BlueLinx Holdings Inc.
Form 10-Q
May 04, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended April 1, 2006

OR

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

For the transition period from __________ to __________

Commission file number: 1-32383

BlueLinx Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0627356**
(State of Incorporation)	(I.R.S. Employer Identification No.)
4300 Wildwood Parkway, Atlanta, Georgia	**30339**
(Address of principal executive offices)	(Zip Code)

(770) 953-7000

(Registrant s telephone number, including area code)

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o

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

As of May 1, 2006 there were 30,649,044 shares of BlueLinx Holdings Inc. common stock, par value $0.01, outstanding.

BLUELINX HOLDINGS INC.
Form 10-Q
For the Quarterly Period Ended April 1, 2006
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BLUELINX HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

	Period from January 1, 2006 to April 1, 2006	Period from January 2, 2005 to April 2, 2005
Net sales	$ 1,376,606	$ 1,351,619
Cost of sales	1,246,654	1,232,291
Gross profit	129,952	119,328
Operating expenses:		
Selling, general, and administrative	97,267	91,435
Depreciation and amortization	5,043	4,243
Total operating expenses	102,310	95,678
Operating income	27,642	23,650
Non-operating expenses:		
Interest expense	11,197	9,334
Other expense, net	81	129
Income before provision for income taxes	16,364	14,187
Provision for income taxes	6,569	5,769
Net income	$ 9,795	$ 8,418
Basic weighted average number of common shares outstanding	30,417	30,155
Basic net income per share applicable to common stock	$ 0.32	$ 0.28
Diluted weighted average number of common shares outstanding	30,713	30,458
Diluted net income per share applicable to common stock	$ 0.32	$ 0.28
Dividends declared per share of common stock	$ 0.125	$ 0.125

See accompanying notes.

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BLUELINX HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	April 1, 2006 (unaudited)	December 31, 2005
Assets:		
Current assets:		
Cash	$ 27,434	$ 24,320
Receivables, net	480,466	399,093
Inventories, net	501,152	473,068
Deferred income taxes	6,491	6,678
Other current assets	40,998	44,909
Total current assets	1,056,541	948,068
Property, plant, and equipment:		
Land and land improvements	56,461	56,521
Buildings	93,472	93,381
Machinery and equipment	56,160	54,200
Construction in progress	834	2,350
Property, plant, and equipment, at cost	206,927	206,452
Accumulated depreciation	(26,472)	(22,403)
Property, plant, and equipment, net	180,455	184,049
Other non-current assets	24,368	25,523
Total assets	$ 1,261,364	$ 1,157,640
Liabilities:		
Current liabilities:		
Accounts payable	$ 352,902	$ 327,004
Bank overdrafts	49,570	62,392
Accrued compensation	10,655	13,494
Current maturities of long-term debt	75,769	
Other current liabilities	14,165	15,195
Total current liabilities	503,061	418,085
Non-current liabilities:		
Long-term debt	550,000	540,850
Deferred income taxes	971	1,911
Other long-term liabilities	14,637	12,942
Total liabilities	1,068,669	973,788
Shareholders Equity:		

Common Stock, $0.01 par value, 100,000,000 shares authorized; 30,649,044 and 30,251,019 shares issued and outstanding at April 1, 2006 and December 31, 2005, respectively	306	303
Additional paid-in-capital	135,249	132,346
Accumulated other comprehensive income	996	1,023
Retained earnings	56,144	50,180
Total shareholders equity	192,695	183,852
Total liabilities and shareholders equity	$ 1,261,364	$ 1,157,640

See accompanying notes.

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BLUELINX HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Period from January 1, 2006 to April 1, 2006	Period from January 2, 2005 to April 2, 2005
Cash flows from operating activities:		
Net income	$ 9,795	$ 8,418
Adjustments to reconcile net income to cash used in operations:		
Depreciation and amortization	5,043	4,243
Amortization of debt issue costs	765	1,005
Deferred income tax benefit	(753)	(1,102)
Stock compensation	562	832
Changes in assets and liabilities:		
Receivables	(81,373)	(135,735)
Inventories	(28,084)	(17,682)
Accounts payable	25,898	68,087
Changes in other working capital	42	(9,465)
Other	1,704	(54)
Net cash used in operating activities	(66,401)	(81,453)
Cash flows from investing activities:		
Property, plant and equipment investments	(658)	(2,048)
Proceeds from sale of assets	135	140
Net cash used in investing activities	(523)	(1,908)
Cash flows from financing activities:		
Issuance of common stock, net		8,600
Proceeds from stock options exercised	2,341	
Net increase in revolving credit facility	84,919	75,144
Debt financing costs	(569)	
Increase (decrease) in bank overdrafts	(12,822)	6,524
Common stock dividends paid	(3,831)	(3,773)
Net cash provided by financing activities	70,038	86,495
Increase in cash	3,114	3,134
Balance, beginning of period	24,320	15,572
Balance, end of period	$ 27,434	$ 18,706

See accompanying notes.

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BLUELINX HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Background

Basis of Presentation

BlueLinx Holdings Inc. has prepared the accompanying Unaudited Condensed Consolidated Financial Statements, including its accounts and the accounts of its wholly-owned subsidiaries, in accordance with the instructions to Form 10-Q and therefore they do not include all of the information and notes required by United States generally accepted accounting principles (GAAP). These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission (SEC). Our fiscal year is a 52- or 53-week period ending on the Saturday closest to the end of the calendar year. Fiscal year 2005 contained 52 weeks. BlueLinx Corporation is the wholly-owned operating subsidiary of BlueLinx Holdings Inc. and is referred to herein as the operating subsidiary when necessary.

We believe the accompanying Unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented. The preparation of the consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and such differences could be material. In addition, the operating results for interim periods may not be indicative of the results of operations for a full year. We are exposed to fluctuations in quarterly sales volumes and expenses due to seasonal factors, with the second and third quarters typically accounting for the highest sales volumes. These seasonal factors are common in the building products distribution industry.

We were created on March 8, 2004 as a Georgia corporation named ABP Distribution Holdings Inc. On May 7, 2004, we and our operating subsidiary acquired the assets of the Building Products Distribution Division (the Distribution Division) of Georgia-Pacific Corporation (Georgia-Pacific), pursuant to an asset purchase agreement. On August 30, 2004, ABP Distribution Holdings Inc. merged into BlueLinx Holdings Inc., a Delaware corporation.

2. Summary of Significant Accounting Policies

Earnings per Common Share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Except when the effect would be anti-dilutive, the diluted earnings per share calculation includes the dilutive effect of the assumed exercise of stock options using the treasury stock method.

Common Stock Dividends

On February 14, 2006, our Board of Directors declared a quarterly dividend of $0.125 per share on our common stock. The dividend was paid on March 31, 2006 to shareholders of record as of March 15, 2006. Our controlling shareholder, Cerberus ABP Investor LLC (Cerberus), received a dividend of approximately $2.3 million as a result of its ownership of 18,100,000 shares of our common stock as of the record date.

