable and long-term debt	(245,435)	(85,573)	(15)
Proceeds from issuance of preferred stock, net	--	--	
Proceeds from issuance of common stock, net	--	26,974,344	26,97
Proceeds from exercise of common stock options	3,094	177,046	18
Proceeds from exercise of warrants	10,511	10,918	1
Increase in (payments of) other long-term liabilities, net	--	(119,711)	(11)
	-----	-----	-----
Net cash and cash equivalents provided by (used in) financing activities	2,768,170	28,957,024	28,89
	-----	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	(1,851,713)	18,987,899	5,76
	-----	-----	-----
Cash and Cash Equivalents, Beginning	6,828,200	1,061,702	1,06
	-----	-----	-----
Cash and Cash Equivalents, Ending	\$ 4,976,487	\$ 20,049,601	\$ 6,82
	=====	=====	=====

See notes to consolidated financial statements.

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THEGLOBE.COM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Continued)

Six Months Ended June 30,		
-----	-----	-----
2005	2004	2004
-----	-----	-----
(Unaudited)		

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### Supplemental Disclosure of Cash Flow Information:

Cash paid during the period for:

Interest	\$ 10,121	\$ 62,528	\$ 1
----------	-----------	-----------	------

	=====	=====	=====
--	-------	-------	-------

Income taxes	\$ --	\$ --	\$
--------------	-------	-------	----

	=====	=====	=====
--	-------	-------	-------

### Supplemental Disclosure of Non-Cash Transactions:

Common stock and warrants issued in connection with acquisition of Tralliance Corporation	\$ 198,887	\$ --	\$
---	------------	-------	----

	=====	=====	=====
--	-------	-------	-------

Common stock, preferred stock and stock options issued in connection with the acquisition of SendTec, Inc.	\$ --	\$ --	\$ 11,1
--	-------	-------	---------

	=====	=====	=====
--	-------	-------	-------

Note payable issued in connection with acquisition of SendTec, Inc.	\$ --	\$ --	\$ 1,0
---	-------	-------	--------

	=====	=====	=====
--	-------	-------	-------

Common stock and warrants issued in connection with acquisition of Direct Partner Telecom, Inc.	\$ --	\$ --	\$
---	-------	-------	----

	=====	=====	=====
--	-------	-------	-------

Common stock issued in connection with the settlement of a contractual obligation	\$ 74,250	\$ --	\$
---	-----------	-------	----

	=====	=====	=====
--	-------	-------	-------

Conversion of Series G Automatically Converting Preferred Stock into Common Stock	\$ --	\$ --	\$
---	-------	-------	----

	=====	=====	=====
--	-------	-------	-------

Additional paid-in capital attributable to beneficial conversion features of Series F Preferred Stock, \$1,750,000 Convertible Notes and \$2,000,000 Bridge Note	\$ --	\$ 687,000	\$ 6
--	-------	------------	------

	=====	=====	=====
--	-------	-------	-------

Preferred dividends recorded as a result of beneficial conversion features of preferred stock issued	\$ --	\$ --	\$
--	-------	-------	----

	=====	=====	=====
--	-------	-------	-------

Conversion of Series F Preferred Stock, \$1,750,000 Convertible Notes and \$2,000,000 Bridge Note	\$ --	\$ 4,177,375	\$ 4,1
---	-------	--------------	--------

	=====	=====	=====
--	-------	-------	-------

Debt assumed in purchase of intangible asset	\$ --	\$ --	\$
--	-------	-------	----

	=====	=====	=====
--	-------	-------	-------

Intangible asset purchased in exchange for warrants	\$ --	\$ --	\$
---	-------	-------	----

	=====	=====	=====
--	-------	-------	-------

Debt assumed in purchase of property and equipment	\$ --	\$ --	\$ 1
--	-------	-------	------

	=====	=====	=====
--	-------	-------	-------

See notes to consolidated financial statements.

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THEGLOBE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information regarding events subsequent to December 31, 2004 is unaudited.)

## NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### DESCRIPTION OF THE COMPANY

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 continues to operate its Computer Games print magazine and the associated website Computer Games Online ([www.cgonline.com](http://www.cgonline.com)), as well as the computer games distribution business of Chips & Bits, Inc. ([www.chipsbits.com](http://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 and is now pursuing opportunities related to this acquisition. 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 transaction included an earn-out arrangement whereby the former shareholders of DPT may earn additional warrants to acquire up to 2,750,000 shares of the Company's Common Stock at an exercise price of \$0.72 per share upon the attainment of certain performance targets by DPT, or upon a change in control as defined, over approximately a three year period following the date of acquisition. Effective March 31, 2004, 500,000 of the earn-out warrants were forfeited as performance targets had not been achieved for the first of the three year periods. An additional 750,000 of the warrants were forfeited effective March 31, 2005, as performance targets for the second of the three year periods were not achieved.

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. As a result, the Company wrote-off the goodwill associated with the purchase of DPT as of December 31, 2003, and has since employed DPT's physical assets in the build out of the retail VoIP network.

On September 1, 2004, the Company acquired SendTec, Inc. ("SendTec"), a direct response marketing services and technology company. As more fully discussed in Note 4, "Acquisitions and Dispositions," the Company paid \$6.0 million in cash,



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excluding transaction costs, and issued debt and equity securities valued at a total of approximately \$12 million to purchase SendTec.

As more fully discussed in Note 4, "Acquisitions and Dispositions," and Note 16, "Subsequent Events," on May 9, 2005, the Company exercised its option to acquire Tralliance Corporation ("Tralliance"), a company which had recently entered into an agreement to become the registry for the ".travel" top-level Internet domain. The Company issued 2,000,000 shares of its Common Stock, warrants to acquire 475,000 shares of its Common Stock and paid \$40,000 in cash to acquire Tralliance.

In addition, reference should be made to Note 16, "Subsequent Events," regarding the Company's entrance into an asset purchase agreement, dated August 10, 2005, for the sale of the SendTec Business and substantially all of the net assets of its SendTec subsidiary to RelationServe Media, Inc.

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As of June 30, 2005, the Company's revenue sources were derived principally from the operations of SendTec which comprises our marketing services division, and to a lesser extent from the operations of our games related businesses. The Company's retail VoIP products and services have yet to produce any significant revenue. Tralliance does not expect to begin collecting fees from ".travel" registrars for its services until sometime during the fourth quarter of 2005.

### (a) PRINCIPLES OF CONSOLIDATION

The 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.

### (b) UNAUDITED INTERIM FINANCIAL INFORMATION

The interim consolidated financial statements of the Company as of June 30, 2005 and for the six months ended June 30, 2005 and 2004 included herein are unaudited. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company at June 30, 2005 and the results of its operations and its cash flows for the six months ended June 30, 2005 and 2004. 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.

### (c) 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.

### (d) 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

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highly liquid securities with original maturities of three months or less to be cash equivalents. Included in cash and cash equivalents in the accompanying consolidated balance sheet at June 30, 2005 and December 31, 2004, was approximately \$31,000 (unaudited) and \$93,000, respectively, of cash held in escrow for purposes of sweepstakes promotions being conducted by the VoIP telephony division.

### (e) MARKETABLE SECURITIES

The Company accounts for its investment in debt and equity securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." All such investments are classified as available-for-sale as of June 30, 2005, December 31, 2004 and December 31, 2003. Available-for-sale securities are stated at market value, which approximates fair value, and unrealized holding gains and losses are excluded from earnings and included as a component of stockholders' equity until realized.

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The following is a summary of available-for-sale securities:

	June 30, 2005		December 31, 2004		December 31, 2003	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
	(Unaudited)					
Preferred Securities	\$ --	\$ --	\$ --	\$ --	\$225,000	\$225,000
U.S. Treasury Bills	42,736	42,736	42,736	42,736	41,408	42,970
Total	\$ 42,736	\$ 42,736	\$ 42,736	\$ 42,736	\$266,408	\$267,970

During the six months ended June 30, 2005 and 2004, the Company had no significant gross realized gains or losses on sales of available-for-sale securities (unaudited). During the year ended December 31, 2004 and 2003, the Company had no significant gross realized gains or losses on sales of available-for-sale securities. The gross unrealized gain of \$1,562 as of December 31, 2003, has been included in stockholders' equity as "Accumulated Other Comprehensive Income" in the accompanying consolidated balance sheet.

### (f) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of certain of the Company's financial instruments, including cash, cash equivalents, marketable securities, accounts receivable, accounts payable, accrued expenses and deferred revenue, approximate their fair value at June 30, 2005 and December 31, 2004 and 2003 due to their short maturities.

### (g) INVENTORY

Inventories are recorded on a first in, first out basis and valued at the lower of cost or market value. The Company's reserve for excess and obsolete inventory as of June 30, 2005, December 31, 2004 and 2003, was approximately \$315,000 (unaudited), \$1,333,000 and \$109,000, respectively.

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During the year ended December 31, 2004, the Company's VoIP telephony services business recorded charges to cost of revenue totaling approximately \$1,477,000 as a result of write-downs required to state its inventory on-hand and related deposits for inventory on order at the lower of cost or market value. As of December 31, 2004, such market values considered certain transactions, completed subsequent to year-end, as well as the Company's estimate of future unit sales and selling prices of its telephony equipment inventory in its retail VoIP business.

Effective January 31, 2005, the Company formally terminated its contract with a supplier for VoIP telephony handsets and reached an agreement with the supplier to settle the unconditional purchase obligation under such contract, which totaled approximately \$3,000,000 (see Note 11, "Commitments and Contingencies," for further discussion). As a result, the Company recorded charges to cost of revenue which increased the inventory reserves related to its VoIP handset inventory by approximately \$300,000 as of December 31, 2004. During the third quarter of 2004, the Company had recorded a \$600,000 charge to cost of revenue and a corresponding increase to its reserve for excess and obsolete inventory related to the VoIP handset inventory.

In January 2005, the Company sold essentially all of its voiceglo adapter inventory on-hand for \$235,000 in cash. As a result, inventory reserves at December 31, 2004 included approximately \$356,000 of additional provisions related to cost of revenue charges required to reflect the voiceglo adapter inventory at net realizable value. During 2004, the Company also made advance payments of approximately \$299,000 towards future purchases of adapter inventory. The Company recorded a charge to cost of revenue of approximately \$221,000 to write down the value of such deposits on inventory purchases to estimated net realizable value of \$77,250 as of December 31, 2004.

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The Company manages its inventory levels based on internal forecasts of customer demand for its products, which is difficult to predict and can fluctuate substantially. In addition, the Company's inventories include high technology items that are specialized in nature or subject to rapid obsolescence. If the Company's demand forecast is greater than the actual customer demand for its products, the Company may be required to record additional charges related to increases in its inventory valuation reserves in future periods. The value of inventories is also dependent on the Company's estimate of future average selling prices, and, if projected average selling prices are over estimated, the Company may be required to further adjust its inventory value to reflect the lower of cost or market.

### (h) GOODWILL AND INTANGIBLE ASSETS

The Company accounts for goodwill and intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and other intangibles with indefinite lives should no longer be amortized, but rather be 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.

Goodwill is stated at cost. At June 30, 2005, December 31, 2004 and 2003, the Company had no other intangible assets with indefinite lives. Intangible assets subject to amortization, included in the accompanying consolidated balance sheets as of June 30, 2005, December 31, 2004 and 2003, were being amortized on a straight-line basis over their estimated useful lives, ranging from three to five years. See Note 3, "Impairment Charges," for a discussion of the charges

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recorded by the Company as a result of the review of goodwill and intangible assets for impairment in connection with the preparation of the accompanying consolidated financial statements.

### (i) LONG-LIVED ASSETS

Long-lived assets, including property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." If events or changes in circumstances indicate that the carrying amount of an asset, or an appropriate grouping of assets, may not be recoverable, the Company estimates the undiscounted future cash flows to result from the use of the asset, or asset group. If the sum of the undiscounted cash flows is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the assets. Fair values are based on quoted market values, if available. If quoted market values 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.

See Note 3, "Impairment Charges," for discussion of impairment charges recorded by the Company as a result of the review of long-lived assets for impairment in connection with the preparation of the accompanying consolidated financial statements.

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets, as follows:

	Estimated Useful Lives -----
VoIP network equipment	3 years
Computer software	3 years
Other equipment	3 years
Furniture and fixtures	3-7 years
Leasehold improvements	3-6 years

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 three years.

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### (j) CONCENTRATION OF CREDIT RISK

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities 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.

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Amounts receivable from four of SendTec's customers represented approximately \$3,470,000 (unaudited), or 47%, of SendTec's total accounts receivable as of June 30, 2005. A single SendTec customer represented \$1,444,515, or 22%, of SendTec's total accounts receivable as of December 31, 2004. Concentration of credit risk in the Company's computer games and VoIP telephony services divisions is generally limited due to the large number of customers in these businesses.

### (k) REVENUE RECOGNITION

#### COMPUTER GAMES BUSINESSES

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

The Company participates in barter transactions whereby the Company trades marketing data in exchange for advertisements in the publications of other companies. Barter revenue and expenses are recorded at the fair market value of services provided or received, whichever is more readily determinable in the circumstances. Revenue from barter transactions is recognized as income when advertisements or other products are delivered by the Company. Barter expense is recognized when the Company's advertisements are run in other companies' magazines, which typically occurs within one to six months from the period in which barter revenue is recognized. Barter revenue represented less than 1% of consolidated net revenue for the year ended December 31, 2004 and approximately 2% of consolidated net revenue in the years ended December 31, 2003 and 2002. The Company had no barter revenue during the six months ended June 30, 2005. Barter revenue represented approximately 4% (unaudited) of consolidated net revenue for the six months ended June 30, 2004.

The Company uses outside agents to obtain new subscribers for its magazine publications, whereby the agents retain a percentage of the subscription proceeds as their commission. Previously these commissions had been classified as sales and marketing expense within the consolidated statements of operations. Effective June 2004, the Company changed its method of accounting for these agency fees, reporting them as a reduction of magazine sales subscription revenue. We believe this alternative accounting method is a more commonly used industry practice and is preferable under the circumstances. This reclassification had no impact on net loss as previously reported by the Company. Net revenue in the accompanying consolidated statements of operations has been shown net of such agency fees for all periods presented. These agency fees totaled approximately \$1,054,000, \$1,296,000 and \$2,422,000 for the years ended December 31, 2004, 2003 and 2002, respectively. During the six months ended June 30, 2005 and 2004, agency fees totaled approximately \$432,000 (unaudited) and \$537,000 (unaudited), respectively.

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

Sales of video games and related products from the Company's online store are recognized as revenue when the product is shipped to the customer. Amounts billed to customers for shipping and handling charges are included in net revenue. The Company provides an allowance for returns of merchandise sold through its online store. The allowance for returns provided to date has not been significant.

#### MARKETING SERVICES

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Revenue from the distribution of Internet advertising is recognized when Internet users visit and complete actions at an advertiser's website. Revenue consists of the gross value of billings to clients, including the recovery of costs incurred to acquire online media required to execute client campaigns. Recorded revenue is based upon reports generated by the Company's tracking software.

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Revenue derived from the purchase and tracking of direct response media, such as television and radio commercials, is recognized on a net basis when the associated media is aired. In many cases, the amount the Company bills to clients significantly exceeds the amount of revenue that is earned due to the existence of various "pass-through" charges such as the cost of the television and radio media. Amounts received in advance of media airings are deferred and included in deferred revenue in the accompanying consolidated balance sheet.

Revenue generated from the production of direct response advertising programs, such as infomercials, is recognized on the completed contract method when such programs are complete and available for airing. Production activities generally take eight to twelve weeks and the Company usually collects amounts in advance and at various points throughout the production process. Amounts received from customers prior to completion of commercials are included in deferred revenue and direct costs associated with the production of commercials in process are deferred and included within other current assets in the accompanying consolidated balance sheet.

### VOIP TELEPHONY SERVICES

VoIP telephony services revenue represents fees charged to customers for voice services and is recognized based on minutes of customer usage or as services are provided. The Company records payments received in advance for prepaid services as deferred revenue until the related services are provided. Sales of peripheral VoIP telephony equipment are recognized as revenue when the product is shipped to the customer. Amounts billed to customers for shipping and handling charges are included in net revenue.

### (l) ADVERTISING COSTS

Advertising costs are expensed as incurred and are included in sales and marketing expense. Advertising costs were approximately \$99,000 (unaudited) and \$1,292,000 (unaudited) for the six months ended June 30, 2005 and 2004, respectively. The Company incurred no barter advertising costs during the six months ended June 30, 2005 and 2004. Advertising costs were approximately \$2,051,000, \$411,000 and \$182,000 for the years ended December 31, 2004, 2003 and 2002, respectively. The Company incurred no barter advertising costs during the year ended December 31, 2004. Barter advertising costs were approximately 2% of total net revenue for each of the years ended December 31, 2003 and 2002.

### (m) PRODUCT DEVELOPMENT

Product development expenses include salaries and related personnel costs; expenses incurred in connection with website development, testing and upgrades of our computer games websites; editorial and content costs; and costs incurred in the development of our retail VoIP products. Product development costs and enhancements to existing products are charged to operations as incurred.

### (n) STOCK-BASED COMPENSATION

The Company follows SFAS No. 123, "Accounting for Stock-Based Compensation,"

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which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS 123 allows entities to continue to apply the provisions of Accounting Principles Board Opinion No. 25 ("APB 25") and provide pro forma net earnings (loss) disclosures for employee stock option grants as if the fair-value-based method defined in SFAS 123 had been applied. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure -- an amendment of SFAS No. 123," which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. SFAS No. 148 also requires more prominent and more frequent disclosures in both interim and annual financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company adopted the disclosure provisions of SFAS No. 148 as of December 31, 2002 and continues to apply the measurement provisions of APB No. 25.

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Had the Company determined compensation expense based on the fair value at the grant date for its stock options issued to employees under SFAS No. 123, the Company's net loss would have been adjusted to the pro forma amounts indicated below:

	Six Months Ended June 30,		Year Ended Decem	
	2005	2004	2004	2003
	(Unaudited)			
Net loss - as reported	\$(10,418,792)	\$(10,017,659)	\$(24,273,201)	\$(11,034,3
Add: Stock-based employee compensation expense included in net loss as reported	367,870	168,304	416,472	417,5
Deduct: Total stock-based employee compensation expense determined under fair value method for all Awards	(835,078)	(982,645)	(1,606,271)	(1,821,1
Net loss - pro forma	\$(10,886,000)	\$(10,832,000)	\$(25,463,000)	\$(12,438,0
Basic net loss per share - as reported	\$ (0.06)	\$ (0.10)	\$ (0.19)	\$ (0.
Basic net loss per share - pro forma	\$ (0.06)	\$ (0.11)	\$ (0.20)	\$ (0.

A total of 5,584,750 (unaudited) stock options were granted during the six months ended June 30, 2005 with a per share weighted-average fair value of \$0.10 (unaudited) and whose exercise price equaled the market price of the stock on the grant date.

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A total of 7,749,595 stock options were granted during the year ended December 31, 2004, including 1,490,430 stock options with a per share weighted-average fair value of \$0.51 and whose exercise price equaled the market price of the stock on the grant date. A total of 6,259,165 stock options were granted during the year ended December 31, 2004 with an exercise price below the market price of the stock on the grant date and a per share weighted-average fair value of \$0.47.

The per share weighted-average fair value of stock options granted during 2003 on a total of 3,907,450 options whose exercise price equaled the market price of the stock on the grant date was \$0.82. In addition, 500,000 stock options were granted in 2003 with an exercise price below the market price of the stock on the grant date and a per share weighted-average fair value of \$1.49. The per share weighted-average fair value of the 5,347,500 stock options granted during 2002 was \$0.02 on the date of grant.

Fair values of stock options were calculated using the Black Scholes option-pricing method with the following weighted-average assumptions:

	Six Months Ended June 30,		Year Ended December 31,	
	2005	2004	2003	2002
	(Unaudited)			
Risk-free interest rate	3.00 - 4.00%	3.00%	3.00%	4.78%
Expected life	3 - 5 years	3 - 5 years	5 years	10 years
Volatility	160%	160%	160%	135%-160%
Expected dividend rate	0	0	0	0

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The Company follows FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44") which provides guidance for applying APB Opinion No 25. With certain exceptions, FIN No. 44 applies prospectively to new awards, exchanges of awards in a business combination, modifications to outstanding awards and changes in grantee status on or after July 1, 2000.

(o) INCOME TAXES

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated results of operations in the period that the tax change occurs. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

(p) NET LOSS PER COMMON SHARE



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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 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.

During the year ended December 31, 2003, the Company issued equity securities with common stock conversion features which were immediately convertible into Common Stock. As further discussed in Note 9, "Stockholders' Equity," the Company accounted for the issuance of these securities in accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," which resulted in the recognition of non-cash preferred dividends totaling \$8,120,000 at the respective dates of the securities' issuance. Net loss applicable to common stockholders was calculated as follows:

	Six Months Ended June 30,		Year Ended December 31	
	2005	2004	2004	2003
	(Unaudited)			
Net loss	\$ (10,418,792)	\$ (10,017,659)	\$ (24,273,201)	\$ (11,034,397)
Beneficial conversion features of preferred stock and Warrants	--	--	--	(8,120,000)
Net loss applicable to common Stockholders	\$ (10,418,792)	\$ (10,017,659)	\$ (24,273,201)	\$ (19,154,397)

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Due to the Company's net losses, 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:

	June 30,		December 31,		
	2005	2004	2004	2003	
	(Unaudited)				
Options to purchase common stock	20,302,000	9,923,000	15,984,000	9,943,000	5,9
Common shares issuable upon conversion of Series F Preferred Stock	--	--	--	16,667,000	
Common shares issuable upon conversion of Convertible Notes	60,000,000	--	--	19,444,000	

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Common shares issuable upon exercise of Warrants	11,816,000	20,880,000	20,375,000	22,802,000	6,1
	-----	-----	-----	-----	-----
Total	92,118,000	30,803,000	36,359,000	68,856,000	12,1
	=====	=====	=====	=====	=====

### (q) COMPREHENSIVE INCOME (LOSS)

The Company reports comprehensive income (loss) in accordance with the 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 \$10.4 million (unaudited) and \$10.0 million (unaudited) for the six months ended June 30, 2005 and 2004, respectively, which approximated the Company's reported net loss. The Company's comprehensive loss was approximately \$24.3 million, \$11.0 million and \$2.5 million for the years ended December 31, 2004, 2003 and 2002, respectively, which approximated the Company's reported net loss.

### (r) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, "Accounting for Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 applies to all voluntary changes in accounting principles and requires retrospective application to prior periods' financial statements of changes in accounting principles. This statement also requires that a change in depreciation, amortization or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its financial condition, results of operations or liquidity.

In March 2005, the FASB issued Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143, "Accounting for Asset Retirement Obligations." The interpretation clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The effective date of this interpretation is no later than the end of fiscal years ending after December 15, 2005. The Company is currently investigating the effect, if any, that FIN 47 would have on the Company's financial position, cash flows and results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. This statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its financial condition, results of operations, or liquidity.

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In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This standard replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The standard requires companies to expense the fair value of stock options on the grant date and is effective for annual periods beginning after June 15, 2005. In accordance with the revised statement, the expense attributable to stock options granted or vested subsequent to January 1, 2006 will be required to be recognized by the Company. The precise impact of the adoption of SFAS No. 123R cannot be predicted at this time because it will depend on the levels of share-based payments that are granted in the future. However, the Company believes that the adoption of this standard may have a significant effect on the Company's results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4." SFAS No. 151 requires all companies to recognize a current-period charge for abnormal amounts of idle facility expense, freight, handling costs and wasted materials. This statement also requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material effect on its consolidated financial statements.

In December 2003, the FASB issued FIN No. 46-R "Consolidation of Variable Interest Entities." FIN 46-R, which modifies certain provisions and effective dates of FIN 46, sets forth the criteria to be used in determining whether an investment in a variable interest entity should be consolidated. These provisions are based on the general premise that if a company controls another entity through interests other than voting interests, that company should consolidate the controlled entity. The Company believes that currently, it does not have any material arrangements that meet the definition of a variable interest entity which would require consolidation.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instrument consists of obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, whose shares are mandatorily redeemable. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective from the start of the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material impact on the Company's results of operations or financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments Hedging Activities." This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS

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No. 149 became effective during the third quarter of 2003 and did not have a material impact on the Company's results of operations or financial position.

### (s) RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

### NOTE 2. GOING CONCERN CONSIDERATIONS

The Company's June 30, 2005 and December 31, 2004 consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations since inception, has an accumulated deficit as of June 30, 2005, of \$270,993,666 (unaudited) and has recorded impairment charges (See Note 3, "Impairment Charges" below for further discussion) during 2004 and 2003 of \$1,661,975 and \$908,384, respectively, related to its VoIP telephony services division. Net cash and cash equivalents used in operations totaled \$4,024,483 (unaudited) for the six months ended June 30, 2005 and \$17,732,632 for the year ended December 31, 2004 due primarily to net losses incurred by its VoIP telephony services division.

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The Company has expended, particularly during 2004, significant costs to implement a number of marketing programs geared toward increasing the number of its VoIP retail customers and telephony revenue. None of these programs have proven to be successful to any significant degree. At June 30, 2005, the Company's sole source of liquidity consisted of \$4,976,487 (unaudited) of cash and cash equivalents and as further discussed below, the \$1,000,000 (unaudited) subsequently borrowed under the Note Purchase Agreement between the Company and E&C Capital Partners, LLLP and E&C Capital Partners II, Ltd. The Company continues to incur substantial consolidated net losses and management believes the Company will continue to be unprofitable for the foreseeable future. These conditions raise significant doubt about the Company's ability to continue as a going concern.

### MANAGEMENT'S PLANS

During October 2004, the Company engaged financial advisors to assist the Company in raising capital through a private placement of its equity securities, or in entering into other business relationships with certain strategic investors. In February 2005, the Company engaged an additional financial advisor to assist the Company in connection with raising capital through a private placement of equity securities in either the Company or its SendTec wholly-owned subsidiary or alternatively in selling either part or all of the Company's businesses or assets, including its SendTec business. The Company currently has no access to credit facilities with traditional third party lenders and there can be no assurance that it would be able to raise capital or sell any of its businesses or assets. In addition, any financing that could be obtained would likely significantly dilute existing shareholders. Management is exploring a number of strategic alternatives regarding the Company's future business operations. Management has also implemented a number of internal actions in an effort to improve the Company's liquidity and business performance, including those described below. The Company's future strategic direction is highly dependent upon the outcome of its efforts to raise capital and/or sell certain businesses or assets.

During the first quarter of 2005, the Company reevaluated its existing VoIP telephony services business plan and subsequently terminated or is currently in

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the process of terminating and/or modifying certain of its existing product offerings and marketing programs. Additionally, the Company began to develop and test certain new VoIP products and features, some of which were completed and released during the second quarter of 2005. The Company also, during the first quarter of 2005, made the decision to discontinue using its SendTec business to perform marketing services for its VoIP business, and to instead dedicate 100% of SendTec's marketing resources to support and grow its own third party revenue producing customer base. Additionally, in order to reduce its near term consolidated net losses and cash usage, the Company implemented a number of cost-reduction actions at its VoIP telephony services business, including decreases in personnel and salary levels, carrier and data center costs, and marketing/advertising expenses during the first quarter of 2005.

Management believes that it will be difficult to implement its new VoIP product and marketing plans, once fully developed and tested, without significant additional cash being provided from a prospective financing or sale transaction(s). Should the Company's new VoIP product offerings achieve market acceptance and significantly increase the Company's current customer and revenue base, additional cash resources to fund capital expenditures related to the Company's VoIP network and billing systems and to fund future marketing and other business development costs would be required.

There can be no assurance that the Company's new VoIP product offerings will be successful in attracting a sufficient number of new customers to its VoIP network and increasing telephony revenue to desired levels. Even if the Company is able to raise additional capital, management may at any time decide to terminate the operations of its VoIP telephony services business, either by asset sale or abandonment, if future investment returns are considered inadequate and/or preferable investment alternatives exist. The Company may alternatively decide to enter into new lines of business. (See Note 4, "Acquisitions and Dispositions," for further details regarding the Company's acquisition of Tralliance Corporation in May 2005).

On April 22, 2005, entities controlled by our Chairman and Chief Executive Officer entered into an agreement with the Company pursuant to which the entities acquired secured demand convertible promissory notes in the aggregate amount of \$1,500,000 together with options to acquire an additional \$2,500,000 in the aggregate of such notes on or before July 22, 2005. On June 1, 2005, the Noteholders exercised a portion of the Option and acquired an additional \$1,500,000 of Convertible Notes. On July 18, 2005, the Noteholders exercised the remainder of the Option and acquired an additional \$1,000,000 of Convertible Notes (see Note 7, "Debt," for further details). The proceeds from the sale of the notes are intended to provide the Company with temporary short-term liquidity to operate its businesses while it seeks to raise additional capital, which may involve the potential sale of one or more of the Company's subsidiaries, including SendTec. The Company's cash and cash equivalents balance at September 15, 2005 was approximately \$1,600,000 (unaudited).

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On August 10, 2005, the Company entered into an asset purchase agreement, as amended on August 23, 2005, with RelationServe Media, Inc. ("RelationServe") whereby the Company agreed to sell all of the business and substantially all of the net assets of its SendTec marketing services subsidiary to RelationServe for \$37,500,000 in cash, subject to certain net working capital adjustments. RelationServe has also agreed to separately provide certain substantial RelationServe stock ownership consideration to SendTec management at the time of closing. The closing of the asset sale is subject to the satisfaction of a number of closing conditions including distribution of a definitive information statement describing the asset sale to our stockholders (which was undertaken

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commencing on September 16, 2005) and entry into a redemption agreement and a termination agreement whereby the Company will redeem approximately 28,900,000 shares of its Common Stock, and cancel certain other options and warrants, owned by management and certain employees of SendTec for approximately \$12,600,000 in cash. These shares and related options and warrants were issued to SendTec management in connection with the Company's acquisition of SendTec. (See Note 16, "Subsequent Events").

### Summary

If the Company is not successful in consummating the RelationServe asset sale or in entering into another financing, sale, or business transaction that otherwise infuses sufficient additional cash resources into the Company by no later than sometime during the fourth quarter of 2005, management believes that the Company will no longer be able to continue the implementation of its current VoIP business plan. In this event, management also believes that the Company will continue to not be able to pay its current financial obligations on a timely basis, including paying the overdue principal and interest on the \$1.0 million promissory note issued in connection with the SendTec acquisition (see Note 7, "Debt," for further details). As a result, it is likely that the Company would be required to either temporarily suspend or permanently shutdown the operation of its VoIP telephony services business. Additionally, in such event, management believes that it may also be required to revise the business plan of some or all of its other business segments and/or further implement company-wide cost-reduction programs. There can be no assurance that the Company would be successful in implementing such revised business plans and effectively restructuring its businesses so that the Company would have the ability to continue to operate as a going concern in the future.

The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### NOTE 3. IMPAIRMENT CHARGES

As a result of the significant operating and cash flow losses incurred by the Company's VoIP telephony services division during 2004 and 2003, coupled with management's projection of continued losses in the foreseeable future, the Company performed an evaluation of the recoverability of the division's long-lived assets during the first quarter of 2005 in connection with the preparation of the accompanying 2004 consolidated financial statements. The evaluation indicated that the carrying value of certain of the division's long-lived assets exceeded the fair value of such assets, as measured by quoted market prices or other management estimates. As a result, the Company recorded an impairment charge of \$1,661,975 in the accompanying statement of operations for the year ended December 31, 2004. The impairment charge included the write-off of the carrying value of amounts previously capitalized by the division as internal-use software, website development costs, acquired technology and patent costs, as well as certain other assets.

During the first quarter of 2004, the Company's management decided to suspend DPT's wholesale business and to dedicate the DPT physical and intellectual assets to its retail VoIP business. As a result, the Company reviewed the long-lived assets associated with the wholesale VoIP business for impairment. Goodwill of \$577,134 and the unamortized balance of the non-compete intangible asset of \$331,250 recorded in connection with the May 2003 acquisition of DPT were written off and recorded as an impairment loss in the accompanying statement of operations for the year ended December 31, 2003. Refer to Note 4, "Acquisitions and Dispositions," for a discussion of the purchase of DPT.

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### NOTE 4. ACQUISITIONS AND DISPOSITIONS

#### ACQUISITION OF TRALLIANCE CORPORATION

On February 25, 2003, theglobe.com entered into a Loan and Purchase Option Agreement, as amended, with Tralliance, an Internet related business venture, pursuant to which it agreed to fund, in the form of a loan, at the discretion of the Company, Tralliance's operating expenses and obtained the option to acquire all of the outstanding capital stock of Tralliance in exchange for, when and if exercised, \$40,000 in cash and the issuance of an aggregate of 2,000,000 unregistered restricted shares of theglobe.com's Common Stock (the "Option"). The Loan was secured by a lien on the assets of the venture. On May 5, 2005, Tralliance and the Internet Corporation for Assigned Names and Numbers ("ICANN") entered into an agreement designating Tralliance as the registry for the ".travel" top-level domain. On May 9, 2005, the Company exercised its option to acquire all of the outstanding capital stock of Tralliance. The purchase price (unaudited) consisted of the issuance of 2,000,000 shares of theglobe.com Common Stock, warrants to acquire 475,000 shares of theglobe.com Common Stock and \$40,000 in cash. The warrants are exercisable for a period of five years at an exercise price of \$0.11 per share. As part of the transaction, 10,000 shares of theglobe.com Common Stock were also issued to a third party in payment of a finder's fee resulting from the acquisition. The Common Stock issued as a result of the acquisition of Tralliance is entitled to certain "piggy-back" registration rights. In addition, as part of the transaction, the Company agreed to pay approximately \$154,000 (unaudited) in outstanding liabilities of Tralliance immediately after the closing of the acquisition.