During the first quarter of fiscal 2005, our Board of Directors declared a quarterly dividend of $0.125 per share on our common stock. The dividend was paid on March 31, 2005 to shareholders of record as of March 20, 2005. Cerberus received a dividend of approximately $2.3 million as a result of its ownership of 18,100,000 shares of our common stock as of the record date.

Stock-Based Compensation

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The 2004 long term equity incentive plan is designed to motivate and retain individuals who are responsible for the attainment of our primary long-term performance goals and covers employees, directors and consultants. The plan provides for the grant of nonqualified stock options, incentive stock options for shares of our common stock and restricted shares of our common stock to participants of the plan selected by our Board of Directors or a committee of the Board (the Administrator). 2,222,222 shares of common stock have been reserved under the plan. The terms and conditions of awards are determined by the Administrator for each grant.

Unless otherwise determined by the Administrator or as set forth in an award agreement, upon a Liquidity Event, all unvested awards will become immediately exercisable and the Administrator may determine the treatment of all vested awards at the time of the Liquidity Event. A Liquidity Event is defined as (1) an event in which any person who is not an affiliate of us becomes the beneficial owner, directly or indirectly, of fifty percent or more of the combined voting power of our then outstanding securities or (2) the sale, transfer or other disposition of all or substantially all of our business, whether by sale of assets, merger or otherwise to a person other than Cerberus.

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*, using the modified prospective transition method. Prior to 2006, we accounted for stock awards granted to employees under SFAS No. 123, *Accounting for Stock-Based Compensation*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative.

Under the modified prospective transition method, compensation expense recognized in the first quarter included: (a) compensation expense for all unvested share-based awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123 and (b) compensation expense for all share-based awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R. Results of prior periods have not been restated.

Through December 31, 2005, we accrued compensation expense assuming that all stock options granted were expected to vest. The effect of actual forfeitures were recognized as they occurred. Under SFAS No. 123R, we are required to estimate forfeitures in calculating the expense related to stock-based compensation.

Compensation expense arising from stock options granted to employees and non-employee directors is recognized as expense using the straight-line method over the vesting period. As of April 1, 2006, there was $6.0 million of total unrecognized compensation expense related to stock options. That expense is expected to be recognized over a period of 3.1 years. For the first quarter of fiscal 2006 and for the first quarter of fiscal 2005, our total stock-based compensation expense was $0.6 million and $0.8 million, respectively. We also recognized related income tax benefits of $0.2 million and $0.3 million for the first quarter of fiscal 2006 and for the first quarter of fiscal 2005, respectively. The adoption of SFAS No. 123R did not have a material impact on our results of operations.

Cash proceeds from the exercise of stock options totaled $1.5 million in the first quarter of fiscal 2006. In addition, SFAS No. 123R requires us to reflect the benefits of tax deductions in excess of recognized compensation expense as both a financing cash inflow and an operating cash outflow upon adoption. We included $0.8 million of excess tax benefits in cash flows from financing activities for the first quarter of fiscal 2006.

The following table depicts the weighted average assumptions used in connection with the Black-Scholes-Merton option pricing model to estimate the fair value of stock options granted during the first quarter of fiscal 2006:

	Period from January 1, 2006 to April 1, 2006		
	Time Based Options*	**Time Based Options****	**Performance-Based Options*****
Risk free interest rate	4.34%	4.35%	4.60%
Expected dividend yield	4.44%	4.38%	3.19%
Expected life	7 years	7 years	1 year
Expected volatility	50%	50%	50%
Weighted average fair value	$ 3.68	$ $4.16	$ $11.48

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* Exercise price of $13.50 exceeded market price at date of grant.

** Exercise price equaled market price at date of grant.

*** Exercise price is less than the market price at date of grant.

In determining the expected life, we did not rely on our historical exercise data as it does not provide a reasonable basis upon which to estimate future expected lives due to limited experience of employee exercises. Instead, we followed a simplified method based on the vesting term and contractual term as permitted under SEC Staff Accounting Bulletin No. 107.

The expected volatility is based on the historical volatility of our common stock.

The range of risk-free rates used was from 4.34% to 4.60% based on the U.S. Treasury yield with a term that is consistent with the expected life of the stock options.

Performance-Based Options include options for which the financial target has been set by the Board of Directors, or a committee thereof. On February 1, 2006, the Board of Directors set the financial target for options subject to vesting criteria in 2006.

Additional information related to our existing employee stock options for the period from January 1, 2006 to April 1, 2006, excluding Performance-Based Options totaling 145,125 for which the financial targets have not been set, follows:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2005	1,695,682	$ 8.23
Options granted	314,800	10.13
Options exercised	(395,558)	3.75
Options forfeited	(29,535)	3.75
Options outstanding at April 1, 2006	1,585,389	9.81
Options exercisable at April 1, 2006		

	Outstanding			Exercisable	
Price Range	Number of Options	Weighted Average Exercise Price	Remaining Contractual Life (in Years)	Number of Options	Weighted Average Exercise Price
$3.75	548,964	$ 3.75	1.78		
10.29-15.10	1,036,425	13.02	9.59		

1,585,389	6.89

At April 1, 2006, the aggregate intrinsic value of options outstanding and options exercisable was $9.8 million and $0, respectively. (The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.) The intrinsic value of stock options exercised during the first quarter of fiscal 2006 was $4.5 million. There were no options granted, exercised or forfeited during the first quarter of fiscal 2005.

3. Comprehensive Income

The calculation of comprehensive income is as follows (in thousands):

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	Period from January 1, 2006 to April 1, 2006	Period from January 2, 2005 to April 2, 2005
Net income	$ 9,795	$ 8,418
Other comprehensive income:		
Foreign currency translation, net of taxes	(27)	(55)
Comprehensive income	$ 9,768	$ 8,363

4. Employee Benefits

Defined Benefit Pension Plans

Most of our hourly employees participate in noncontributory defined benefit pension plans. These include a plan that is administered solely by us (the hourly pension plan) and union-administered multiemployer plans. Our funding policy for the hourly pension plan is based on actuarial calculations and the applicable requirements of federal law. We do not expect to make any contributions to the hourly pension plan in fiscal 2006. Benefits under the majority of plans for hourly employees (including multiemployer plans) are primarily related to years of service.

Net periodic pension cost for our pension plans included the following:

	Period from January 1, 2006 to April 1, 2006	Period from January 2, 2005 to April 2, 2005
	(In thousands)	
Service cost	$ 672	$ 650
Interest cost on projected benefit obligation	1,011	970
Expected return on plan assets	(1,300)	(1,208)
Amortization of unrecognized prior service cost	1	
Net periodic pension cost	$ 384	$ 412

5. Revolving Credit Facility

As of April 1, 2006, we had outstanding borrowings of $461 million and excess availability of $230 million under the terms of our revolving credit facility. Based on borrowing base limitations, we classify the lowest projected balance of the credit facility over the next twelve months of $385 million as long-term debt. The revolving credit facility contains customary negative covenants and restrictions for asset based loans, with which we are in compliance.