The preliminary Tralliance purchase price allocation was as follows (unaudited):

Cash	\$	54,000
Other current assets		6,000
Intangible assets		564,000
Assumed liabilities		(370,000)
		-----
	\$	254,000
		=====

Upon acquisition, the existing CEO and CFO of Tralliance entered into employment agreements, which include certain non-compete provisions, whereby each would agree to remain in the employ of Tralliance for a period of two years in exchange for annual base compensation totaling \$400,000 (unaudited) plus participation in a bonus pool based upon the pre-tax income of the venture.

The value assigned to the intangible assets acquired is being amortized on a straight-line basis over the expected useful life. Annual amortization expense (unaudited) of the intangible assets is estimated to be approximately \$75,200 in 2005, \$112,800 for 2006 through 2009 and \$37,600 in 2010. The related accumulated amortization as of June 30, 2005 was \$18,800 (unaudited) and amortization expense totaled \$18,800 (unaudited) for the three and six months ended June 30, 2005.

Advances to Tralliance totaled \$1,281,500 (unaudited) immediately prior to its acquisition by the Company. At December 31, 2004 and 2003, advances to Tralliance totaled \$1,001,500 and \$535,000, respectively. Due to the uncertainty of the ultimate collectibility of the Loan, the Company had historically provided a reserve equal to the full amount of the funds advanced to Tralliance. Additions to the reserve of \$280,000 (unaudited) and \$222,500 (unaudited) were included in other expense in the accompanying consolidated statements of operations for the six months ended June 30, 2005 and 2004, respectively. Additions to the Loan reserve of \$506,500 and \$495,000 were included in other expense in the accompanying consolidated statements of operations for the years

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ended December 31, 2004 and 2003, respectively (See the "Future Capital Needs" section of Management's Discussion and Analysis of Financial Condition and Results of Operations for further details).

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The following unaudited pro forma condensed consolidated results of operations for the six months ended June 30, 2005 and 2004 assumes the acquisition of Tralliance occurred as of January 1, 2004. The pro forma information is not necessarily indicative of what the actual results of operations of the combined company would have been had the acquisition occurred on January 1, 2004, nor is it necessarily indicative of future results.

UNAUDITED PRO FORMA RESULTS:	2005	2004
	-----	-----
Six months ended June 30,		
Net revenue	\$ 19,425,000	\$ 1,682,000
Net loss	(10,449,000)	(10,139,000)
Basic and diluted net loss per common share	\$ (0.06)	\$ (0.10)

### ACQUISITION AND PROPOSED DISPOSITION OF SENDTEC, INC.

On September 1, 2004, the Company acquired SendTec, a direct response marketing services and technology company. In exchange for all of the issued and outstanding shares of capital stock of SendTec the Company paid consideration consisting of: (i) \$6,000,000 in cash, excluding transaction costs, (ii) the issuance of an aggregate of 17,500,024 shares of the Company's Common Stock, (iii) the issuance of an aggregate of 175,000 shares of Series H Automatically Converting Preferred Stock (which was converted into approximately 17,500,500 shares of the Company's Common Stock effective December 1, 2004), and (iv) the issuance of a subordinated promissory note in the amount of \$1,000,009. The Company also issued an aggregate of 3,974,165 replacement options to acquire the Company's Common Stock for each of the issued and outstanding options to acquire SendTec shares held by the former employees of SendTec.

The preliminary SendTec purchase price allocation was as follows:

Cash	\$ 3,610,000
Accounts receivable	5,534,000
Other current assets	194,000
Fixed assets	1,031,000
Non-compete agreements	1,800,000
Goodwill	11,710,000
Other assets	124,000
Assumed liabilities	(5,605,000)
	-----
	\$18,398,000
	=====

In addition, warrants to acquire shares of theglobe.com Common Stock will be issued to the former shareholders of SendTec when and if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending December 31, 2005. The number of earn-out warrants may range from an aggregate of approximately 250,000 to 2,500,000 (if actual operating income exceeds the forecast by at least 10%). Because the number of warrants that will be earned is not yet determinable, no consideration related to this contingency was included in the determination of the SendTec purchase price.



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As part of the SendTec acquisition transaction, certain executives of SendTec entered into new employment agreements with SendTec. The employment agreements each have a term of five years and automatically renew for an additional year at expiration unless either party provides the requisite notice of non-renewal. The agreements also contain certain non-compete provisions for periods as specified by the agreements. The \$1,800,000 value assigned to the non-compete agreements is being amortized on a straight-line basis over 5 years. Annual amortization expense of the non-compete agreements is estimated to be \$360,000 in 2005 through 2008 and \$240,000 in 2009. The related accumulated amortization as of June 30, 2005 and December 31, 2004, was \$300,000 (unaudited) and \$120,000, respectively.

The following unaudited pro forma condensed consolidated results of operations for the six months ended June 30, 2004 and for the years ended December 31, 2004 and 2003 assumes the acquisition of SendTec occurred as of January 1, 2003. The unaudited pro forma results reflected below include SendTec's revenue utilizing the revenue recognition methods employed by the Company since SendTec's date of acquisition. The unaudited pro forma information is not necessarily indicative of what the actual results of operations of the combined company would have been had the acquisition occurred on January 1, 2003, nor is it necessarily indicative of future results.

UNAUDITED PRO FORMA RESULTS	2004 -----	2003 -----
Years ended December 31,		
Net Revenue	\$ 36,559,000	\$ 20,725,000
Net Loss	(22,453,000)	(9,502,000)
Basic and diluted net loss per common share	\$ (0.14)	\$ (0.24)
Weighted average common shares	155,623,000	73,711,000
Six Months ended June 30,		
Net Revenue	\$ 17,090,000	
Net Loss	(8,457,000)	
Basic and diluted net loss per common share	\$ (0.06)	
Weighted average common shares	137,915,000	

See Note 16, "Subsequent Events," for a discussion of the agreement to sell SendTec's business and assets entered into by the Company on August 10, 2005.

## ACQUISITION OF DIRECT PARTNER TELECOM, INC.

On May 28, 2003, the Company completed the acquisition of 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 warrants are exercisable any time before May 23, 2013 at an exercise price of \$0.72 per share. In addition, the former shareholders of DPT may earn additional warrants to acquire up to 2,750,000 shares of the Company's Common Stock at an exercise price of \$0.72 per share if DPT achieves certain revenue and earnings targets over approximately the next three years. Effective March 31, 2004, 500,000 of the earn-out warrants were forfeited as performance targets had not been achieved for the first of the three year periods. An additional 750,000 of the warrants were forfeited effective March 31, 2005, as performance targets for the second of the three year periods were not achieved. The warrants will accelerate and be deemed earned in the event of a "change in control" of the Company, as defined in the acquisition documents. In addition, as part of the transaction, the Company agreed to repay loans totaling \$600,000 to certain of the former

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shareholders of DPT, including \$500,000 immediately after the closing of the acquisition. The Company issued promissory notes for \$100,000, with a two-year maturity and interest at prime, for the balance. The \$100,000 in promissory notes were repaid in June 2005.

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The total purchase price of DPT was allocated as follows:

Cash	\$ 61,000
Accounts receivable	155,000
Fixed assets	196,000
Non-compete agreement	375,000
Goodwill	577,000
Assumed debt to former Shareholders	(600,000)
Other assumed liabilities	(126,000)
	-----
	\$ 638,000
	=====

As part of the DPT acquisition transaction, the former Chief Executive Officer of DPT agreed to an employment agreement with a one-year term which automatically renewed for an additional year. The employment agreement also contained non-compete provisions during the term of the agreement and for a period of three years following termination of the agreement, as specified. The \$375,000 value assigned to the non-compete agreement was to be amortized on a straight-line basis over 5 years.

As discussed in Note 1, as a result of decisions made during the first quarter of 2004, the Company performed a review of its long-lived assets for impairment. As a result, effective December 31, 2003, the Company wrote-off the goodwill and the unamortized balance of the non-compete agreement arising from the acquisition of DPT which totaled \$908,384. Amortization expense of the non-compete agreement totaled \$43,750 in 2003. The former Chief Executive Officer of DPT terminated his employment with the Company effective May 2004.

The following unaudited pro forma condensed consolidated results of operations for the years ended December 31, 2003 and 2002 assumes the acquisition of DPT occurred as of October 1, 2002, the date which DPT began operations. The unaudited pro forma information is not necessarily indicative of the results of operations of the combined company had these events occurred at the beginning of the periods presented, nor is it necessarily indicative of future results.

Years ended December 31,	2003 -----	2002 -----
Net Revenue	\$ 6,076,000	\$ 7,770,000
Net Loss	(11,116,000)	(2,860,000)
Basic and diluted net loss per common share	\$ (0.50)	\$ (0.09)

### ACQUISITION OF VOIP ASSETS

On November 14, 2002, the Company acquired certain VoIP assets from an entrepreneur. 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 arrangement upon the attainment of certain performance targets by December 31, 2003. None of the performance targets had been attained as of December 31, 2003, resulting in the forfeiture of the 425,000 warrants. In conjunction with the acquisition, E&C Capital Partners, LLLP, a privately held

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investment holding company owned by our Chairman and Chief Executive Officer, Michael S. Egan, and our President, Edward A. Cespedes, entered into a non-binding letter of intent with theglobe.com to provide new financing in the amount of \$500,000 through the purchase of Series F Preferred Stock. Refer to Note 9, "Stockholders' Equity," for further details.

As a result of the Company's review of certain long-lived assets for impairment, the unamortized value of the assets acquired was written-off effective December 31, 2004. See Notes 3, "Impairment Charges," and 5, "Intangible Assets," for further details.

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### DISPOSITION OF WEBSITE

On February 27, 2002, the Company sold all of the assets used in connection with the Happy Puppy website for \$135,000, resulting in the recognition of a gain on the sale of \$134,500.

### NOTE 5. INTANGIBLE ASSETS

The components of intangible assets were as follows:

	June 30, 2005		December 31, 2004		Gross
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Carrying Amount
Amortized Intangible Assets:	(UNAUDITED)				
Non-compete agreements	\$2,364,011	\$ 318,800	\$1,800,000	\$ 120,000	\$
Digital telephony	--	--	--	--	22
	\$2,364,011	\$ 318,800	\$1,800,000	\$ 120,000	\$ 22

As discussed in Note 4, "Acquisitions and Dispositions," certain executives of SendTec entered into new employment agreements with SendTec upon the acquisition of SendTec by theglobe.com. The agreements contain certain non-compete provisions for periods as specified by the agreements. The \$1,800,000 value assigned to the non-compete agreements is being amortized on a straight-line basis over five years. In addition, upon the May 9, 2005 acquisition of Tralliance, the existing CEO and CFO of Tralliance entered into employment agreements which include certain non-compete provisions as specified by the agreements. The \$564,011 (unaudited) value assigned to the non-compete agreements is being amortized on a straight-line basis over five years.

As discussed in Note 3, "Impairment Charges," the Company performed an evaluation of the recoverability of the long-lived assets of its VoIP telephony services division. As a result, effective December 31, 2004, the Company wrote-off the unamortized balance of its digital telephony assets which totaled \$192,106. Such assets consisted of certain VoIP assets which were recorded at the value assigned to the warrants to acquire 1,750,000 shares of the Company's Common Stock issued in connection with the acquisition of the assets on November 14, 2002 and patent application costs.

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During the six months ended June 30, 2005 and 2004, intangible asset amortization totaled \$198,800 (unaudited) and \$42,343 (unaudited). During the year ended December 31, 2004, intangible asset amortization totaled \$222,834, including \$102,834 of amortization related to the digital telephony intangible assets prior to their write-off as of December 31, 2004. Intangible asset amortization expense totaled \$72,182 for the year ended December 31, 2003, including \$43,750 of amortization related to the non-compete agreement recorded in connection with the acquisition of DPT. As discussed in Note 3, "Impairment Charges," the Company wrote-off the \$331,250 unamortized balance of the non-compete agreement as of December 31, 2003. There was no amortization expense for intangible assets during the year ended December 31, 2002. As of December 31, 2004, annual intangible asset amortization expense was projected to be as follows:

Year ending December 31,	
2005	\$ 360,000
2006	360,000
2007	360,000
2008	360,000
2009	240,000
	-----
	\$1,680,000
	=====

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### NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	December 31,	
	-----	-----	-----
	2005	2004	2003
	-----	-----	-----
	(Unaudited)		
VoIP network equipment and software	\$3,056,972	\$2,929,051	\$1,712,537
Other equipment	1,231,009	1,127,910	679,597
Capitalized software costs	782,842	750,056	690,602
Land and building	181,110	181,110	181,110
Furniture and fixtures	362,470	348,888	149,714
Leasehold improvements	18,798	18,798	9,402
	-----	-----	-----
	5,633,201	5,355,813	3,422,962
Less: Accumulated depreciation and amortization	2,701,986	1,949,443	1,006,579
	-----	-----	-----
	\$2,931,215	\$3,406,370	\$2,416,383
	=====	=====	=====

See Note 3, "Impairment Charges," for a discussion of write-offs recorded during 2004 in connection with the Company's evaluation of the recoverability of the VoIP telephony services division's long-lived assets. The 2004 impairment charge included the write-off of the carrying value of amounts previously capitalized by the division as internal-use software and website development costs, as well

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as certain other property and equipment, which totaled \$1,469,869.

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NOTE 7. DEBT

Debt consisted of the following:

	June 30, ----- 2005 ----- (Unaudited)	Decem ----- 2004 -----
10% Convertible Promissory Notes; due on demand	\$3,000,000	\$ --
4% Subordinated promissory note; interest and principal due September 1, 2005	1,000,009	1,000,009
10% Convertible Notes; interest and principal due May 2004	--	--
Promissory notes issued in connection with the acquisition of DPT; interest and principal due May 2005; interest at prime rate (5.25% and 4.00% at December 31, 2004 and 2003, respectively); repaid June 2005	--	100,000
Mortgage note payable; interest payable monthly at 9%; principal due September 2005	70,052	73,351
Related party obligations payable in Canadian dollars; due in monthly installments of principal and interest approximating \$3,500 through September 2006; interest at prime plus 2-3%	47,520	69,233
Financing of computer software and related maintenance costs; quarterly installments of principal and interest approximating \$21,400 through September 2005	21,062	61,809
	-----	-----
	4,138,643	1,304,402
Less: unamortized debt discount	--	--
Less: short-term portion	4,131,379	1,277,405
	-----	-----
Long-term portion	\$ 7,264	\$ 26,997
	=====	=====

Reference should be made to Note 16, "Subsequent Events," for the discussion of a Note Purchase Agreement entered into by certain related parties and theglobe.com on April 22, 2005, providing for the issuance of an aggregate of \$4,000,000 of secured demand convertible promissory notes.

As discussed in Note 4, "Acquisitions and Dispositions," on September 1, 2004 the Company issued a subordinated promissory note in the amount of \$1,000,009 in connection with the acquisition of SendTec. The Company has not paid the principal and interest due on the promissory note by the due date (including the

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grace period) and as a result is currently in default under the promissory note. Upon default, the Company is required to pay a default interest rate of 15% per annum and to pay the noteholders' collection costs, if any.

On February 2, 2004, our Chairman and Chief Executive Officer and his spouse, entered into a Note Purchase Agreement with the Company pursuant to which they acquired a demand convertible promissory note (the "Bridge Note") in the aggregate principal amount of \$2,000,000. The Bridge Note was convertible into shares of the Company's Common Stock. The Bridge Note provided for interest at the rate of ten percent per annum and was secured by a pledge of substantially all of the assets of the Company. Such security interest was shared with the holders of the Company's \$1,750,000 Secured Convertible Notes issued to E&C Capital Partners, LLLP and certain affiliates of our Chairman and Chief Executive Officer. In addition, the Chairman and Chief Executive Officer and his spouse were issued a warrant to acquire 204,082 shares of the Company's Common Stock at an exercise price of \$1.22 per share. The Warrant is exercisable at any time on or before February 2, 2009. The exercise price of the Warrant, together with the number of shares for which such Warrant is exercisable, is subject to adjustment upon the occurrence of certain events.

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An allocation of the proceeds received from the issuance of the Bridge Note was made between the debt instrument and the Warrant by determining the pro rata share of the proceeds for each by comparing the fair value of each security issued to the total fair value. The fair value of the Warrant was determined using the Black Scholes model. The fair value of the Bridge Note was determined by measuring the fair value of the common shares on an "as-converted" basis. As a result, \$170,000 was allocated to the Warrant and recorded as a discount on the debt issued and additional paid in capital. The value of the beneficial conversion feature of the Bridge Note was calculated by comparing the fair value of the underlying common shares of the Bridge Note on the date of issuance based on the closing price of our Common Stock as reflected on the OTCBB to the "effective" conversion price. This resulted in a beneficial conversion discount of \$517,000, which was recorded as interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2004 as the Bridge Note was immediately convertible into common shares. In addition, the value allocated to the Warrant and characterized as discount on the Bridge Note was recognized as interest expense, as the Bridge Note was due on demand.