On January 26, 2006, we reached an agreement with Wachovia Bank, National Association and the other signatories thereto to amend the terms of our existing revolving credit agreement. The Third Amendment to the Loan and Security Agreement dated January 26, 2006, reduces the applicable prime rate margin and Eurodollar rate margin used to calculate our interest rate under the revolving credit agreement, reduces unused line fees, provides more flexibility to us for permitted acquisitions under the revolving credit agreement and extends the final maturity date of the revolving credit agreement to May 7, 2011.

As of April 1, 2006 we had outstanding letters of credit totaling $7.4 million, primarily for the purposes of securing collateral requirements under the casualty insurance programs for us and for guaranteeing payment of international purchases based on the fulfillment of certain conditions.

6. Related Party Transactions

Temporary Staffing Provider We use Tandem Staffing Solutions, or Tandem, an affiliate of Cerberus, as the temporary staffing company for our office located in Atlanta, Georgia. We incurred total expenses of $493,958 and $503,714 for the first quarter of fiscal 2006 and for the first quarter of fiscal 2005, respectively. As of April 1, 2006 and December 31, 2005, we had accounts payable in the amount of $94,584 and $48,733 to Tandem, respectively.

Consulting

For the first quarter of fiscal 2006 and for the first quarter of fiscal 2005, we incurred expenses in the amount of $25,000 and $0, respectively, for consulting services provided to us by consultants on retainer to Cerberus. As of April 1, 2006 and December 31, 2005, we had accounts payable in the amount of $71,000 and $417,850 for these services, respectively.

Overhead Expense Reimbursement

We incurred total expenses related to reimbursements to Cerberus for various overhead expenses directly related to our business of $0 and $16,784 for the first quarter of fiscal 2006 and the first quarter of fiscal 2005, respectively. As of April 1, 2006 and December 31, 2005, we had accounts payable related to these expenses of $5,286 and $70,100, respectively.

Other SG&A

We use ATC Associates, Inc. (ATC) and SBI Group (SBI), Cerberus affiliates, for real estate surveys and information technology consulting. These expenses totaled $650 and $27,461 for the first quarter of fiscal 2006 and for the first quarter of fiscal 2005, respectively.

Information Systems

We purchased software licenses and a three year maintenance agreement from SSA Global Technologies, Inc., a Cerberus affiliate. These payments were directly related to the transfer of our existing financial reporting software from Georgia-Pacific. These payments totaled $0 and $242,611 for the first quarter of fiscal 2006 and the first quarter of fiscal 2005, respectively.

Rental Car

For the first quarter of fiscal 2006 and for the first quarter of fiscal 2005, we incurred expenses for car rentals in the amount of $95,885 and $69,587, respectively. These services were provided byAlamo Rent-A-Car and National Car Rental, affiliates of Cerberus. As of April 1, 2006 and December 31, 2005, we had accounts payable in the amount of $37,979 and $41,445, respectively, related to these expenses.

7. Commitments and Contingencies

Environmental and Legal Matters

We are involved in various proceedings incidental to our businesses and are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. Although the ultimate outcome of these proceedings cannot be determined with certainty, based on presently available information management believes that adequate reserves have been established for probable losses with respect thereto. Management further believes that the ultimate outcome of these matters could be material to operating results in any given quarter but will not have a materially adverse effect on our long-term financial condition, our results of operations, or our cash flows.

Collective Bargaining Agreements

Approximately 33% of our total work force is covered by collective bargaining agreements. Collective bargaining agreements representing approximately 6.7% of our work force will expire within one year.

Preference Claim

On November 19, 2004, we received a letter from Wickes Lumber, or Wickes, asserting that approximately $16 million in payments received by the Distribution Division of Georgia-Pacific Corporation during the 90-day period prior to Wickes January 20, 2004 Chapter 11 filing were preferential payments under section 547 of the United States Bankruptcy Code. On October 14, 2005, Wickes Inc. filed a lawsuit in the United States Bankruptcy Court for the Northern District of Illinois titled Wickes Inc. v. Georgia Pacific Distribution Division (BlueLinx), (Bankruptcy Adversary Proceeding No. 05-2322) asserting its claim. On November 14, 2005, we filed our answer to the complaint denying liability. Although the ultimate outcome of this matter cannot be determined with certainty, we believe Wickes assertion to be without merit and, in any event, subject to one or more complete defenses, including, but not limited to, that the payments were made and received in the ordinary course of business and were a substantially contemporaneous exchange for new value given to Wickes. Accordingly, we have not recorded a reserve with respect to the asserted claim.

Hurricane Katrina

Hurricane Katrina caused significant damage at our distribution center in New Orleans, Louisiana. The facility ceased operations prior to the arrival of the storm on August 29, 2005 and has not reopened. There was approximately $2.4 million in inventory located at the facility that has been declared a total loss by our insurer. Damage to the building and furniture, fixtures and equipment is expected to exceed $2.0 million. The loss recognized by us in fiscal 2005 related to the damage was $250,000, which is the amount of our insurance deductible. While certain amounts have been recovered from the insurance carriers, we still have claims pending for additional recoveries.

8. Subsequent Events

On May 3, 2006, our Board of Directors declared a quarterly dividend of $0.125 per share on our common stock. The dividend is payable on June 30, 2006 to stockholders of record as of June 15, 2006.

9. Unaudited Supplemental Condensed Consolidating Financial Statements

The unaudited condensed consolidating financial information as of April 1, 2006 and December 31, 2005 and for the periods from January 1, 2006 to April 1, 2006 and January 2, 2005 to April 2, 2005 is provided due to restrictions in our revolving credit facility that limit distributions by BlueLinx Corporation, our wholly-owned operating subsidiary, to us, which, in turn, may limit our ability to pay dividends to holders of our common stock (see our Annual Report on Form 10-K for the year ended December 31, 2005*,* for a more detailed discussion of these restrictions and the terms of the facility). Also included in the supplemental condensed consolidated financial statements are sixty-one single member limited liability companies, which are wholly owned by us (the LLC subsidiaries). The LLC subsidiaries own certain warehouse properties that are occupied by BlueLinx Corporation, each under the terms of a master lease agreement. The warehouse properties collateralize a mortgage loan and are not available to satisfy the debts and other obligations of either BlueLinx Corporation or us.