In connection with the March 2004 private offering of the Company's Common Stock, the Chairman and his spouse converted the Bridge Note into 3,527,337 shares of theglobe.com Common Stock.

On May 22, 2003, E&C Capital Partners, LLLP, together with certain affiliates of Michael S. Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired convertible promissory notes (the "Secured Convertible Notes") in the aggregate principal amount of \$1,750,000. The Secured Convertible Notes were convertible at anytime into a maximum of approximately 19,444,000 shares of the Company's Common Stock at a blended rate of \$0.09 per share. The Secured Convertible Notes had a one year maturity date and were secured by a pledge of substantially all of the assets of the Company. The Secured Convertible Notes provided for interest at the rate of ten percent per annum, payable semi-annually. Effective October 3, 2003, the holders of the Secured Convertible Notes waived the right to receive accrued interest payable in shares of the Company's Common Stock. Additionally, each of the holders of the Secured Convertible Notes agreed to defer receipt of interest until June 1, 2004. Additional interest at ten percent per annum accrued on any interest amounts deferred. The outstanding balance of the Secured Convertible Notes as of December 31, 2003, has been reflected as long-term debt in the accompanying

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consolidated balance sheet as a result of the conversion of the Secured Convertible Notes into the Company's Common Stock in March 2004.

In addition, E&C Capital Partners, LLLP was issued a warrant (the "Warrant") to acquire 3,888,889 shares of the Company's Common Stock at an exercise price of \$0.15 per share. The Warrant was exercisable at any time on or before May 22, 2013. An allocation of the proceeds received from the issuance of the Secured Convertible Notes was made between the debt instruments and the Warrant by determining the pro-rata share of the proceeds for each by comparing the fair value of each security issued to the total fair value. The fair value of the Warrant was determined using the Black Scholes model. The fair value of the Secured Convertible Notes was determined by measuring the fair value of the common shares on an "as-converted" basis. As a result, \$290,500 was allocated to the Warrant and recorded as a discount on the debt issued and additional paid in capital. The value of the beneficial conversion feature of the Secured Convertible Notes was calculated by comparing the fair value of the underlying common shares of the Secured Convertible Notes on the date of issuance based on the closing price of our Common Stock as reflected on the OTCBB to the "effective" conversion price. This resulted in a preferential conversion discount, limited to the previously discounted value of the Secured Convertible Notes, of \$1,459,500, which was recorded as interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2003, as the Secured Convertible Notes were immediately convertible into common shares.

Effective May 26, 2005, the maturity date of the mortgage note payable was extended to September 30, 2005.

Repayment of debt is due as follows:

Year ending December 31,	
2005	\$1,277,405
2006	26,997
	-----
	\$1,304,402
	=====

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### NOTE 8. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2005 and December 31, 2004 and 2003 are presented below.

	June 30, 2005	December 31, 2004	December 31, 2003
	-----	-----	-----
Deferred tax assets (liabilities):			
Net operating loss carryforwards	\$ 64,336,000	\$ 61,300,000	\$ 57,642,000
Allowance for doubtful accounts	579,000	483,000	244,000
Issuance of warrants	1,228,000	1,052,000	982,000
Inventory reserve	119,000	661,000	43,000
Offering costs	105,000	105,000	--
Depreciation and amortization	234,000	46,000	(230,000)
Other	11,000	153,000	80,000
	-----	-----	-----
Total gross deferred tax assets	66,612,000	63,800,000	58,761,000

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Less: valuation allowance	(66,612,000)	(63,800,000)	(58,761,000)
	-----	-----	-----
Total net deferred tax assets	\$ --	\$ --	\$ --
	=====	=====	=====

Because of the Company's lack of earnings history, the net deferred tax assets have been fully offset by a 100% valuation allowance. The valuation allowance for net deferred tax assets was \$66.6 million as of June 30, 2005 and \$63.8 million and \$58.8 million as of December 31, 2004 and 2003, respectively. The net change in the total valuation allowance was \$2.8 million for the period ended June 30, 2005 and \$5.0 million and \$4.0 million for the years ended December 31, 2004 and 2003, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets, which consist of tax benefits primarily from net operating loss carryforwards, is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Of the total valuation allowance of \$63.8 million as of December 31, 2004, subsequently recognized tax benefits, if any, in the amount of \$6.5 million will be applied directly to contributed capital.

At December 31, 2004, the Company had net operating loss carryforwards available for U.S. and foreign tax purposes of approximately \$162 million. These carryforwards expire through 2024.

Under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), the utilization of net operating loss carryforwards may be limited under the change in stock ownership rules of the Code. As a result of ownership changes, which occurred in August 1997 and May 1999, the Company's private offering in March 2004 (together with the exercise and conversion of various securities in connection with such private offering) and the issuance of Common Stock in connection with the acquisition of SendTec on September 1, 2004, the Company may have substantially limited or eliminated the availability of its net operating loss carryforwards. There can be no assurance that the Company will be able to avail itself of any net operating loss carryforwards.

### NOTE 9. STOCKHOLDERS' EQUITY

Reference should be made to Note 16, "Subsequent Events," for the discussion of a Note Purchase Agreement entered into by certain related parties and theglobe.com on April 22, 2005, providing for the issuance of an aggregate of \$4,000,000 of secured demand convertible promissory notes. The convertible promissory notes are convertible at the option of the noteholders into shares of the Company's Common Stock at an initial price of \$0.05 per share. Assuming full conversion of all of the convertible promissory notes which remain outstanding as of September 15, 2005, 68,000,000 shares of the Company's Common Stock would be issued to the noteholders.

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As more fully described in Note 4, "Acquisitions and Dispositions," and Note 16, "Subsequent Events," on May 9, 2005, the Company exercised its option to acquire all of the outstanding capital stock of Tralliance. The purchase price consisted of the issuance of 2,000,000 shares of theglobe.com Common Stock and warrants to acquire 475,000 shares of theglobe.com Common Stock, as well as the payment of



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\$40,000 in cash. The warrants are exercisable for a period of five years at an exercise price of \$0.11 per share. The Common Stock issued as a result of the acquisition of Tralliance is entitled to certain "piggy-back" registration rights.

As discussed in Note 4, "Acquisitions and Dispositions," on September 1, 2004, the Company closed upon an agreement and plan of merger dated August 31, 2004, pursuant to which the Company acquired all of the issued and outstanding shares of capital stock of SendTec. As part of the purchase price paid for SendTec, the Company issued an aggregate of 17,500,024 shares of the Company's Common Stock and an aggregate of 175,000 shares of Series H Automatically Converting Preferred Stock (which were converted into approximately 17,500,500 shares of the Company's Common Stock effective December 1, 2004). In addition, warrants to acquire shares of theglobe.com Common Stock with an exercise price of \$0.27 per share would be issued to the former shareholders of SendTec when and if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending December 31, 2005. The number of earn-out warrants would range from an aggregate of approximately 250,000 to 2,500,000 (if actual operating income exceeds the forecast by at least 10%) and the earn-out warrants will be exercisable for a period of five years.

Each share of the Series H Preferred Stock was automatically converted into 100 shares of theglobe's Common Stock on December 1, 2004, the effective date of the amendment to the Company's certificate of incorporation increasing its authorized shares of Common Stock from 200,000,000 shares to 500,000,000 shares.

The Company agreed to file a registration statement relating to the resale of the shares of Common Stock issued in the Merger and the shares of Common Stock underlying the Series H Preferred Stock and to cause the effectiveness of such registration on or before September 1, 2005. The Company also agreed to keep the registration statement effective until at least the third anniversary of the Closing. We have not yet filed such a registration statement. Because we have not filed and caused such registration statement to become effective before September 1, 2005, we may be held liable for damages suffered by holders of such stock. Upon registration all such shares will be eligible for resale over the open market. Even if not registered, the shares issued in the SendTec acquisition are eligible for resale over the public markets pursuant to and subject to the limitations of Rule 144. Pursuant to the terms of the Merger, in general, the equity securities issued in the Merger may not be sold or otherwise transferred for a period of one year without the prior written consent of the Company.

As more fully described in Note 16, "Subsequent Events," the Company has agreed to redeem approximately 28,900,000 shares of Common Stock originally issued upon the acquisition of SendTec.

In March 2004, theglobe.com completed a private offering of 333,816 units (the "Units") for a purchase price of \$85 per Unit (the "Private Offering"). Each Unit consisted of 100 shares of the Company's Common Stock, \$0.001 par value (the "Common Stock"), and warrants to acquire 50 shares of the Company's Common Stock (the "Warrants"). The Warrants are exercisable for a period of five years commencing 60 days after the initial closing at an initial exercise price of \$0.001 per share. The aggregate number of shares of Common Stock issued in the Private Offering was 33,381,647 shares for an aggregate consideration of \$28,374,400, or approximately \$0.57 per share assuming the exercise of the 16,690,824 Warrants. As of June 30, 2005 and December 31, 2004, approximately 929,000 (unaudited) and 11,440,000 of the Warrants remain outstanding.

The Private Offering was directed solely to investors who are sophisticated and accredited within the meaning of applicable securities laws, most of whom were not affiliates of the Company. The purpose of the Private Offering was to raise funds for use primarily in the Company's developing VoIP business, including the

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deployment of networks, website development, marketing and capital infrastructure expenditures and working capital. Other intended uses of proceeds included funding requirements in connection with theglobe's other existing or future business operations, including acquisitions.

Halpern Capital, Inc., acted as placement agent for the Private Offering, and was paid a commission of \$1.2 million and issued a warrant to acquire 1,000,000 shares of Common Stock at \$0.001 per share. As of both June 30, 2005 and December 31, 2004, approximately 121,000 of these warrants remain outstanding.

Pursuant to the terms of the Private Offering, the Company filed a registration statement relating to the resale of the Securities on April 16, 2004 which became effective on May 11, 2004.

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In connection with the Private Offering, Michael S. Egan, our Chairman, Chief Executive Officer and principal stockholder, together with certain of his affiliates, including E&C Capital Partners, LLLP, converted a \$2,000,000 Convertible Bridge Note, \$1,750,000 of Secured Convertible Notes and all of the Company's outstanding shares of Series F Preferred Stock, and exercised (on a "cashless" basis) all of the warrants issued in connection with the foregoing \$1,750,000 Secured Convertible Notes and Series F Preferred Stock, together with certain warrants issued to Dancing Bear Investments, Inc., an affiliate of Mr. Egan. As a result of such conversions and exercises, the Company issued an aggregate of 48,775,909 additional shares of Common Stock.

On July 2, 2003, the Company completed a private offering of 17,360 shares of Series G Automatically Converting Preferred Stock ("Series G Preferred Stock") and warrants to acquire 3,472 shares of Series G Preferred Stock at a purchase price of \$500 per share for a total of \$8,680,000 in gross proceeds. Each share of Series G Preferred Stock was automatically converted into 1,000 shares of theglobe's Common Stock on July 29, 2003, the effective date of the amendment to the Company's certificate of incorporation increasing its authorized shares of Common Stock from 100,000,000 shares to 200,000,000 shares (the "Capital Amendment"). Similarly, upon the effective date of the Capital Amendment, each warrant to acquire a share of the Series G Preferred Stock was automatically converted into a warrant to acquire 1,000 shares of Common Stock. The warrants are exercisable for a period of 5 years at an initial exercise price of \$1.39 per share. A total of 17,360,000 shares of Common Stock were issued pursuant to the Series G Preferred Stock private offering, while, subject to certain adjustment mechanisms, a total of 3,472,000 shares of Common Stock will be issuable upon exercise of the associated warrants.

At the time of the issuance of the Series G Preferred Stock, an allocation of proceeds received was made between the preferred shares and the associated warrants. The allocation was made by determining the pro-rata share of the proceeds for each by comparing the fair value of each security issued to the total fair value. The fair value of the warrants was determined using the Black Scholes model. The fair value of the Series G Preferred Stock was determined by measuring the fair value of the common shares on an "as-converted" basis. As a result, \$1,365,000 was allocated to the warrants sold. In addition, the value of the preferential conversion was calculated by comparing the fair value of the underlying common shares based on the closing price of the Company's Common Stock as reflected on the OTCBB on the date of issuance to the "effective" conversion price. This resulted in a preferential conversion discount related to the preferred shares and the associated warrants, limited to the proceeds from the sale, of \$7,315,000 and \$305,000, respectively, which were recorded as dividends to the preferred stockholders in July 2003, as the preferred shares and associated warrants were immediately convertible into common shares and

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warrants to acquire common shares.

As more fully discussed in Note 7, "Debt," on May 22, 2003, Secured Convertible Notes totaling \$1,750,000 were issued to E&C Capital Partners, LLLP together with certain affiliates of Michael S. Egan. The Secured Convertible Notes were convertible at anytime into a maximum of approximately 19,444,000 shares of the Company's Common Stock at a blended rate of \$0.09 per share. In addition, E&C Capital Partners, LLLP was issued a warrant to acquire 3,888,889 shares of the Company's Common Stock at an exercise price of \$0.15 per share. The warrant was exercisable at any time on or before May 22, 2013.

On March 28, 2003, E&C Capital Partners, LLLP entered into a Preferred Stock Purchase Agreement with the Company (the "Preferred Stock Investment"), whereby E&C Capital Partners, LLLP received 333,333 shares of Series F Preferred Stock convertible into shares of the Company's Common Stock at a price of \$0.03 per share. If fully converted, and without regard to the anti-dilutive adjustment mechanisms applicable to the Series F Preferred Stock, an aggregate of approximately 16,667,000 shares of Common Stock could be issued. The Series F Preferred Stock had a liquidation preference of \$1.50 per share (and thereafter participates with the holders of Common Stock on an "as-converted" basis), included a dividend at the rate of 8% per annum and entitled the holder to vote on an "as-converted" basis with the holders of Common Stock. In addition, as part of the \$500,000 investment, E&C Capital Partners, LLLP received warrants to purchase 3,333,333 shares of the Company's Common Stock at an exercise price of \$0.125 per share. The warrants were exercisable at anytime on or before March 28, 2013.

The proceeds attributable to the issuance of the Series F Preferred Stock and the related warrants were allocated to each security in the same manner as described in the discussion of the Series G Preferred Stock. As a result, \$83,000 was allocated to the warrants sold. In addition, the value of the preferential conversion was calculated by comparing the fair value of the underlying common shares on the date of issuance based on the closing price of the Company's Common Stock as reflected on the OTCBB to the "effective" conversion price. This resulted in a preferential conversion discount, limited to the proceeds from the sale, of \$417,000. The sum of the two discounts, \$500,000, was recorded as a dividend to the preferred stockholders in March 2003, as the preferred shares were immediately convertible into common shares.

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As a result of the issuance of the Series F Preferred Stock, the Series G Automatically Converting Preferred Stock, the \$1,750,000 Secured Convertible Notes and the associated warrants at their respective conversion and exercise prices, certain anti-dilution provisions applicable to previously outstanding warrants to acquire approximately 4,103,000 shares of the Company's Common Stock were triggered. Like many types of warrants commonly issued, these outstanding warrants to acquire shares of the Company's Common Stock included weighted average anti-dilution provisions which result in a lowering of the exercise price, and an increase in the number of warrants to acquire shares of the Company's Common Stock any time shares of common stock are issued (or options or other securities exercisable or convertible into common stock) for a price per share less than the then exercise price of the warrants. As a result of the Preferred Stock Investment and the issuance of the Series G Preferred Stock and the Secured Convertible Notes, the exercise price was lowered from approximately \$1.39 to \$0.66 per share on these warrants and the number of shares issuable upon exercise was proportionally increased from approximately 4,103,000 shares to 6,836,000 shares. As stated previously, all of these warrants were exercised on a cashless basis in connection with the March 2004 Private Offering of the Company's Common Stock.

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Certain holders of Common Stock are subject to substantial restrictions on the transfer or sale of shares and also have certain "piggy-back" and demand registration rights which, with certain exceptions, require the Company to make all reasonable efforts to include within any of the Company's registration statements to sell such securities any shares that have been requested to be so included.

### NOTE 10. STOCK OPTION PLANS

During 1995, the Company established the 1995 Stock Option Plan, which was amended (the "Amended Plan") by the Board of Directors in December 1996 and August 1997. Under the Amended Plan, a total of 1,582,000 common shares were reserved for issuance. Any incentive stock options granted under the Amended Plan were required to be granted at the fair market value of the Company's Common Stock at the date the option was issued.

Under the Company's 1998 Stock Option Plan (the "1998 Plan") a total of 3,400,000 common shares were reserved for issuance and provides for the grant of "incentive stock options" intended to qualify under Section 422 of the Code and stock options which do not so qualify. The granting of incentive stock options is subject to limitation as set forth in the 1998 Plan. Directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive grants under the 1998 Plan.