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The condensed consolidating statement of operations for BlueLinx Holdings Inc. for the period from January 1, 2006 to April 1, 2006 follows (in thousands):

	BlueLinx Holdings Inc.	BlueLinx Corporation	LLC Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 1,376,606	$ 4,899	$ (4,899)	$ 1,376,606
Cost of sales		1,246,654			1,246,654
Gross profit		129,952	4,899	(4,899)	129,952
Operating expenses:					
Selling, general and administrative	337	101,508	321	(4,899)	97,267
Depreciation and amortization		3,985	1,058		5,043
Total operating expenses	337	105,493	1,379	(4,899)	102,310
Operating income (loss)	(337)	24,459	3,520		27,642
Non-operating expenses:					
Interest expense		8,067	3,130		11,197
Other expense (income), net		136	(55)		81
Income before provision for (benefit from) income taxes	(337)	16,256	445		16,364
Provision for (benefit from) from income taxes	(132)	6,527	174		6,569
Equity in income (loss) of subsidiaries	10,000			(10,000)	
Net income (loss)	$ 9,795	$ 9,729	$ 271	$ (10,000)	$ 9,795

The condensed consolidating statement of operations for BlueLinx Holdings Inc. for the period from January 2, 2005 to April 2, 2005 follows (in thousands):

	BlueLinx Holdings Inc.	BlueLinx Corporation	LLC Subsidiaries	Eliminations	< 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">

Net Revenue

$	909,938
$	409,258
$	2,440,868
$	1,689,418
Operating Expenses:	
Cost of revenue	
	653,229
	2,213,574
	3,714,516
	6,379,145
Sales and marketing	
	1,013,596
	481,573
	2,450,141
	1,722,058
Product development	
	331,561
	356,409
	1,090,443
	1,010,666
General and administrative	
	1,508,810
	2,321,295

	5,601,159	5,734,072		
Depreciation	193,175	299,225	736,845	882,396
Intangible asset amortization	39,512	28,200	148,699	47,000
	3,739,883	5,700,276	13,741,803	15,775,337
Operating Loss from Continuing Operations	(2,829,945)	(5,291,018)	(11,300,935)	(14,085,919)
Other Income (Expense), net:				

)				
Interest income (expense), net	2,205	(1,102,234)	126,933	(4,156,840)
Other income (expense), net	(327)	(3,157)	18,638	(281,994)
	1,878	(1,105,391)	145,571	(4,438,834)
Loss from Continuing Operations Before Income Tax	(2,828,067)	(6,396,409)	(11,155,364)	(18,524,753)

Income Tax Provision (Benefit)	124,313	(388,547)	124,313	(1,038,497)
Loss from Continuing Operations	(2,952,380)	(6,007,862)	(11,279,677)	(17,486,256)
Discontinued Operations:				
Income from operations	—	1,009,026	—	2,734,154
Tax provision	—	372,971	—	1,038,497
Income from Discontinued Operations	—	636,055		

—

1,695,657

Net Loss

$
(2,952,380
)
$
(5,371,807
)
$
(11,279,677
)
$
(15,790,599
)
Earnings (Loss) Per Share -

Basic and Diluted:

Continuing Operations

$
(0.02
)
$
(0.03
)
$
(0.06
)
$
(0.10
)
Discontinued Operations

$
—

$
—

$
—

$
0.01

Net Loss	$ (0.02)	$ (0.03)	$ (0.06)	$ (0.09)
Weighted Average Common Shares Outstanding	174,723,000	192,210,000	174,680,000	182,577,000

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2006	2005
	(UNAUDITED)	
Cash Flows from Operating Activities:		
Net loss	$ (11,279,677)	$ (15,790,599)
(Income) from discontinued operations	—	(1,695,657)
Net loss from continuing operations	(11,279,677)	(17,486,256)
Adjustments to reconcile net loss from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	885,544	929,396
Provision for uncollectible accounts receivable	17,076	100,000
Provision for excess and obsolete inventory	—	95,054
Employee stock compensation	349,406	48,987
Compensation related to non-employee stock options	107,992	143,351
Loss on sale of property and equipment	130,424	—
Gain on sale of Now Playing magazine	(130,000)	—
Non-cash interest expense	—	4,000,000
Reserve against amounts loaned to Tralliance prior to acquisition	—	280,000
Other, net	(128,797)	(128,120)
Changes in operating assets and liabilities, net:		
Accounts receivable, net	(36,264)	485,933
Inventory, net	16,946	307,140
Prepaid and other current assets	329,875	213,859
Accounts payable	260,541	1,659,943
Accrued expenses and other current liabilities	(307,700)	395,062
Income taxes payable	(806,406)	—
Deferred revenue	27,999	(50,713)
Net cash flows from operating activities of continuing operations	(10,563,041)	(9,006,364)
Net cash flows from operating activities of discontinued operations	—	1,152,597
Net cash flows from operating activities	(10,563,041)	(7,853,767)
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of marketable securities	—	42,736
Purchases of property and equipment	(52,605)	(257,682)
Net cash released from escrow	781,764	61,883
Proceeds from sale of property and equipment	137,626	—
Proceeds from sale of Now Playing magazine	130,000	—
Net cash acquired in acquisition of Tralliance	—	14,450
Amounts loaned to Tralliance prior to acquisition	—	(280,000)
Other, net	—	(40,000)
Net cash flows from investing activities of continuing operations	996,785	(458,613)
Purchases of property and equipment by discontinued operations	—	(171,431)
Net cash flows from investing activities	996,785	(630,044)
Cash Flows from Financing Activities:		
Borrowings on notes payable	—	4,000,000
Payments on notes payable and long-term debt	(30,218)	(277,608)
Proceeds from exercise of common stock options and warrants	18,420	42,717
Net cash flows from financing activities	(11,798)	3,765,109

Net Decrease in Cash and Cash Equivalents		(9,578,054)		(4,718,702)
Cash and Cash Equivalents, at beginning of period		16,480,660		6,734,793
Cash and Cash Equivalents, at end of period	$	6,902,606	$	2,016,091

See notes to unaudited condensed consolidated financial statements.

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

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THEGLOBE.COM

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

On November 14, 2002, the Company acquired certain Voice over Internet Protocol ("VoIP") assets and has since been 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 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. The Company has since employed DPT's physical assets in the build out of its VoIP network.

On September 1, 2004, the Company acquired SendTec, Inc. ("SendTec"), a direct response marketing services and technology company for a total purchase price of approximately $18.4 million. As more fully discussed in Note 3, "Discontinued Operations - SendTec Inc.," on October 31, 2005, the Company completed the sale of all of the business and substantially all of the net assets of SendTec for approximately $39.9 million in cash, subject to the finalization of certain net working capital adjustments. Effective March 31, 2006, $318,750 in cash was released to the purchaser from funds held in escrow in settlement of such net working capital adjustments.

As more fully discussed in Note 4, “Acquisition of Tralliance Corporation,” 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.

As of September 30, 2006, sources of the Company's revenue from continuing operations were derived principally from the operations of its games related businesses and its Internet services business conducted by Tralliance. The Company's retail VoIP products and services have yet to produce any significant revenue.

PRINCIPLES OF CONSOLIDATION

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited interim condensed consolidated financial statements of the Company as of September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 included herein have been prepared in accordance with the instructions for Form 10-Q under the Securities Exchange Act of 1934, as amended, and Article 10 of Regulation S-X under the Securities Act of 1933, as amended. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations relating to interim condensed consolidated financial statements.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company at September 30, 2006 and the results of its operations and its cash flows for the three and nine months ended September 30, 2006 and 2005. The results of operations and cash flows for such periods are not necessarily indicative of results expected for the full year or for any future period.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

Restricted cash in the accompanying condensed consolidated balance sheet at September 30, 2006, consisted of $250,000 of cash held in escrow in connection with the October 31, 2005 sale of the SendTec business (see Note 3, “Discontinued Operations - SendTec, Inc.” for further discussion).