In January 2000, the Board adopted the 2000 Broad Based Employee Stock Option Plan (the "Broad Based Plan"). Under the Broad Based Plan, 850,000 shares of Common Stock were reserved for issuance. The intention of the Broad Based Plan is that at least 50% of the options granted will be to individuals who are not managers or officers of theglobe. In April 2000, the Company's 2000 Stock Option Plan (the "2000 Plan") was adopted by the Board of Directors and approved by the stockholders of the Company. The 2000 Plan authorized the issuance of 500,000 shares of Common Stock, subject to adjustment as provided in the 2000 Plan. The Broad Based Plan and the 2000 Plan provide for the grant of "incentive stock options" intended to qualify under Section 422 of the Code and stock options which do not so qualify. The granting of incentive stock options is subject to limitation as set forth in the Broad Based Plan and the 2000 Plan. Directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive grants under the Broad Based Plan and the 2000 Plan.

In September 2003, the Board adopted the 2003 Sales Representative Stock Option Plan (the "2003 Plan") which authorized the issuance of up to 1,000,000 non-qualified stock options to purchase the Company's Common Stock to sales representatives who are not employed by the Company or its subsidiaries. In January 2004, the Board amended the 2003 Plan to include certain employees and consultants of the Company.

The Company's Board of Directors adopted a new benefit plan entitled the 2004 Stock Incentive Plan (the "2004 Plan") on August 31, 2004. An aggregate of 7,500,000 shares of the Company's Common Stock may be issued pursuant to the 2004 Plan. Employees, consultants, and prospective employees and consultants of theglobe and its affiliates and non-employee directors of theglobe are eligible for grants of non-qualified stock options, stock appreciation rights, restricted stock awards, performance awards and other stock-based awards under the 2004 Plan.

On December 1, 2004, based upon approval of the stockholders of the Company, the 2000 Plan was amended and restated to (i) increase the number of shares reserved for issuance under the 2000 Plan by 7,500,000 shares to a total of 8,000,000 shares and (ii) to remove a previous plan provision that limited the number of options that may be awarded to any one individual.

In accordance with the provisions of the Company's stock option plans, nonqualified stock options may be granted to officers, directors, other employees, consultants and advisors of the Company. The option price for nonqualified stock options shall be at least 85% of the fair market value of the Company's Common Stock. In general, options granted under the Company's stock option plans expire after a ten-year period and in certain circumstances options, under the 1995 and 1998 plans, are subject to the acceleration of vesting. 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. A committee selected by the Company's Board of Directors has the authority to approve optionees and the terms of the stock options granted, including the option price and the vesting terms.

A total of 5,584,750 (unaudited) stock options were granted during the six months ended June 30, 2005, including grants of 650,000 stock options to non-employees. A total of 1,285,000 (unaudited) stock options were granted during the six months ended June 30, 2004, including grants of 215,000 (unaudited) stock options to non-employees.

As discussed in Note 4, "Acquisitions and Dispositions," pursuant to the agreement and plan of merger in connection with the acquisition of SendTec on September 1, 2004, the Company issued an aggregate of 3,974,165 replacement options to acquire shares of theglobe's Common Stock for each of the issued and outstanding options to acquire shares of SendTec common stock held by employees of SendTec. Of these replacement options, 3,273,668 have exercise prices of \$0.06 and 700,497 have exercise prices of \$0.27 per share. The Company also agreed to grant an aggregate of 225,000 options to employees of SendTec and 25,000 options to a consultant of SendTec at an exercise price of \$0.34 per share under similar terms as other stock option grants of theglobe. The Company also granted 1,000,000 stock options at an exercise price of \$0.27 per share in connection with the establishment of a bonus option pool pursuant to which various employees of SendTec could vest in such options if SendTec exceeds forecasted operating income, as defined, of \$10.125 million, for the year ending December 31, 2005. Due to the contingent nature of the 1,000,000 bonus pool stock options, no amounts have been recognized in the results of operations for the years ended December 31, 2004.

Reference should be made to Note 16, "Subsequent Events," for discussion of the Company's intent to terminate and cancel certain stock options issued to members of the management of SendTec in connection with the sale of the assets and business of SendTec.

Excluding the aforementioned stock options issued in connection with the acquisition of SendTec, a total of 2,525,430 stock options were granted during the year ended December 31, 2004, including grants of 390,000 stock options to non-employees. Options were granted during 2003 for a total of 4,407,450 shares of Common Stock, of which 500,000 options were granted pursuant to an individual nonqualified stock option agreement and not pursuant to any of the plans described above. During 2002, a total of 5,347,500 stock options were granted, of which 5,175,000 were granted pursuant to individual nonqualified stock options agreements and not pursuant to any of the plans described above.

The Company applies APB Opinion No. 25 in accounting for grants to employees pursuant to stock option plans and, accordingly, compensation cost of \$339,870 (unaudited) was recorded during the six months ended June 30, 2005, primarily related to vesting of prior year employee option grants with below-market exercise prices. During the year ended December 31, 2004, \$421,952 was

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recognized for stock options granted to employees at exercise prices below fair market value, including those issued in connection with the SendTec acquisition. During the year ended December 31, 2003, \$233,750 was recognized for stock options granted to employees at exercise prices below fair market value. No stock options were granted to employees with exercise prices below fair market value during 2002. In addition, \$28,000 (unaudited), \$17,188 and \$152,884 of stock compensation expense was recorded during the six months ended June 30, 2005 and the years ended December 31, 2004 and 2003, respectively, as a result of the accelerated vesting of stock options issued to certain terminated employees. Compensation cost recognized in connection with stock options granted in recognition of services rendered by non-employees was \$139,597 (unaudited), \$463,775, \$225,609, and \$13,000 for the six months ended June 30, 2005 and the years ended December 31, 2004, 2003 and 2002, respectively.

In 2000, the Company repriced a group of stock options issued to its employees. The Company is accounting for these re-priced stock options using variable accounting in accordance with FIN No. 44. No compensation expense was recorded in connection with the re-priced stock options during the six months ended June 30, 2005 and 2004 (unaudited). The stock based compensation recorded in connection with these re-priced stock options was a credit of \$22,666 for the year ended December 31, 2004 and expense of \$30,933 for the year ended December 31, 2003. There was no compensation charge relating to the re-priced options during the year ended December 31, 2002. At June 30, 2005 and December 31, 2004, a total of 29,060 (unaudited) and 42,010 options remained outstanding which were being accounted for in accordance with FIN No. 44.

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Stock option activity during the periods indicated was as follows:

	Options Vested -----	Total Options -----	Ex
Outstanding at December 31, 2001		3,104,349	
Granted		5,347,500	
Exercised		--	
Canceled		(2,480,409)	
Outstanding at December 31, 2002	5,870,749 =====	5,971,440	
Granted		4,407,450	
Exercised		(429,000)	
Canceled		(7,080)	
Outstanding at December 31, 2003	8,475,232 =====	9,942,810	
Granted		7,749,595	
Exercised		(639,000)	
Canceled		(1,069,220)	
Outstanding at December 31, 2004	11,784,625 =====	15,984,185	
Granted (unaudited)		5,584,750	
Exercised (unaudited)		(218,226)	
Canceled (unaudited)		(1,048,742)	

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Outstanding at June 30, 2005 (unaudited)	16,292,472	20,301,967
	=====	=====
Options available at December 31, 2002		4,259,547
		=====
Options available at December 31, 2003		1,359,177
		=====
Options available at December 31, 2004		10,203,732
		=====
Options available at June 30, 2005 (unaudited)		4,850,294
		=====

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The weighted average exercise prices and remaining lives of outstanding stock options and weighted average exercise prices of vested stock options as of June 30, 2005 were as follows (unaudited):

Range	Number Outstanding	Options Outstanding		Number Vested
		Weighted Average Life	Weighted Average Price	
\$ .02 - \$ .02	4,875,000	7.1	\$ 0.02	4,875,000
.035- .035	200,000	6.9	0.035	200,000
.04 - .05	47,500	6.7	0.05	38,765
.06 - .06	3,089,674	8.0	0.06	2,093,781
.11 - .13	5,473,750	9.8	0.12	4,293,438
.14 - .18	145,000	8.3	0.15	117,500
.22 - .34	1,874,973	6.1	0.28	726,760
.37 - .49	639,430	9.3	0.42	526,187
.52 - .54	318,000	9.1	0.52	130,500
.56 - .56	1,650,000	7.9	0.56	1,650,000
.63 - .65	85,000	7.9	0.63	63,754
.90 - 1.03	392,500	8.6	0.98	362,036
1.14 - 1.29	328,500	6.6	1.23	293,198
1.33 - 1.47	152,500	8.2	1.41	109,220
1.50 - 1.52	526,500	8.3	1.50	308,693
1.59 - 1.59	12,640	4.7	1.59	12,640
1.72 - 2.50	38,500	5.9	2.25	38,500
4.50 - 6.69	332,500	3.2	4.69	332,500
15.75 -15.75	120,000	3.5	15.75	120,000
	-----			-----
	20,301,967			16,292,472
	=====			=====

The weighted average exercise prices and remaining lives of outstanding stock options and weighted average exercise prices of vested stock options as of December 31, 2004 were as follows:

Options Outstanding

Options

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Range	Number Outstanding	Weighted Average Life	Weighted Average Price	Number Vested
\$ .01 - \$ .02	5,075,000	7.5	\$ 0.02	4,875,000
.035- .035	200,000	7.4	0.035	200,000
.04 - .05	47,500	7.2	0.05	32,825
.06 - .06	3,273,668	8.4	0.06	1,979,873
.14 - .14	105,000	8.3	0.14	105,000
.23 - .34	2,045,497	6.5	0.28	555,748
.37 - .49	750,430	9.8	0.42	493,394
.52 - .54	327,000	9.5	0.52	101,737
.56 - .56	1,650,000	8.4	0.56	1,650,000
.63 - .65	210,000	8.4	0.63	178,128
.90 - 1.03	625,000	9.1	0.97	489,844
1.14 - 1.29	428,500	7.5	1.24	290,230
1.33 - 1.47	212,500	8.7	1.41	122,501
1.50 - 1.52	526,500	8.8	1.50	202,755
1.59 - 1.59	16,590	5.2	1.59	16,590
1.72 - 2.50	38,500	6.3	2.25	38,500
4.50 - 6.69	332,500	3.7	4.69	332,500
15.75 -15.75	120,000	4.0	15.75	120,000
	15,984,185			11,784,625

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NOTE 11. COMMITMENTS AND CONTINGENCIES

NETWORK COMMITMENTS

The Company and its subsidiaries are a party to various network service agreements which provide for specified services, including the use of secure data transmission facilities, capacity and other network carrier services. The term of the agreements are generally for one year, with the term of several agreements extending to three or five years. Certain of the agreements contain early cancellation penalties. Commitments under such network service agreements, exclusive of regulatory taxes, fees and charges, are as follows:

Year ending December 31:	
2005	\$2,063,000
2006	873,000
2007	503,000
2008	202,000
2009	12,000
Thereafter	--
	-----
	\$3,653,000
	=====

Commitments for minimum usage requirements of approximately \$43,000 are included in the total commitments amount for the year ended December 31, 2005. The Company has recently terminated all other minimum usage requirement commitments for which it was obligated under previous network carrier agreements.

PURCHASE OBLIGATIONS



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Effective January 31, 2005, the Company formally terminated its contract with a supplier of VoIP telephony handsets and agreed to settle the unconditional purchase obligation under such contract, which totaled approximately \$3,000,000. The settlement provided for (i) a cash payment of \$200,000, (ii) the return of 35,000 VoIP handset units from the Company's inventory, and (iii) the issuance of 300,000 shares of theglobe.com Common Stock. The value attributed to the loss on the settlement of the contractual obligation of \$406,750 has been included in the accompanying consolidated statement of operations for the year ended December 31, 2004.

### EMPLOYMENT AGREEMENTS

On August 1, 2003, the Company entered into employment agreements with its Chairman and Chief Executive Officer, President and Vice President of Finance (its former Chief Financial Officer). The three agreements, which are for a period of one year and automatically extend for one day each day until either party notifies the other not to further extend the employment period, provide for annual base salaries totaling \$650,000 and annual bonuses based on pre-tax operating income, as defined, for an annual minimum of \$100,000 in total. The agreements also provide for severance benefits under certain circumstances, as defined, which in the case of the Chairman and Chief Executive Officer and the President, include lump-sum payments equal to ten times the sum of the executive's base salary and the highest annual bonus earned by the executive, and in the case of the Vice President of Finance, include lump-sum payments equal to two times the sum of the executive's base salary and the highest annual bonus earned by the executive. In addition, these severance benefits also require the Company to maintain insurance benefits for a period of up to ten years, in the case of the Chairman and Chief Executive Officer and the President, and up to two years, in the case of the Vice President of Finance, substantially equivalent to the insurance benefits existing upon termination. Effective June 1, 2004, the annual base salary of the Vice President of Finance was reduced to \$140,000.

Effective in March 2005, the Company discontinued paying Mr. Egan's base salary, at his request. The Company is obligated to pay all such deferred salary amounts to Mr. Egan upon his demand. At June 30, 2005, deferred base salary payable to Mr. Egan totaled approximately \$80,800 (unaudited).

As discussed in Note 4, "Acquisitions and Dispositions," as part of the SendTec acquisition transaction on September 1, 2004, certain executives of SendTec entered into new employment agreements with SendTec. The employment agreements each have a term of five years and automatically renew for an additional year at expiration unless either party provides the requisite notice of non-renewal. The agreements provide for total base salaries of \$900,000 per annum and also contain certain non-compete provisions for periods as specified by the agreements.

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On October 4, 2004, the Company entered into a new employment agreement with its current Chief Technical Officer which provides for a base salary of \$150,000 per year. The agreement has a term of two years and automatically renews for an additional two years unless either party provides the requisite notice of non-renewal. The agreement also contains certain non-compete provisions and provides for specified severance payments.

As discussed in Note 4, "Acquisitions and Dispositions," as part of the Tralliance acquisition on May 9, 2005, the existing CEO and CFO of Tralliance entered into employment agreements, which include certain non-compete

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provisions, whereby each would agree to remain in the employ of Tralliance for a period of two years in exchange for annual base compensation totaling \$400,000 (unaudited) plus participation in a bonus pool based upon the pre-tax income of the venture.

### SEVERANCE AGREEMENT

In the second quarter of 2002, severance benefits of \$699,833 were recorded and paid. In connection with his termination, the former Chief Executive Officer was paid \$625,000 on May 31, 2002, reflecting the terms of his severance package. Additionally, options to purchase 425,000 shares of the Company's Common Stock at an exercise price of \$0.035 per share (the closing price on May 6, 2002) valued at \$13,000 (calculated using Black-Scholes) were granted on May 6, 2002, further reflecting the terms of his severance package. These options immediately vested upon grant and have a life of ten years.

### OPERATING LEASES

The Company leases facilities under noncancelable operating leases. These leases generally contain renewal options and require the Company to pay certain executory costs such as maintenance and insurance. Rent expense for the years ended December 31, 2004, 2003 and 2002 totaled approximately \$691,000, \$326,000 and \$73,000, respectively.

Effective September 1, 2003, the Company entered into a sublease agreement for office space with a company controlled by our Chairman. The lease term is for approximately four years with base rent of approximately \$284,000 during the first year of the sublease. Per the agreement, base rent increases by approximately \$23,000 per year thereafter. Rent expense for the year ended December 31, 2004, as noted in the preceding paragraph included approximately \$334,000 of expense related to this sublease.

The approximate future minimum lease payments under noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2004, were as follows:

2005	\$ 867,000
2006	717,000
2007	433,000
2008	232,000
2009	232,000
Thereafter	39,000
	-----
	\$2,520,000
	=====

Tralliance Corporation, which was acquired May 9, 2005, subleases office space in New York City on a month-to-month basis from an entity controlled by its President and Chief Executive Officer for \$3,160 per month.

### TERMINATION OF 401(K) PLAN

During November 2002, the Company terminated its 401k plan.

SendTec, which was acquired on September 1, 2004, maintained a SIMPLE IRA savings plan (the "Plan") for the benefit of all of SendTec's eligible employees who had completed six months of service. The Plan allowed employees to make certain tax deferred voluntary contributions and discretionary contributions by SendTec. Approximately \$33,000 in Plan contributions were made by SendTec since its acquisition by theglobe. The Plan was terminated December 31, 2004.

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### LETTER OF CREDIT

At both June 30, 2005 (unaudited) and December 31, 2004, the Company had \$20,000 in outstanding standby letters of credit used to support an agreement with one of its telecommunications carriers.

### LITIGATION

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 and noted that the decision is intended to provide strong guidance to all parties regarding class certification in the remaining cases. Plaintiffs have not yet moved to certify a class in theglobe.com case.