COMPREHENSIVE INCOME (LOSS)

The Company reports comprehensive income (loss) in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 130, "Reporting Comprehensive Income." Comprehensive income (loss) generally represents all changes in stockholders' equity during the year except those resulting from investments by, or distributions to, stockholders. The Company's comprehensive loss was approximately $11.3 million and $15.8 million for the nine months ended September 30, 2006 and 2005, respectively, which approximated the Company's reported net loss.

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 September 30, 2006 and December 31, 2005, was approximately $381,000 and $434,000, respectively.

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.

CONCENTRATION OF CREDIT RISK

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash 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.

Concentration of credit risk in the Company's Internet services and VoIP telephony services divisions is generally limited as payments for registrations and services are normally received in advance. A single customer of the computer games division represented an aggregate of approximately $62,000, or 13%, of net consolidated accounts receivable as of September 30, 2006.

REVENUE RECOGNITION

Continuing Operations

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.

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 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.

INTERNET SERVICES

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

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.

Discontinued Operations

MARKETING SERVICES

Revenue from the distribution of Internet advertising was recognized when Internet users visited and completed actions at an advertiser's website. Revenue consisted 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 was 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, was recognized on a net basis when the associated media was aired. In many cases, the amount the Company billed to clients significantly exceeded the amount of revenue that was 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 were deferred.

Revenue generated from the production of direct response advertising programs, such as infomercials, was recognized on the completed contract method when such programs were complete and available for airing. Production activities generally ranged from eight to twelve weeks and the Company usually collected amounts in advance and at various points throughout the production process. Amounts received from customers prior to completion of commercials were included in deferred revenue and direct costs associated with the production of commercials in process were deferred.

NET LOSS PER SHARE

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

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

	2006	2005
Options to purchase common stock	20,049,000	19,570,000
Common shares issuable upon exercise of warrants	6,911,000	11,492,000
Common shares issuable upon conversion of Convertible Notes	68,000,000	68,000,000
Total	94,960,000	99,062,000

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

In June 2006, the FASB issued Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of FASB Statement No. 109, “Accounting for Income Taxes,” which clarifies accounting for and disclosure of uncertainty in tax positions. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of adopting FIN No. 48 on our consolidated financial statements.

In November 2005, the FASB issued final FASB Staff Position (“FSP”) FAS No. 123R-3, “Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.” The FSP provides an alternative method of calculating excess tax benefits from the method defined in SFAS No. 123R for share-based payments. A one-time election to adopt the transition method in this FSP is available to those entities adopting SFAS No. 123R using either the modified retrospective or modified prospective method. Up to one year from the initial adoption of SFAS No. 123R or the effective date of the FSP is provided to make this one-time election. However, until an entity makes its election, it must follow the guidance in SFAS No. 123R. The FSP is effective upon initial adoption of SFAS No. 123R and became effective for the Company in the first quarter of 2006. We are currently evaluating the allowable methods for calculating excess tax benefits and have not yet determined whether we will make a one-time election to adopt the transition method described in this FSP, nor the expected impact on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, “Accounting for Changes and Error Corrections, a Replacement of Accounting Principles Board (“APB”) Opinion No. 20 and FASB Statement No. 3.” SFAS No. 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 No. 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 adoption of this standard did not have a material impact on the Company’s financial condition, results of operations or liquidity.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, “Statement of Cash Flows.” The statement eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS No. 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. The statement also requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. It establishes fair value as the measurement objective in accounting for share-based payment arrangements and generally requires all companies to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees. In March 2005, the Securities and Exchange Commission (the “SEC”) issued Staff Accounting Bulletin 107 which describes the SEC staff’s expectations in determining the assumptions that underlie the fair value estimates and discusses the interaction of SFAS No. 123R with existing guidance. The Company has adopted SFAS No. 123R effective January 1, 2006, using the modified prospective application method in accordance with the statement. This application requires the Company to record compensation expense for all awards granted after the adoption date and for the unvested portion of awards that are outstanding at the date of adoption. The Company expects that the adoption of SFAS No. 123R will result in charges to operating expense of continuing operations of approximately $194,000, $77,000 and $19,000, in the years ended December 31, 2006, 2007 and 2008, related to the unvested portion of outstanding employee stock options at December 31, 2005.

RECLASSIFICATIONS

Certain 2005 amounts have been reclassified to conform to the 2006 presentation. In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, the operations of SendTec have been accounted for in accordance with the provisions of SFAS No. 144 and the 2005 results of SendTec’s operations have been included in income from discontinued operations.

(2) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. However, the Company has incurred net losses in the nine months ended September 30, 2006 and in each fiscal year since its inception and has an accumulated deficit of $288,170,138 as of September 30, 2006.

As more fully discussed in Note 6, “Litigation,” the Company is a defendant in a lawsuit filed by MySpace, Inc. on June 1, 2006, as well as other litigation. Additionally, the Company is currently a party to certain other claims and disputes arising in the ordinary course of business. Although uncertain at the present time, the legal costs of defending and settling such lawsuits, outstanding claims and disputes could be material and could utilize a significant portion of our cash resources and adversely affect our financial condition.

Based upon the Company’s present cash resources and cash flow projections, management believes the Company has sufficient liquidity to operate as a going concern through at least the first quarter of 2007. In order to assure the Company's financial viability beyond the first quarter of 2007, management believes the Company must raise additional capital, successfully implement its existing and future business plans and successfully resolve the legal proceedings, claims and disputes discussed in the paragraph above. The Company’s business plans may include the sale, abandonment or disposal of certain businesses or components of businesses, including the sale of certain technologies or other long-lived assets. There can be no assurance that the Company will be successful in taking any of the above actions. The aforementioned uncertainties regarding the future direction and financial performance of the Company create substantial doubt that the Company will be able to continue as a going concern beyond the first quarter of 2007.

(3) DISCONTINUED OPERATIONS - SENDTEC, INC.

On August 10, 2005, the Company entered into an Asset 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. On August 23, 2005, the Company entered into Amendment No. 1 to the Asset Purchase Agreement with RelationServe (the “1st Amendment” and together with the original Asset Purchase Agreement, the “Purchase Agreement”). On October 31, 2005, the Company completed the asset sale. Including preliminary adjustments to the purchase price, related to excess working capital of SendTec as of the date of sale, the Company received an aggregate of approximately $39,900,000 in cash pursuant to the Purchase Agreement.

In accordance with the terms of an escrow agreement established as a source to secure the Company’s indemnification obligations under the Purchase Agreement, $1,000,000 of the purchase price and an aggregate of 2,272,727 shares of theglobe’s unregistered Common Stock (valued at $750,000 pursuant to the terms of the Purchase Agreement based upon the average closing price of the stock in the 10 day period preceding the closing of the sale) were placed into escrow as of the date of sale. On March 31, 2006, a partial release of $750,000 of the escrowed cash was made to the

Company pursuant to the terms of the escrow agreement, less $318,750 of cash due to RelationServe in final settlement of the purchase price net working capital adjustments.

Results of operations for SendTec have been reported separately as “Discontinued Operations” in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2005. Summarized financial information for the Discontinued Operations of SendTec was as follows:

Periods Ended September 30, 2005		Three Months		Nine Months
Net revenue, net of intercompany eliminations	$	10,752,616	$	28,897,502
Income from operations	$	1,009,026	$	2,734,154
Provision for income taxes		372,971		1,038,497
Income from discontinued operations, net of tax	$	636,055	$	1,695,657

(4) ACQUISITION OF TRALLIANCE CORPORATION

On February 25, 2003, the Company 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 the Company'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 consisted of the issuance of 2,000,000 shares of the Company’s Common Stock, warrants to acquire 475,000 shares of the Company’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. As part of the transaction, 10,000 shares of the Company’s 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 in outstanding liabilities of Tralliance immediately after the closing of the acquisition.

The Tralliance purchase price allocation was as follows:

Cash	$	54,000
Other current assets		6,000
Intangible assets		790,000
Assumed liabilities		(370,000)
Deferred tax liability		(226,000)
	$	254,000

Upon acquisition, the then existing CEO and CFO of Tralliance (the “Executives”) 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 $200,000 to each officer. In addition, the Executives participate in an annual bonus pool based upon the pre-tax income of the venture for a period of approximately five years beginning May 1, 2005.

The value assigned to the intangible assets acquired is being amortized on a straight-line basis over a five year estimated useful life. Annual amortization expense of the intangible assets is estimated to be: $188,211 in 2006; $158,047 for each of 2007 through 2009 and $52,683 in 2010. The related accumulated amortization as of September 30, 2006 and December 31, 2005 was $223,900 and $75,201, respectively. Amortization expense totaled $39,512 and $148,699 for the three and nine months ended September 30, 2006, respectively.

Advances to Tralliance totaled $1,281,500 prior to its acquisition by the Company. 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. For the nine months ended September 30, 2005, additions to the reserve of $280,000 were included in other expense in the accompanying condensed consolidated statement of operations.

The following pro forma condensed consolidated results of operations for the nine months ended September 30, 2005 assumes the acquisition of Tralliance occurred as of January 1, 2005. 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, 2005, nor is it necessarily indicative of future results.

PRO FORMA RESULTS:		Nine Months
Period ended September 30, 2005		
Net revenue	$	1,689,000
Net loss		(15,855,000)
Basic and diluted net loss per common share	$	(0.09)

(5) STOCK OPTION PLANS

We have several stock option plans under which nonqualified stock options may be granted to officers, directors, other employees, consultants and advisors of the Company. In general, options granted under the Company's stock option plans expire after a ten-year period and generally vest no later than three years from the date of grant. Incentive options granted to stockholders who own greater than 10% of the total combined voting power of all classes of stock of the Company must be issued at 110% of the fair market value of the stock on the date the options are granted. As of September 30, 2006, there were approximately 2,971,000 shares available for grant under the Company's stock option plans.

A total of 6,030,000 stock options were granted during the nine months ended September 30, 2006, which included the issuance of 550,000 stock options which will vest only upon achievement of certain performance targets. The weighted-average fair value of stock options granted during the first nine months of 2006, excluding the stock options granted which vest upon the achievement of performance targets was $0.15. During the nine months ended September 30, 2005, a total of 5,819,750 stock options were issued with a weighted-average fair value of $0.10.

Stock option exercises during the nine months ended September 30, 2006 and 2005, resulted in cash inflows to the Company of $18,420 and $31,880, respectively. The corresponding intrinsic value as of exercise date of the 349,474 and 677,169 stock options exercised during the nine months ended September 30, 2006 and 2005, was $119,628 and $77,245, respectively.

Stock option activity during the nine months ended September 30, 2006 was as follows:

	Total Options		Weighted Average Exercise Price
Outstanding at January 1, 2006	15,373,103	$	0.46
Granted	6,030,000		0.17
Exercised	(349,474)		0.05
Canceled	(1,005,009)		0.73
Outstanding at September 30, 2006	20,048,620	$	0.36
Options exercisable at September 30, 2006	14,548,486	$	0.43

The weighted-average remaining contractual terms of stock options outstanding and stock options exercisable at September 30, 2006 were 7.7 years and 7.2 years, respectively. The aggregate intrinsic value of both options outstanding and stock options exercisable at September 30, 2006 was approximately $294,000.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, "Statement of Cash Flows." The statement eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS No. 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. The statement also requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. It establishes fair value as the measurement objective in accounting for share-based payment arrangements and generally requires all companies to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees. The Company adopted SFAS No. 123R effective January 1, 2006, using the modified prospective application method in accordance with the statement. This application requires the Company to record compensation expense for all awards granted to employees and directors after the adoption date and for the unvested portion of awards that are outstanding at the date of adoption. The Company's condensed consolidated financial statements as of and for the three and nine months ended September 30, 2006, reflect the impact of SFAS No. 123R. In accordance with the modified prospective application method, the Company's condensed consolidated financial statements for prior periods have not been restated to reflect and do not include the impact of SFAS No. 123R.

Prior to January 1, 2006, the Company had historically followed SFAS No. 123, "Accounting for Stock-Based Compensation," which permitted 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 No. 123 had been applied. Under this method, compensation expense was recorded on the date of grant only if the then current market price of the underlying stock exceeded the exercise price. The following table presents the Company's pro forma net loss for the three and nine months ended September 30, 2005, had the Company determined compensation cost based on the fair value at the grant date for all of its employee stock options issued under SFAS No. 123:

	Three Months	Nine Months
Periods Ended September 30, 2005		
Net loss - as reported	$ (5,371,807)	$ (15,790,599)
Add: Stock-based employee compensation included in net loss as reported	126,331	494,201
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards	(352,524)	(1,187,602)
Net loss - pro forma	$ (5,598,000)	$ (16,484,000)
Basic net loss per share - as reported	$ (0.03)	$ (0.09)
Basic net loss per share - pro forma	$ (0.03)	$ (0.09)

Stock compensation cost is recognized on a straight-line basis over the vesting period. Stock compensation expense totaling $457,398 was charged to continuing operations during the nine months ended September 30, 2006, including $107,992 of expense resulting from the vesting of non-employee stock options and approximately $5,619 from the accelerated vesting of stock options issued to terminated employees. A total of $343,787 of the total stock compensation expense charged to continuing operations for the first nine months of 2006 resulted from the adoption of SFAS No. 123R. During the nine months ended September 30, 2005, stock compensation expense of $192,338 charged to continuing operations included $143,351 of expense related to non-employee stock options and $48,987 of expense related primarily to the accelerated vesting of stock options issued to a terminated employee.

Stock compensation expense totaling $117,544 and $446,854 for the three and nine months ended September 30, 2005, respectively, was charged to income from the discontinued operations of the Company’s SendTec subsidiary. The expense resulted primarily from the deferred compensation attributable to the issuance of stock options in the Company’s acquisition of SendTec.