The Company has 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. Among other provisions, the settlement provides for a release of the Company and the Individual Defendants for the conduct alleged in the action to be wrongful. The Company would agree to undertake certain responsibilities, including agreeing to assign away, not assert, or release certain potential claims the Company may have against its underwriters. The settlement agreement also provides a guaranteed recovery of \$1 billion to plaintiffs for the cases relating to all of the approximately 300 issuers. To the extent that the underwriter defendants settle all of the cases for at least \$1 billion, no payment will be required under the issuers' settlement agreement. To the extent that the underwriter defendants settle for less than \$1 billion, the issuers are required to make up the difference. It is anticipated that any potential financial obligation of the Company to plaintiffs pursuant to the terms of the settlement agreement and related agreements will be covered by existing insurance. The Company currently is not aware of any material limitations on the expected recovery of any potential financial obligation to plaintiffs from its insurance carriers. Its carriers are solvent, and the Company is not aware of any uncertainties as to the legal sufficiency of an insurance claim with respect to any recovery by plaintiffs. Therefore, we do not expect that the settlement will involve any payment by the Company. If material limitations on the expected recovery of any potential financial obligation to the plaintiffs from the

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Company's insurance carriers should arise, the Company's maximum financial obligation to plaintiffs pursuant to the settlement agreement would be less than \$3.4 million. On February 15, 2005, the Court granted preliminary approval of the settlement agreement, subject to certain modifications consistent with its opinion. The Court ruled that the issuer defendants and the plaintiffs were required to submit a revised settlement agreement which provides for a mutual bar of all contribution claims by the settling and non-settling parties and does not bar the parties from pursuing other claims. The issuers and plaintiffs have submitted to the Court a revised settlement agreement consistent with the Court's opinion. The revised settlement agreement has been approved by all of the issuer defendants that are not in bankruptcy. The underwriter defendants have submitted limited objections to the revised settlement agreement, such as an objection that it seeks to impose the cost of identifying and notifying class members on the underwriters, and an objection that it does not provide the underwriters with sufficient time to gather the information sought by the claims administrator. There is no assurance that the Court will grant final approval to the settlement. If the settlement agreement is not approved and 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.

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On December 16, 2004, the Company, together with its wholly-owned subsidiary, voiceglo Holdings, Inc., were named as defendants in NeoPets, Inc. v. voiceglo Holdings, Inc. and theglobe.com, inc., a lawsuit filed in Los Angeles Superior Court. The Company and its subsidiary were parties to an agreement dated May 6, 2004, with NeoPets, Inc. ("NeoPets"), whereby NeoPets agreed to host a voiceglo advertising feature on its website for the purpose of generating registered activations of the voiceglo product featured. Consideration to NeoPets was to include specified commissions, including cash payments based on registered activations, as defined, as well as the issuance of Common Stock of theglobe.com and additional cash payments, upon the attainment of certain performance criteria. NeoPets' complaint asserts claims for breach of contract and specific performance and seeks payment of approximately \$2.5 million in cash, plus interest, as well as the issuance of 1,000,000 shares of theglobe.com Common Stock. On February 22, 2005, the Company and voiceglo answered the complaint and asserted cross-claims against NeoPets for fraud and deceit, rescission, breach of contract, breach of the implied covenant of good faith and fair dealing and set-off. NeoPets answered the cross-claims on March 24, 2005.

During 2004, the Company recorded amounts due for commissions pursuant to the terms of the agreement totaling approximately \$246,000. On August 5, 2005, the Company, together with voiceglo Holdings, Inc., its wholly-owned subsidiary, and NeoPets (collectively "the Parties") agreed to amicably resolve their dispute and entered into a settlement agreement (the "Settlement Agreement"). Under the terms of the Settlement Agreement, the Parties agreed to dismiss the lawsuit, release each other from all claims and to terminate their May 6, 2004 website advertising agreement in consideration for voiceglo Holdings, Inc. making cash payments totaling \$200,000 to NeoPets within thirty days of the date of the Settlement Agreement.

On July 3, 2003, an action was commenced against one of the Company's subsidiaries, Direct Partner Telecom, Inc. ("DPT"). Global Communications Consulting Corp. v. Michelle Nelson, Jason White, VLAN, Inc., Geoffrey Amend, James Magruder, Direct Partner Telecom, Inc., et al. was filed in the Superior Court of New Jersey, Monmouth County, and removed to the United States District Court for the District of New Jersey on September 16, 2003. Plaintiff is the former employer of Michelle Nelson, an employee of theglobe and a former

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consultant of DPT. Plaintiff alleges that while Nelson was its employee, she provided plaintiff's confidential and proprietary trade secret information, to among others, DPT and certain employees, and diverted corporate opportunities from plaintiff to DPT and the other named defendants. Plaintiff asserts claims against Nelson including breach of fiduciary duty, breach of the duty of loyalty and tortious interference with contract. Plaintiff also asserts claims against Nelson and DPT, among others, for contractual interference, tortious interference with prospective economic advantage and misappropriation of proprietary information and trade secrets. Plaintiff seeks injunctive relief and damages in an unspecified amount, including punitive damages. The Answer to the Complaint, with counterclaims, was served on October 20, 2003, denying plaintiff's allegations of improper and unlawful conduct in their entirety. The parties reached an amicable resolution of this matter, including a mutual release of all claims, which was filed with the Court in April 2004.

The Company is currently a party to certain other legal proceedings, claims, disputes and litigation arising in the ordinary course of business, including those noted above. The Company currently believes that the ultimate outcome of these other proceedings, 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 litigation, should the outcome of these actions be unfavorable, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

### NOTE 12. RELATED PARTY TRANSACTIONS

Certain directors of the Company also serve as officers and directors of Dancing Bear Investments, Inc. ("Dancing Bear"). Dancing Bear is a stockholder of the Company and an entity controlled by our Chairman.

As discussed more fully in Note 7, "Debt," in connection with a demand convertible promissory note in the amount of \$2,000,000 due the Company's Chairman and his spouse, the Company paid interest totaling approximately \$17,500 during the year ended December 31, 2004.

Interest expense on the \$1,750,000 Convertible Notes due E&C Capital Partners, LLLP together with certain affiliates of our Chairman totaled approximately \$108,200, excluding the amortization of the discount on the Notes, during the year ended December 31, 2003. The interest remained unpaid at December 31, 2003, and was included in accrued expenses in the accompanying consolidated balance sheet. Interest expense related to the \$1,750,000 Convertible Notes totaled approximately \$32,000 during the year ended December 31, 2004. As a result of the conversion of the \$1,750,000 Convertible Notes into the Company's Common Stock in March 2004, all interest accrued was paid by the Company during the year ended December 31, 2004.

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During the year ended December 31, 2004, the Company paid approximately \$151,200 to an entity controlled by the Chairman's son-in-law for the production of a commercial advertisement. The costs related to the production of the commercial advertisement were recorded as sales and marketing expense during the six months ended June 30, 2004. During the six months ended June 30, 2005, payments of approximately \$4,300 (unaudited) in reimbursements of marketing expenses incurred on the Company's behalf were made to the Chairman's son-in-law.

Several entities controlled by our Chairman have provided services to the Company and various of its subsidiaries, including: the lease of office and warehouse space; and the outsourcing of customer service and warehouse functions

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for the Company's VoIP operation. During the first quarter of 2005, an entity controlled by our Chairman also began performing human resource and payroll processing functions for the Company and several of its subsidiaries. During the years ended December 31, 2004 and 2003, a total of approximately \$566,000 and \$383,000 of expense was recorded related to these services, respectively. During the six months ended June 30, 2005, approximately \$185,000 (unaudited) of expenses related to these services were recorded. Approximately \$126,000 (unaudited), \$5,300 and \$70,000 related to these services was included in accounts payable and accrued expenses at June 30, 2005, December 31, 2004 and 2003, respectively.

Additionally, included in other current assets in the accompanying Consolidated Balance Sheet at December 31, 2004, was approximately \$90,000 advanced to a newly formed entity in which E&C Capital Partners, LLLP has an ownership interest. At the time these funds were advanced, the entity was anticipated to enter into a joint venture to provide marketing services to voiceglo and the Company was negotiating the terms of such joint venture. The Company and such new entity subsequently agreed to abandon the proposed joint venture and the entity ceased operations in January 2005. Additional advances of approximately \$2,000 (unaudited) were made to the entity during January 2005. E&C Capital Partners LLLP has represented to theglobe that the amounts advanced, which approximate \$92,000 (unaudited) as of June 30, 2005 will be repaid prior to the end of 2005.

Reference should be made to Note 16, "Subsequent Events," for details regarding the \$4,000,000 Note Purchase Agreement entered into with entities controlled by the Company's Chairman and Chief Executive Officer on April 22, 2005. Approximately \$41,000 (unaudited) of interest expense related to the borrowings under the Note Purchase Agreement was recognized during the six months ended June 30, 2005 and was included in accrued expenses as of that date in the accompanying consolidated balance sheet.

Tralliance Corporation, which was acquired May 9, 2005, subleases office space in New York City on a month-to-month basis from an entity controlled by its President and Chief Executive Officer for \$3,160 per month.

### STOCKHOLDERS' AGREEMENT

In connection with the acquisition of SendTec, certain of the SendTec executives (whom collectively received approximately 82% of the shares of theglobe.com Common Stock and Preferred Stock issued in the Merger), theglobe and the Company's Chairman and Chief Executive Officer and President (individually and on behalf of certain affiliated entities) entered into a Stockholders' Agreement. Pursuant to the terms of the Stockholders' Agreement, the SendTec executives granted an irrevocable proxy to vote their shares to E&C Capital Partners LLLP, an affiliate of the Company's Chairman and Chief Executive Officer, on all matters (including the election of directors) other than with respect to certain potential affiliated transactions involving the Company's Chairman and Chief Executive Officer or President. After giving effect to the grant of the proxy (and excluding outstanding options, warrants and convertible stock held or controlled by the Chairman and Chief Executive Officer), at September 15, 2005, the Chairman and Chief Executive Officer has voting power over approximately 95.6 million issued and outstanding shares of theglobe representing approximately 48% of the issued and outstanding voting securities of the Company. The SendTec executives were also granted certain pre-emptive rights involving potential new issuances of securities by theglobe, together with a co-sale right to participate in certain qualifying sales of stock by the Chairman and Chief Executive Officer and the President and their affiliates. In addition, the Chairman and Chief Executive Officer and President and their

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affiliates were granted a right of first refusal on certain sales (generally, in excess of 10 million shares) by the SendTec executives, together with the right to "drag-along" the SendTec executives with regard to certain major sales of their stock or a sale or merger of theglobe.

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In 1997, the Chairman, the former Co-Chief Executive Officers, two Directors of the Company and Dancing Bear (an entity controlled by the Chairman) entered into a Stockholders' Agreement (the "Stockholders' Agreement") pursuant to which the Chairman and Dancing Bear or certain entities controlled by the Chairman and certain permitted transferees (the "Chairman Group") agreed to vote for certain nominees of the former Co-Chief Executive Officers or certain entities controlled by the former Co-Chief Executive Officers and certain permitted transferees (the "Former Co-Chief Executive Officer Groups") to the Board of Directors and the Former Co-Chief Executive Officer Groups agreed to vote for the Chairman Group's nominees to the Board, who would represent up to five members of the Board. Additionally, pursuant to the terms of the Stockholders' Agreement, the former Co-Chief Executive Officer and the two Directors granted an irrevocable proxy to Dancing Bear with respect to any shares acquired by them pursuant to the exercise of outstanding Warrants transferred to each of them by Dancing Bear. Such shares would be voted by Dancing Bear, which is controlled by the Chairman, and would be subject to a right of first refusal in favor of Dancing Bear upon certain private transfers. The Stockholders' Agreement also provided that if the Chairman Group sold shares of Common Stock and Warrants representing 25% or more of the Company's outstanding Common Stock (including the Warrants) in any private sale, the Former Co-Chief Executive Officer Groups and the two Directors of the Company would be required to sell up to the same percentage of their shares as the Chairman Group's sales. If either the Chairman Group sold shares of Common Stock or Warrants representing 25% or more of the Company's outstanding Common Stock (including the Warrants) or the Former Co-Chief Executive Officer Groups sold shares or Warrants representing 7% or more of the shares and Warrants of the Company in any private sale, each other party to the Stockholders' Agreement, including entities controlled by them and their permitted transferees, had the option to sell up to the same percentage of their shares. Effective March 28, 2003, the Stockholders' Agreement was terminated.

### NOTE 13. SEGMENTS AND GEOGRAPHIC INFORMATION

The Company applies the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes annual and interim reporting standards for operating segments of a company. SFAS No. 131 requires disclosures of selected segment-related financial information about products, major customers and geographic areas. Effective with the May 9, 2005 acquisition of Tralliance, the Company was organized in four operating segments for purposes of making operating decisions and assessing performance: the computer games division, the Internet services division, the marketing services division and the VoIP telephony services division. The computer games division consists of the operations of the Company's magazine publications and the associated websites and the operations of Chips & Bits, Inc., its games distribution business. The Internet services division consists of the newly acquired operations of Tralliance. The marketing services division consists of the operations of the Company's subsidiary, SendTec. The VoIP telephony services division is principally involved in the sale of telecommunications services over the Internet to consumers.

The chief operating decision maker evaluates performance, makes operating decisions and allocates resources based on financial data of each segment. Where

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appropriate, the Company charges specific costs to each segment where they can be identified. Certain items are maintained at the Company's corporate headquarters ("Corporate") and are not presently allocated to the segments. Corporate expenses primarily include personnel costs related to executives and certain support staff and professional fees. Corporate assets principally consist of cash and cash equivalents. Subsequent to its acquisition on September 1, 2004, SendTec provided various intersegment marketing services to the Company's VoIP telephony services division. Prior to the acquisition of SendTec, there were no intersegment transactions. The accounting policies of the segments are the same as those for the Company as a whole.

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The following table presents financial information regarding the Company's different segments:

	Six Months Ended June 30,		Year
	2005	2004	2004
	(Unaudited)		
<b>NET REVENUE:</b>			
Computer games	\$ 1,116,775	\$ 1,474,874	\$ 3,107,637
Marketing services	18,469,603	--	13,408,183
VoIP telephony services	163,385	207,353	391,154
Intersegment eliminations	(324,717)	--	(865,942)
	\$ 19,425,046	\$ 1,682,227	\$ 16,041,032
	=====	=====	=====
<b>INCOME (LOSS) FROM OPERATIONS:</b>			
Computer games	\$ (978,738)	\$ (312,011)	\$ (442,286)
Marketing services	2,029,406	--	1,197,884
VoIP telephony services	(6,127,717)	(6,766,254)	(20,538,124)
Internet services	(213,574)	--	--
Corporate expenses	(1,804,182)	(2,002,442)	(3,675,492)
	(7,094,805)	(9,080,707)	(23,458,018)
Loss from operations	(7,094,805)	(9,080,707)	(23,458,018)
Other income (expense), net	(3,308,411)	(936,952)	(815,183)
	\$ (10,403,216)	\$ (10,017,659)	\$ (24,273,201)
	=====	=====	=====
<b>DEPRECIATION AND AMORTIZATION:</b>			
Computer games	\$ 15,438	\$ 4,788	\$ 10,606
Marketing services	349,368	--	227,270
VoIP telephony services	548,576	516,399	1,355,532
Internet services	18,800	--	--
Corporate expenses	19,157	13,506	32,138
	\$ 951,339	\$ 534,693	\$ 1,625,546
	=====	=====	=====
<b>CAPITAL EXPENDITURES:</b>			
Computer games	\$ 20,500	\$ 26,607	\$ 55,845
Marketing services	108,580	--	40,324
VoIP telephony services	148,304	1,633,397	2,537,133



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Corporate	--	36,521	50,040
	-----	-----	-----
	\$ 277,384	\$ 1,696,525	\$ 2,683,342
	=====	=====	=====

	June 30,	December 31,		
	2005	2004	2003	2002
	-----	-----	-----	-----
	(Unaudited)			
IDENTIFIABLE ASSETS:				
Computer games	\$ 1,378,652	\$ 2,000,230	\$ 1,957,714	\$ 2,602,834
Marketing services	25,846,914	24,764,361	--	--
VoIP telephony services	2,584,635	3,497,698	4,251,082	164,960
Internet services	643,278	--	--	--
Corporate assets	1,156,243	3,754,876	963,282	279,191
	-----	-----	-----	-----
	\$31,609,722	\$34,017,165	\$ 7,172,078	\$ 3,046,985
	=====	=====	=====	=====

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The Company's historical net revenues have been earned primarily from customers in the United States. In 2003, VoIP telephony services net revenue was primarily attributable to the sale of telephony services outside of the United States. Telephony services revenue derived from Thailand represented approximately \$458,000 or 9% of consolidated net revenue for the year ended December 31, 2003. In addition, all significant operations and assets are based in the United States.

Revenue generated by two customers of SendTec represented approximately 43% (unaudited) of consolidated net revenue reported for the six months ended June 30, 2005. Revenue generated by two customers of SendTec since its acquisition date, or September 1, 2004, represented approximately 44% of consolidated net revenue reported for the year ended December 31, 2004.