At September 30, 2006, there was approximately $656,000 of unrecognized compensation expense related to unvested stock options, excluding the 550,000 options which vest on the achievement of certain performance targets, which is expected to be recognized over a weighted-average period of 1.3 years.

The Company estimates the fair value of each stock option at the grant date by using the Black Scholes option-pricing model with the following weighted-average assumptions used for grants in 2006: no dividend yield; an expected life of approximately three to six years; 115 - 150% expected volatility and a risk free interest rate of 4.00 - 5.00%. The risk free interest rate is based on the U.S. Treasury yield in effect at the time of grant; the expected life is based on historical and expected exercise behavior; and expected volatility is based on the historical volatility of the Company’s stock price, over a time period that is consistent with the expected life of the option.

(6) LITIGATION

On 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. The Underwriter Defendants sought leave to appeal the class certification decision and the Second Circuit has accepted the appeal. 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. On April 20, 2006, JPMorgan Chase and the plaintiffs reached a preliminary agreement for a settlement for $425 million. The JPMorgan Chase settlement has not yet been approved by the Court. However, if it is finally approved, then the maximum amount that the issuers' insurers will be potentially liable for is $575 million. 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 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. However, if the JPMorgan Chase settlement is finally approved, the Company's maximum financial obligation to the plaintiffs will be less than $2 million. On February 15, 2005, the Court granted preliminary approval of the settlement agreement, subject to certain modifications consistent with its opinion. Those modifications have been made. On March 20, 2006, the Underwriter Defendants submitted objections to the settlement to the Court. The Court held a hearing regarding these and other objections to the settlement at a fairness hearing on April 24, 2006, but it has not yet issued a ruling. 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 October 4, 2005, Sprint Communications Company, L.P. ("Sprint") filed a Complaint in the United States District Court for the District of Kansas against theglobe, theglobe's subsidiary, tglo.com (formerly known as voiceglo Holdings, Inc. or "voiceglo"), and Vonage Holdings Corp. ("Vonage"). On October 12, 2005, Sprint filed a First Amended Complaint naming Vonage America, Inc. ("Vonage America") as an additional defendant. Neither theglobe nor voiceglo has any affiliation with Vonage or Vonage America. Sprint alleged that theglobe and voiceglo had made unauthorized use of "inventions" described and claimed in seven patents held by Sprint. Sprint sought monetary and injunctive relief for this alleged infringement. On November 21, 2005, theglobe and voiceglo filed an Answer to Sprint's First Amended Complaint, denying infringement and interposing affirmative defenses, including that each of the asserted patents were invalid. voiceglo counterclaimed against Sprint for a declaratory judgment of non-infringement and invalidity. On January 18, 2006, the court issued a Scheduling Order which called for, among other things, discovery to be completed by December 29, 2006, and for trial to commence August 7, 2007. On August 22, 2006, the Company, together with its subsidiary, and Sprint entered into a settlement agreement (the "Settlement") which resolved the pending patent infringement lawsuit. As part of the Settlement, the Company and its subsidiary agreed to enter into a non-exclusive license under certain of Sprint's patents.

On June 1, 2006, MySpace, Inc. ("MySpace"), a Delaware corporation, filed a lawsuit in the United States District Court for the Central District of California against theglobe.com, inc. (the "Company"). We were served with the lawsuit on June 6, 2006. MySpace alleges that the Company sent unsolicited and unauthorized commercial email messages to MySpace members using MySpace user accounts improperly established by the Company, that the user accounts were used in a false and misleading fashion and that the Company's alleged activities constituted violations of the

CAN-SPAM Act, the Lanham Act and California Business & Professions Code § 17529.5, as well as trademark infringement, false advertising, breach of contract, breach of the covenant of good faith and fair dealing, and unfair competition. MySpace seeks monetary penalties, damages and injunctive relief for these alleged violations. It asserts entitlement to recover "a minimum of" $62.3 million of damages, in addition to three times the amount of MySpace's actual damages and/or disgorgement of the Company's purported profits from alleged violations of the Lanham Act, punitive damages and attorneys' fees. On July 24, 2006, the Company filed its Answer to the Complaint, denying liability for each claim and asserting various affirmative defenses. The parties are conducting discovery and both sides contemplate filing motions that may be dispositive of one or more claims in the action. Trial is currently anticipated to occur in mid 2007.

It is not possible to predict the outcome of this litigation nor any reasonable estimate of the possible range of any loss or damage to the Company. An adverse outcome could materially and adversely affect our results of operations and financial position and may utilize a significant portion of our cash resources.

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

(7) 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 VoIP telephony services division and the marketing services division. The computer games division currently consists of the operations of the Company's two gaming magazine publications and the associated websites and the operations of Chips & Bits, Inc., its games distribution business. The Internet services division consists of the operations of Tralliance. The VoIP telephony services division is principally involved in the development of communications and other web-based services over the Internet for use by consumers. The marketing services division consisted of the discontinued operations of the Company's subsidiary, SendTec which was sold effective October 31, 2005 and has been excluded from the segment data presented below.

The chief operating decision maker evaluates performance, makes operating decisions and allocates resources based on financial data of each segment. Where 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.

The following table presents financial information regarding the Company's different segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
NET REVENUE FROM CONTINUING OPERATIONS:				
Computer games	$ 517,604	$ 360,917	$ 1,344,441	$ 1,477,692
Internet services	385,755	—	1,062,042	—
VoIP telephony services	6,579	48,341	34,385	211,726
	$ 909,938	$ 409,258	$ 2,440,868	$ 1,689,418
OPERATING LOSS FROM CONTINUING OPERATIONS:				
Computer games	$ (139,975)	$ (716,105)	$ (627,827)	$ (1,694,843)
Internet services	(1,064,999)	(431,990)	(2,547,116)	(645,564)
VoIP telephony services	(912,240)	(3,064,272)	(5,945,701)	(9,191,989)
Corporate expenses	(712,731)	(1,078,651)	(2,180,291)	(2,553,523)
Operating loss from continuing operations	(2,829,945)	(5,291,018)	(11,300,935)	(14,085,919)
Other income (expense), net	1,878	(1,105,391)	145,571	(4,438,834)
Loss from continuing operations before income tax	$ (2,828,067)	$ (6,396,409)	$ (11,155,364)	$ (18,524,753)

DEPRECIATION AND AMORTIZATION OF CONTINUING OPERATIONS:								
Computer games	$	6,987	$	7,723	$	20,961	$	23,161
Internet services		51,141		30,668		178,899		49,468
VoIP telephony services		167,217		280,584		661,517		829,160
Corporate expenses		7,342		8,450		24,167		27,607
	$	232,687	$	327,425	$	885,544	$	929,396

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		September 30, 2006		December 31, 2005
IDENTIFIABLE ASSETS:				
Computer games	$	535,821	$	637,417
Internet services		845,194		1,161,344
VoIP telephony services		503,613		1,817,809
Corporate assets*		7,717,781		17,794,871
	$	9,602,409	$	21,411,441

* Corporate assets include cash held at subsidiaries for purposes of the presentation above.