NOTE 14. VALUATION AND QUALIFYING ACCOUNTS - ALLOWANCE FOR DOUBTFUL ACCOUNTS

Period Ended,	Balance At Beginning Of Period	Additions Charged To Expense	Additions Charged To Other Accounts	Deductions	Bala At E Per
-----	-----	-----	-----	-----	-----
June 30, 2005 (Unaudited)	\$ 274,013	\$ --	\$ --	\$ (26,324)	\$ 2
December 31, 2004	\$ 112,986	\$ 198,537	\$ 9,750	\$ (47,260)	\$ 2
December 31, 2003	\$ 128,613	\$ 114,888	\$ --	\$ (130,515)	\$ 1
December 31, 2002	\$ 3,203,295	\$ --	\$ --	\$ (3,074,682)	\$ 1

NOTE 15. SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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	Quarter Ended	
	June 30, 2005	March 31, 2005
Net revenue	\$ 9,986,318	\$ 9,438,728
Operating expenses	13,349,063	13,170,788
Loss from operations	(3,362,745)	(3,732,060)
Net loss	(6,453,219)	(3,965,573)
Net loss applicable to common Stockholders	(6,453,219)	(3,965,573)
Basic and diluted net loss per Share	\$ (0.04)	\$ (0.02)

	Quarter Ended			
	December 31, 2004	September 30, 2004	June 30, 2004	Mar
Net revenue	\$ 10,660,697	\$ 3,698,108	\$ 826,230	\$
Operating expenses	18,914,508	9,821,608	6,128,867	4
Loss from operations	(8,253,811)	(6,123,500)	(5,302,637)	(3
Net loss	(8,385,886)	(5,869,656)	(5,355,961)	(4
Net loss applicable to common Stockholders	(8,385,886)	(5,869,656)	(5,355,961)	(4
Basic and diluted net loss per Share	\$ (0.05)	\$ (0.04)	\$ (0.04)	\$

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	Quarter Ended			
	December 31, 2003	September 30, 2003	June 30, 2003	Mar
Net revenue	\$ 1,492,237	\$ 1,447,784	\$ 1,101,810	\$ 1
Operating expenses	6,239,271	3,776,319	2,295,895	1
Loss from operations	(4,747,034)	(2,328,535)	(1,194,085)	
Net loss	(5,077,665)	(2,517,614)	(2,757,371)	
Net loss applicable to common Stockholders	(5,077,665)	(10,137,614)	(2,757,371)	(1
Basic and diluted net loss per share	\$ (0.10)	\$ (0.23)	\$ (0.09)	\$

Net loss applicable to common stockholders for the 2003 quarterly periods includes the preferred dividend impact of the beneficial conversion features of the preferred stock and warrants issued.

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	Quarter Ended			
	December 31, 2002	September 30, 2002	June 30, 2002	March 2002
Net revenue	\$ 2,009,701	\$ 1,698,278	\$ 1,684,942	\$ 1,852,
Operating expenses	1,873,157	2,225,921	3,330,776	2,756,
Income (loss) from operations	136,544	(527,643)	(1,645,834)	(903,
Net income (loss)	16,922	(492,046)	(1,633,429)	(506,
Net loss applicable to common Stockholders	16,922	(492,046)	(1,633,429)	(506,
Basic and diluted net loss per Share	\$ --	\$ (0.02)	\$ (0.05)	\$ (0

NOTE 16. SUBSEQUENT EVENTS

The following transactions and/or events were completed subsequent to December 31, 2004, the date of the Company's most recent audited financial statements and, therefore, were not reflected in the accompanying consolidated financial statements as of December 31, 2004 and for the periods then ended.

On April 22, 2005, E&C Capital Partners, LLLP and E&C Capital Partners II, Ltd. (the "Noteholders"), entities controlled by the Company's Chairman and Chief Executive Officer, entered into a Note Purchase Agreement (the "Agreement") with theglobe pursuant to which they acquired secured demand convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of \$1,500,000. Under the terms of the Agreement, the Noteholders were also granted the optional right, for a period of 90 days from the date of the Agreement, to purchase additional Convertible Notes such that the aggregate principal amount of Convertible Notes issued under the Agreement may total \$4,000,000 (the "Option"). On June 1, 2005, the Noteholders exercised a portion of the Option and acquired an additional \$1,500,000 of Convertible Notes. On July 18, 2005, the Noteholders exercised the remainder of the Option and acquired an additional \$1,000,000 of Convertible Notes.

The Convertible Notes are convertible at the option of the Noteholders into shares of the Company's Common Stock at an initial price of \$0.05 per share. Through September 15, 2005, an aggregate of \$600,000 of Convertible Notes were converted by the Noteholders into an aggregate of 12,000,000 shares of the Company's Common Stock. Assuming full conversion of all Convertible Notes, an additional 68,000,000 shares of the Company's Common Stock would be issued to the Noteholders. The Convertible Notes provide for interest at the rate of ten percent per annum and are secured by a pledge of substantially all of the assets of the Company. The Convertible Notes are due and payable five days after demand for payment by the Noteholders. Based upon its current financial position, the Company would not have the resources to pay the Convertible Notes following any such demand.

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As the Notes were immediately convertible into common shares of the Company at issuance, an aggregate of \$3,000,000 of non-cash interest expense was recorded during the 2005 second quarter and \$1,000,000 was recorded during the 2005 third quarter as a result of the beneficial conversion features of the Convertible Notes. The value attributed to the beneficial conversion features was calculated

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by comparing the fair value of the underlying common shares of the Convertible Notes on the date of issuance based on the closing price of our Common Stock as reflected on the OTCBB to the conversion price and was limited to the aggregate proceeds received from the issuance of the Convertible Notes.

Reference should be made to Note 4, "Acquisitions and Dispositions," for details regarding the Company's acquisition of Tralliance Corporation on May 9, 2005.

On August 10, 2005, the Company entered into an asset purchase agreement, as amended on August 23, 2005 (the "Purchase Agreement") with RelationServe Media, Inc. ("RelationServe") whereby the Company agreed to sell all of the business and substantially all of the net assets of its SendTec marketing services subsidiary to RelationServe for \$37,500,000 in cash, subject to certain net working capital adjustments. In addition, on August 23, 2005, the Company entered into a Redemption Agreement with six members of the management of SendTec (the "Redemption Agreement") to redeem approximately 28.9 million shares of theglobe Common Stock owned by such management for approximately \$11.6 million in cash. The closing of the redemption of these shares is contingent on, and will occur immediately after, the closing of the Purchase Agreement. The Company also anticipates that it will be terminating and canceling certain options and warrants held by these six members of management for approximately \$400,000 in cash. These shares and related options and warrants were issued to SendTec management in connection with theglobe's acquisition of SendTec. The Company further expects to terminate or cancel the options of a few other employees of SendTec and enter into severance bonus arrangements with others for cash payments totaling approximately \$500,000. The closing of the asset sale is subject to the satisfaction of a number of closing conditions including distribution of a definitive information statement describing the asset sale to our stockholders which was undertaken commencing on September 16, 2005, with the closing anticipated to occur on or about October 11, 2005.

At June 30, 2005, the carrying amount of SendTec's assets and liabilities, net of the elimination of intercompany receivables and payables, was as follows:

Cash	\$ 3,926,000
Accounts receivable	7,386,000
Prepaid and other	
current assets	393,000
Fixed assets	903,000
Non-compete agreements	1,500,000
Goodwill	11,710,000
Other assets	29,000
Accounts payable	(6,651,000)
Accrued expenses	(2,105,000)
Deferred revenue	(138,000)
	-----
	\$16,953,000
	=====

In September 2005, the Company failed to make the principal and interest payments on the \$1.0 million promissory note issued in connection with the SendTec acquisition by the September 1, 2005 due date (and related grace period) and as a result is currently in default under the promissory note (see Note 7, "Debt"). Upon default, the Company is required to pay a default interest rate of 15% per annum and to pay the noteholders' collection costs, if any.

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None.

### 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. Marketable securities at June 30, 2005, of \$42,736 are classified as available-for-sale and stated at fair value. At June 30, 2005, debt outstanding includes approximately \$4.1 million of fixed rate instruments with an aggregate average interest rate of 8.51% and approximately \$48,000 of variable rate instruments with an aggregate average interest rate of 6.78%. All but approximately \$7,000 of principal of the variable rate debt outstanding, as of the end of the 2005 second quarter, matures within the next twelve months.

Foreign Currency Risk. We transact business in U.S. dollars. Our exposure to changes in foreign currency rates has been limited to a related party obligation payable in Canadian dollars, which totals approximately \$48,000 (U.S.) at June 30, 2005. Foreign currency exchange rate fluctuations do not have a material effect on our results of operations.

### WHERE YOU CAN FIND MORE INFORMATION ABOUT THEGLOBE.COM, INC.

We have filed with the SEC a registration statement and related post effective amendments under the Securities Act that registers the shares of our Common Stock to be sold in this offering. The registration statement, including the attached exhibits, contains additional relevant information about us and our capital stock. The rules and regulations of the SEC allow us to omit from this document certain information included in the registration statement. You may read and copy the reports and other information we file with the SEC at the SEC's Public Reference Room at 100 F. Street, Washington D.C. 20549. You may obtain information regarding the operation of the public reference room by calling 1(800) SEC-0330. The SEC also maintains a website that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of that website is <http://www.sec.gov>.

We are subject to the reporting and information requirements of the Securities and Exchange Act of 1934, as amended, and as a result file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's Public Reference Room and the website of the SEC referred to above, as well as on our website, <http://www.theglobe.com>. The contents of our website are not part of this prospectus, and you should not consider the contents of our website in making an investment decision with respect to our Common Stock.

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130,296,940 SHARES

COMMON STOCK

PROSPECTUS

[LOGO] [theglobe.com](http://www.theglobe.com)

September \_\_\_\_, 2005

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## PART II

### INFORMATION NOT REQUIRED IN THE PROSPECTUS

#### ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The estimated expenses of the offering, including all post-effective amendments, all of which are to be borne by the Company, are as follows:

SEC Registration Fee*	\$ 16,301
Printing Expenses*	15,000
Accounting Fees and Expenses*	25,000
Legal Fees and Expenses	350,000
Registrar and Transfer Agent Fee*	2,500
Miscellaneous*	5,000
	-----
Total*	\$413,801
	=====

\* Estimated

#### ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law ("DGCL") provides that, to the extent a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding, whether civil, criminal, administrative or investigative or in defense of any claim, issue, or matter therein (hereinafter a "Proceeding"), by reason of the fact that person is or was a director, officer, employee or agent of a corporation or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise (collectively an "Agent" of the corporation) that person shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith.

The DGCL also provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened Proceeding by reason of the fact that person is or was an Agent of the corporation, against expenses (including attorney's fees), judgment, fines and amounts paid in settlement actually and reasonably incurred by that person in connection with such action, suit or proceeding if that person acted in good faith and in a manner that person reasonably believed to be in, or not opposed to, the best interest of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that person's conduct was unlawful; provided, however, that in an action by or in the right of the corporation, the corporation may not indemnify such person in respect of any claim, issue, or matter as to which that person is adjudged to be liable to the corporation unless, and only to the extent that, the Court of Chancery or the court in which such proceeding was brought determined that, despite the adjudication of liability but in view of all the circumstances of the case, such person is reasonably entitled to indemnity.

Article VI of the By-laws requires the Company to indemnify any person who was or is a party or is threatened to be made a party to or is involved (including, without limitation, as a witness) in any threatened, pending or completed action, suit, arbitration, alternative dispute mechanism, investigation, administrative hearing or any other proceeding, whether civil, criminal,

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administrative or investigative (other than an action by or in the right of the Company) brought by reason of the fact that he or she is or was a director or officer of the Company, or, while a director or officer of the Company, is or was serving at the request of the Company as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefits plan against expenses (including attorneys' fees, judgments, fines, excise taxes under the Employee Retirement Income Security Act of 1974, penalties and amounts paid in settlement) incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Article VI of the Company's Fourth Amended and Restated Certificate of Incorporation (the "Certificate") provides that to the fullest extent that the DGCL, as it now exists or may hereafter be amended, permits the limitation or elimination of the liability of directors, a director of the Company shall not be liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director.

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The Company has entered into indemnification agreements with certain of its directors and officers. These agreements provide, in general, that the Company will indemnify such directors and officers for, and hold them harmless from and against, any and all amounts paid in settlement or incurred by, or assessed against, such directors and officers arising out of or in connection with the service of such directors and officers as a director or officer of the Company or its Affiliates (as defined therein) to the fullest extent permitted by Delaware Law.

The Company maintains directors' and officers' liability insurance which provides for payment, on behalf of the directors and officers of the Company and its subsidiaries, of certain losses of such persons (other than matters uninsurable under law) arising from claims, including claims arising under the Securities Act, for acts or omissions by such persons while acting as directors or officers of the Company and/or its subsidiaries, as the case may be.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that, in the opinion of the Commission, such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

### ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

On November 14, 2002, the Company acquired certain Voice over Internet Protocol ("VoIP") assets from Brian Fowler (now Chief Technology Officer of the Company) in exchange for the issuance of warrants to acquire 1,750,000 shares of the Company's Common Stock and the potential to earn a warrant to acquire an additional 425,000 shares as part of an earn-out arrangement. The performance targets for the warrants to acquire the additional 425,000 shares were not met and expired on December 31, 2003. The exercise price of the warrants is \$0.065 and the warrants are exercisable at anytime before November 12, 2012.

On March 28, 2003, E&C Capital Partners, LLLP signed a Preferred Stock Purchase Agreement and other related documentation pertaining to a \$500,000 investment via the purchase of shares of a new Series F Preferred Stock of theglobe.com and closed on the investment. Pursuant to the Preferred Stock Purchase Agreement,

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E&C Capital Partners, LLLP received 333,333 shares of Series F Preferred Stock convertible into shares of the Company's Common Stock at a price of \$0.03 per share. The Series F Preferred Stock had a liquidation preference of \$1.50 per share, provided for payment of a dividend at the rate of 8% per annum and entitled the holder to vote on an "as-converted" basis with the holders of Common Stock. In addition, as part of the \$500,000 investment, E&C Capital Partners, LLLP received warrants to purchase approximately 3,333,333 shares of theglobe.com Common Stock at an exercise price of \$0.125 per share. The warrants were exercisable at any time on or before March 28, 2013 and both the warrants' exercise price and number were subject to adjustment. E&C Capital Partners, LLLP received certain piggy-back and demand registration rights in connection with its investment.

On May 22, 2003, E&C Capital Partners, LLLP, together with certain affiliates of Michael S. Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired \$1,750,000 of Secured Convertible Notes. The Secured Convertible Notes were convertible into a maximum of approximately 19,444,000 shares of the Company's Common Stock at a blended rate of \$0.09 per share. The Secured Convertible Notes provided for interest at the rate of ten percent per annum payable semi-annually, a one year maturity and were secured by a pledge of substantially all of the assets of the Company. In addition, E&C Capital Partners, LLLP was issued a Warrant to acquire 3,888,889 shares of the Company's Common Stock at an exercise price of \$0.15 per share. The Warrant was exercisable at any time on or before May 22, 2013. The investors received certain piggy-back and demand registration rights in connection with their investment.

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On May 28, 2003, the Company acquired Direct Partner Telecom, Inc. ("DPT"), a company engaged in VoIP telephony services. The purchase price consisted of 1,375,000 shares of theglobe.com Common Stock and warrants to purchase an additional 500,000 shares of Common Stock, together with the ability to earn additional warrants to purchase up to an additional 2,750,000 shares. As of March 31, 2005, 1,250,000 of the earn-out warrants have been forfeited as performance targets have not been achieved. Subject to certain qualifications, the warrants will also accelerate and be deemed earned in the event of a "change in control" of the Company, as defined in the acquisition documents. The initial warrants (and any additional warrants if and to the extent earned) have an exercise price of \$.72 per share and expire on May 22, 2013.

On July 2, 2003, the Company completed a private offering of Series G Automatically Converting Preferred Stock for an aggregate purchase price of approximately \$8.7 million. In accordance with the terms of such Preferred stock, the Series G Preferred shares converted into Common Stock at \$0.50 per share (or an aggregate of approximately 17.4 million shares) upon the filing of an amendment to the Company's certificate of incorporation to increase its authorized shares of Common Stock from 100,000,000 shares to 200,000,000 shares. Such an amendment was filed on July 29, 2003. Investors also received warrants to acquire approximately 3.5 million shares of Common Stock. The warrants are exercisable for a period of five years at an exercise price of \$1.39 per common share. The exercise price of the warrants, together with the number of warrants issuable upon exercise, are subject to adjustment upon the occurrence of certain events. The purpose of the Series G Preferred Stock offering was to raise funds for use primarily in the Company's VoIP telephony services business, including the deployment of networks, website development, marketing, and limited capital infrastructure expenditures and working capital. The investors in the Series G Preferred Stock Offering, together with the former stockholders of DPT, are entitled to one demand registration right commencing in July 2004.



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On February 2, 2004, Michael S. Egan (our Chairman and Chief Executive Officer) and his wife, S. Jacqueline Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired a convertible promissory note (the "Bridge Note") in the aggregate principal amount of \$2,000,000. The Bridge Note was convertible at anytime into shares of the Company's Common Stock at an initial rate of \$.98 per share. The conversion rate was subject to adjustment based upon the rate (effectively, \$.57 per share) at which the Company sold its Common Stock in the subsequent March 2004 private offering (which is described below). The Bridge Note was due on demand from the holder, and was secured by a pledge of substantially all of the assets of the Company. Such security interest was shared with the then holders of the Company's Secured Convertible Notes in the principal amount of \$1,750,000 issued on May 22, 2003 to various entities affiliated with Michael S. Egan. The Bridge Notes bore interest at the rate of ten (10) percent per annum.

In addition, the Egans were issued a warrant to acquire 204,082 shares of theglobe.com Common Stock at an exercise price of \$1.22 per share. The warrant is exercisable at any time on or before February 2, 2009. The Egans are entitled to certain demand and piggy-back registration rights in connection with their investment. The exercise price of the warrant (together with the number of shares for which such warrant is exercisable) is subject to adjustment upon the occurrence of certain events.

On March 11, 2004, theglobe.com, inc. completed a private offering of 329,916 units (the "Units") for a purchase price of \$85 per Unit (the "PIPE Offering"). Each Unit consisted of 100 shares of the Company's Common Stock and warrants to acquire 50 shares of the Common Stock (the "PIPE Warrants"). The PIPE Warrants are exercisable for a period of five (5) years commencing May 4, 2004 at an initial exercise price of \$.001 per share. The Company also granted an option to one party to acquire an additional 3,900 Units on or before March 22, 2004 on the same terms, which option was fully exercised. Assuming the exercise of the PIPE Warrants, the aggregate number of shares of Common Stock issued in the PIPE Offering was 50,072,471 shares for an aggregate consideration of \$28,374,400, or approximately \$.57 per share.

Halpern Capital, Inc., acted as placement agent for the PIPE offering, and was paid a commission of \$1.2 million and issued a warrant to acquire 1,000,000 shares of common stock at \$.001 per share.

Pursuant to the terms of the PIPE Offering the Company was contractually obligated to file a registration statement relating to the resale of the Securities on or about April 22, 2004 and to cause such registration statement to become effective before on or about July 6, 2004 (or 30 days earlier if such registration statement is not reviewed by the SEC). In the event the Company was late in any of its registration obligations, it would have been liable for payment of a late fee of 5% of the amount raised in the PIPE Offering per month (not to exceed 25% in the aggregate), unless such fee was waived under certain conditions. Any such late fee would have been payable in either cash or additional shares of Common Stock (valued for such purpose at \$.57 per share), or any combination of the two, at the option of the Company.

In connection with the PIPE Offering, Mr. Egan, our Chairman, Chief Executive Officer and principal stockholder, together with certain of his affiliates and other parties, converted the \$2,000,000 Bridge Note, an aggregate of \$1,750,000 of Secured Convertible Notes and all of the Company's outstanding shares of Series F Preferred Stock, and exercised all of the warrants issued in connection with the foregoing Secured Convertible Notes and Series F Preferred Stock, together with certain warrants issued to Dancing Bear Investments, Inc. (an

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affiliate of Mr. Egan). As a result of such conversions and exercises, the Company issued an aggregate of 48,775,909 shares of Common Stock.

On May 6, 2004, the Company entered into an agreement with NeoPets, Inc. which provides for certain marketing and advertising services associated with the Company's voiceglo VoIP services on NeoPets website. As part of the consideration for such services, the Company agreed to issue up to 3,000,000 shares in various stages upon the attainment of certain business objectives. The Company agreed to certain registration rights relating to the shares issued or issuable and agreed to cause the registration of such shares.

All of the foregoing private offerings or acquisitions were directed solely to a limited number of investors who are sophisticated and, with the exception of the November 2002 acquisition from Brian Fowler, who are accredited within the meaning of applicable securities laws. The Company believes that such offers and sales were exempt from registration pursuant to Sections 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder.

On September 1, 2004, theglobe closed upon an Agreement and Plan of Merger dated August 31, 2004 (the "Merger Agreement"), pursuant to which the Company acquired all of the issued and outstanding shares of capital stock of SendTec, Inc. ("SendTec"). Pursuant to the terms of the merger, in consideration for the acquisition of SendTec, theglobe paid consideration consisting of: (i) \$6,000,000 in cash, excluding transaction costs, (ii) the issuance of an aggregate of 17,500,024 shares of theglobe's Common Stock (the "Common Shares"), (iii) the issuance of an aggregate of 175,000 shares of Series H Automatically Converting Preferred Stock (which as more fully described below, was converted into approximately 17,500,500 shares of theglobe's Common Stock) (the "Preferred Stock"), and (iv) the issuance of a subordinated promissory note in the amount of \$1 million (the "Note") (collectively, the "Initial Merger Consideration"). In addition, warrants to acquire shares of Common Stock would be issued to the former shareholders of SendTec when and if SendTec exceeds forecasted operating income, as defined, of \$10.125 million (the "Income Target"), for the year ending December 31, 2005 (the "Earn-out Consideration" and collectively with the Initial Merger Consideration, the "Merger Consideration"). The number of Earn-out Warrants would range from an aggregate of approximately 250,000 to 2,500,000 (if actual operating income exceeds the forecast by at least 10%). If and to the extent the warrants are earned, the exercise price of the performance warrants would be \$0.27 per share and they will be exercisable for a period of 5 years. The Note bears interest at the rate of 4% per annum and matured in one lump sum of principal and interest on September 1, 2005. Due to its short-term liquidity problems, the Company has not paid such promissory note when due and is currently in default under the promissory note. Upon default, the Company is required to pay a default interest rate of 15% per annum and to pay the noteholders' collection costs, if any.

The Merger Consideration was distributed pro rata to the former shareholders of SendTec in accordance with their respective ownership interests.

Except as provided by law, the Preferred Stock voted with the holders of common stock on all matters on an "as-converted" basis, other than the Capital Amendment described below as to which it did not vote. The Preferred Stock automatically converted into shares of theglobe's Common Stock on a 1 for 100 basis on December 1, 2004, the date upon which theglobe filed an amendment to its certificate of incorporation with the Delaware Secretary of State's Office to increase its authorized shares of Common Stock from 200,000,000 to 500,000,000 (the "Capital Amendment").

The Company agreed to file a registration statement relating to the resale of the shares of Common Stock issued in connection with the Merger and to cause the effectiveness of such registration on or before September 1, 2005. The Company also agreed to keep the registration statement effective until at least the

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third anniversary of the Closing. We have not yet filed such a registration statement. Because we have not filed and caused such registration statement to become effective before September 1, 2005, we may be held liable for damages suffered by holders of such stock. Upon registration all such shares will be eligible for resale over the open market. Even if not registered, the shares issued in the SendTec acquisition are eligible for resale over the public markets pursuant to and subject to the limitations of Rule 144. If we successfully redeem the majority of the shares issued as part of the SendTec acquisition (or approximately 28,900,000 shares) in connection with the sale of SendTec's business to RelationServe, we would substantially mitigate our risk related to our failure to timely register these shares.

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The Merger Securities issued or issuable in the SendTec Acquisition were directed solely to the approximately 35 former shareholders of SendTec. The Company believes that the former shareholders were, either alone or with their representatives in the merger, sophisticated and further that substantially all of the former shareholders of SendTec were accredited, within the meaning of such terms under applicable securities laws. Consequently, the Company believes that such offers and sales of the Merger Securities were exempt from registration pursuant to Sections 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereunder.

On January 31, 2005, the Company terminated its contract with a supplier of VoIP telephony handsets and, as part of the consideration paid, issued 300,000 shares of theglobe.com's Common Stock to the supplier. The Company further agreed to provide customary "piggy-back" registration rights with respect to these shares for a period of one year from the contract termination date.

On April 22, 2005, E&C Capital Partners, LLLP and E&C Capital Partners II, Ltd. (the "Noteholders"), entities controlled by the Company's Chairman and Chief Executive Officer, entered into a Note Purchase Agreement (the "Agreement") with theglobe pursuant to which they acquired secured demand convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of \$1,500,000. Under the terms of the Agreement, the Noteholders were also granted the optional right, for a period of 90 days from the date of the Agreement, to purchase additional Convertible Notes such that the aggregate principal amount of Convertible Notes issued under the Agreement may total \$4,000,000 (the "Option"). On June 1, 2005, the Noteholders exercised a portion of the Option and acquired an additional \$1,500,000 of Convertible Notes. On July 18, 2005, the Noteholders exercised the remainder of the Option and acquired an additional \$1,000,000 of Convertible Notes.

The Convertible Notes are convertible at the option of the Noteholders into shares of the Company's Common Stock at an initial price of \$0.05 per share. Through September 15, 2005, an aggregate of \$600,000 of Convertible Notes were converted by the Noteholders into an aggregate of 12,000,000 shares of the Company's Common Stock. Assuming full conversion of all Convertible Notes, 68,000,000 additional shares of the Company's Common Stock would be issued to the Noteholders. The Convertible Notes provide for interest at the rate of ten percent per annum and are secured by a pledge of substantially all of the assets of the Company. The Convertible Notes are due and payable five days after demand for payment by the Noteholders. Based upon its current financial position, the Company would not have the resources to pay the Convertible Notes following any such demand. The Noteholders are entitled to certain demand and "piggy-back" registration rights in connection with their investment.

On May 9, 2005, the Company exercised its option to acquire all of the outstanding capital stock of Tralliance Corporation ("Tralliance"). The purchase

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price consisted of the issuance of 2,000,000 shares of theglobe.com Common Stock and warrants to acquire 475,000 shares of theglobe.com Common Stock, as well as the payment of \$40,000 in cash. The warrants are exercisable for a period of five years at an exercise price of \$0.11 per share. The Common Stock issued as a result of the acquisition of Tralliance is entitled to certain "piggy-back" registration rights.

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### ITEM 16. EXHIBITS

#### NO. ITEM

- 3.1 Form of Fourth Amended and Restated Certificate of Incorporation of the Company (3).
- 3.2 Certificate of Amendment to Fourth Amended and Restated Certificate of Incorporation (19).
- 3.3 Certificate of Amendment to Fourth Amended and Restated Certificate of Incorporation filed with the Secretary of State of Delaware on July 29, 2003 (19).
- 3.4 Certificate relating to Previously Outstanding Series of Preferred Stock and Relating to the Designation, Preferences and Rights of the Series F Preferred Stock (14).
- 3.5 Certificate of Amendment Relating to the Designation Preferences and Rights of the Junior Participating Preferred Stock.
- 3.6 Form of By-Laws of the Company (19).
- 3.7 Certificate of Amendment Relating to the Designation Preferences and Rights of the Series H Automatically Converting Preferred Stock (18).
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- 4.4 Amended and Restated Warrant to Acquire Shares of Common Stock (2).
- 4.5 Form of Rights Agreement, by and between the Company and American Stock Transfer & Trust Company as Rights Agent (3).
- 4.6 Form of Warrant dated November 12, 2002 to acquire shares of Common Stock (9).
- 4.7 Form of Warrant dated March 28, 2003 to acquire shares of Common Stock (14).

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- 4.8 Form of Warrant dated May 28, 2003 to acquire an aggregate of 500,000 shares of theglobe.com Common Stock (10).
  - 4.9 Form of Warrant dated July 2, 2003 to acquire securities of theglobe.com, inc. (11).
  - 4.10 Form of Warrant dated March 5, 2004 to acquire securities of theglobe.com, inc. (17).
  - 4.11 Form of Warrant relating to potential issuance of Earn-out Consideration (18).
  - 4.12 Form of Secured Demand Convertible Promissory Note (24).
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  - 4.14 Unconditional Guaranty Agreement dated April 22, 2005 (24).
  
  - 5.1 Opinion of Proskauer Rose LLP
  
  - 10.1 Form of Indemnification Agreement between the Company and each of its Directors and Executive Officers (1).
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- 10.2 Lease Agreement dated January 12, 1999 between the Company and Broadpine Realty Holding Company, Inc. (6).
  - 10.3 2000 Broad Based Stock Option Plan (7).
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- 10.15 Note Purchase Agreement dated May 22, 2003 between theglobe.com, inc. and E&C Capital Partners, LLLP and certain other investors named therein (10)
- 10.16 Agreement and Plan of Merger dated May 23, 2003 between theglobe.com, inc., DPT Acquisition, Inc., Direct Partner Telecom, Inc., and the stockholders thereof (10).
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- 10.20 Employment Agreement dated August 1, 2003 between theglobe.com, inc. and Edward A. Cespedes (12).
- 10.21 Employment Agreement dated August 1, 2003 between theglobe.com, inc. and Robin Segaul Lebowitz (12).
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- 10.25 Non-Qualified Stock Option Agreement dated as of July 17, 2003 between theglobe.com, inc. and Kellie L. Smythe (12).
- 10.26 2003 Sales Representatives Stock Option Plan (12).

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- 10.29 Agreement dated August 7, 2003 by and between Promotion and Display Technology, Ltd. and theglobe.com, inc. (15) \*
- 10.30 Broad Capacity Services Agreement dated October 17, 2003 by and between Direct Partner Telecom, Inc. and Progress Telecom Corporation. (15)\*
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- 10.33 Stockholders' Agreement dated September 1, 2004 by and between

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- theglobe.com and certain named stockholders (18).
- 10.34 theglobe.com 2004 Amended and Restated Stock Option Plan (21).
- 10.35 Promissory Note dated September 1, 2004 (18).
- 10.36 Form of Potential Conversion Note relating to Series H Preferred Stock (18).
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- 10.40 First Amendment to Carrier Services Agreement dated March 25, 2005 (23).
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- 10.43 1st Amendment to the Asset Purchase Agreement dated as of August 23, 2005, by and among theglobe.com, inc., SendTec, Inc. and RelationServe Media, Inc. (26).
- 10.44 Redemption Agreement dated August 23, 2005 between theglobe.com, inc. and certain members of management of SendTec, Inc. (27).
16. Letter dated August 13, 2002 from KPMG LLP relating to change of independent certified accountants (8).
21. Subsidiaries
- 23.1 Consent of Rachlin Cohen & Holtz LLP. \*\*
- 23.2 Consent of Proskauer Rose LLP (included in Exhibit 5.1)
24. Power of Attorney (16)
- 

1. Incorporated by reference from our registration statement on Form S-1 filed July 24, 1998 (Registration No. 333-59751).
2. Incorporated by reference from our Form S-1/A filed August 20, 1998.
3. Incorporated by reference from our Form S-1/A filed September 15, 1998.

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4. Incorporated by reference from our Form S-1/A filed October 14, 1998.
  5. Incorporated by reference from our Form 10-K for the year ended December 31, 1998 filed March 30, 1999.
  6. Incorporated by reference from our Form S-1 filed April 13, 1999.
  7. Incorporated by reference from our Form 10-Q for the quarter ended March 31, 2000 dated May 15, 2000.
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  11. Incorporated by reference from our Form 8-K filed on July 11, 2003.
  12. Incorporated by reference from our Form 10-QSB filed on November 14, 2003.
  13. Incorporated by reference from our Form 8-K filed on March 3, 2003, as amended on December 6, 2004.
  14. Incorporated by reference from our Form 10-K filed on March 31, 2003.
  15. Incorporated by reference from our Form 10-KSB filed on March 30, 2004.
  16. Included on the signature page to this registration statement.
  17. Incorporated by reference from our Form 8-K filed on March 17, 2004.
  18. Incorporated by reference from our Form 8-K filed September 7, 2004.
  19. Incorporated by reference from our Form SB-2 filed April 16, 2004.
  20. Incorporated by reference from our Post Effective Amendment No. 1 to our Form SB-2 filed on May 7, 2004.
  21. Incorporated by reference from our S-8 filed October 13, 2004.
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  23. Incorporated by reference from our 10-KSB filed on March 30, 2005.
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  26. Incorporated by reference to Annex A of our Definitive Information Statement filed on September 15, 2005.
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- \* Confidential portions of this exhibit have been omitted and filed separately with the Commission pursuant to a request for confidential treatment.
- \*\* Filed herewith



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### ITEM 28. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i) include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) reflect in the prospectus any facts or events which, individually or in the aggregate, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) include any additional or changed material information with respect to the plan of distribution.

(2) That, for the purpose of determining liability under the Securities Act, each such post effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has caused this Post Effective Amendment No. 2 to the Form S-1 Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Fort Lauderdale, State of Florida, on the 27th of

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September, 2005.

theglobe.com, inc.

By: /s/ Michael S. Egan

-----  
Michael S. Egan, Chief Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, this Post Effective Amendment No. 2 to the Form S-1 Registration Statement has been signed by the following persons in the capacities and on the date indicated.

/s/ Michael S. Egan

September 27, 2005

-----  
Michael S. Egan, Chief Executive  
Officer and Director  
(Principal Executive Officer)

/s/ Edward A. Cespedes

September 27, 2005

-----  
Edward A. Cespedes, President, Chief Financial  
Officer and Director  
(Principal Financial Officer)

/s/ Robin Segaul Lebowitz

September 27, 2005

-----  
Robin Segaul Lebowitz, Director

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EXHIBIT INDEX

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