Net revenue of approximately $108,000 attributable to a single customer of the computer games business segment represented in excess of 10% of consolidated net revenue for the third quarter of 2006.

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

FORWARD LOOKING STATEMENTS

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

implementing our business plans;

marketing and commercialization of our existing products and services, as well as those products and services under development;

plans for future products and services and for enhancements of existing products and services;

our ability to implement cost-reduction programs;

potential governmental regulation and taxation;

the outcome of pending litigation;

our intellectual property;

our estimates of future revenue and profitability;

our estimates or expectations of continued losses;

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

difficulty or inability to raise additional financing, if needed, on terms acceptable to us;

our estimates regarding our capital requirements and our needs for additional financing;

attracting and retaining customers and employees;

rapid technological changes in our industry and relevant markets;

sources of revenue and anticipated revenue;

plans for future acquisitions and entering new lines of business;

plans for divestitures or spin-offs of certain businesses or assets;

competition in our market; and

our ability to continue to operate as a going concern.

These statements are only predictions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are not required to and do not intend to update any of the forward-looking statements after the date of this Form 10-Q or to conform these statements to actual results. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Form 10-Q might not occur. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. A description of risks that could cause our results to vary appears under "Risk Factors" and elsewhere in this Form 10-Q. The following discussion should be read together in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes thereto and the audited consolidated financial statements and notes to those statements contained in the Annual Report on Form 10-K for the year ended December 31, 2005.

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OVERVIEW

As of September 30, 2006, theglobe.com, inc. (the "Company" or "theglobe") managed three primary lines of business. One line of business consists of our historical network of three wholly-owned operations, each of which specializes in the games business by delivering games information and selling games in the United States and abroad. These operations are: our print publications business, which currently consists of two gaming magazines; our online website business, which consists of the online counterparts to our magazine publications; and our games distribution company. The second line of business consists of our Internet services business, Tralliance Corporation (“Tralliance”), a company which is the registry for the “.travel” top-level Internet domain. We acquired Tralliance on May 9, 2005. Our third line of business, Voice over Internet Protocol ("VoIP") telephony services, includes tglo.com, inc. (formerly known as 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.

We sold the business and substantially all of the net assets of our marketing services technology business, SendTec, Inc. (“SendTec”) on October 31, 2005. The results of operations of SendTec have been reflected as “discontinued operations” within our condensed consolidated financial statements for the 2005 periods.

As of September 30, 2006, sources of our revenue from continuing operations were derived principally from the operations of our computer games related businesses and our Internet services business. Our VoIP products and services have yet to produce any significant revenue.

BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We received a report from our independent accountants, relating to our December 31, 2005 audited financial statements, containing a paragraph stating that our recurring losses from operations and our accumulated deficit subject the Company to certain liquidity and profitability considerations. The Company continues to incur substantial consolidated net losses and management believes the Company will continue to be unprofitable and use cash in its operations for the foreseeable future. Based upon the Company’s present cash resources and cash flow projections, management believes that the Company has sufficient liquidity to operate as a going concern through at least the first quarter of 2007. See “Future and Critical Need for Capital” section of this Management’s Discussion and Analysis of Financial Condition and Results of Operations for further details.

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

DESCRIPTION OF BUSINESS---CONTINUING OPERATIONS

OUR COMPUTER GAMES BUSINESS

In February 2000, the Company entered the computer games business by acquiring Computer Games Magazine, its associated website, CGOnline, and Chips & Bits, Inc. (“Chips & Bits”), a games distribution business.

Computer Games Magazine is a consumer print magazine for personal computer (“PC”) gamers. As a leading consumer print publication specializing in PC 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.

CGOnline (www.cgonline.com) is the online counterpart to Computer Games magazine. CGOnline is a source of free computer games news and information for the sophisticated gamer, featuring news, reviews and previews. Features of CGOnline 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.

Chips & Bits (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, Windows-based PCs, Sony PlayStation, Sony PlayStation2, Microsoft's Xbox, Nintendo 64, Nintendo's GameCube, Nintendo's Game Boy, and Sega Dreamcast, among others.

The premiere issue of our new quarterly print publication, Massive Magazine, was released in September 2006. Massive Magazine is dedicated solely to "massively multiplayer online" games ("MMO games") and includes features on the culture of MMO games, focusing on players, guilds and communities. The editorial staff of Computer Games Magazine produces the content for the new magazine keeping the same style and credibility which has been associated with the Computer Games Magazine publication. The new magazine is also accompanied by a complementary website (www.massive-magazine.com).

OUR INTERNET SERVICES BUSINESS

Tralliance was incorporated in 2002 to develop products and services to enhance online commerce between consumers and the travel and tourism industries, including administration of the ".travel" top-level domain. In February 2003, theglobe entered into a Loan and Purchase Option Agreement, as amended, with Tralliance in which theglobe agreed to fund, in the form of a loan, at the discretion of theglobe, Tralliance's operating expenses and obtained the option to acquire all of the outstanding capital stock of Tralliance. On May 5, 2005, the Internet Corporation for Assigned Names and Numbers ("ICANN") and Tralliance entered into a contract whereby Tralliance was designated as the exclusive registry for the ".travel" top-level domain for an initial period of ten years. Renewal of the ICANN contract beyond the initial ten year term is conditioned upon the negotiation of renewal terms reasonably acceptable to ICANN. Additionally, we have agreed to engage in good faith negotiations at regular intervals throughout the term of our contract (at least once every three years) regarding possible changes to the provisions of the contract, including changes in the fees and payments that we are required to make to ICANN. In the event that we materially and fundamentally breach the contract and fail to cure such breach within thirty days of notice, ICANN has the right to immediately terminate our contract. Effective May 9, 2005, theglobe exercised its option to purchase Tralliance.

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

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

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

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

During the first quarter of 2006, Tralliance also began to offer consumers access to the beta version of the ".travel" directory (the "Directory"). The Directory is a global online resource of travel data designed to precisely match the travel products and services of authenticated ".travel" registrants with consumers on a worldwide basis. Users can access the Directory via the Tralliance website, or by typing www.directory.travel into their web browser. All authenticated ".travel" registrants are offered the opportunity to include their specific travel profiles and products in the Directory, free of charge. It is anticipated that the Directory will become more useful to consumers over time, as additional travel businesses and organizations become ".travel" registrants and load their travel profiles into the Directory.

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

OUR VOIP TELEPHONY BUSINESS

During the third quarter of 2003, the Company launched its first suite of consumer and business level VoIP services. The Company launched its browser-based VoIP product during the first quarter of 2004. These services allowed consumers and enterprises to communicate using VoIP technology for dramatically reduced pricing compared to traditional telephony networks. The services also offered traditional telephony features such as voicemail, caller ID, call forwarding, and call waiting for no additional cost to the consumer, as well as incremental services that were not supported by the public switched telephone network ("PSTN") like the ability to use numbers remotely and voicemail to email services. In the fourth quarter of 2004, the Company announced an "instant messenger" or "IM" related application which enabled users to chat via voice or text across multiple platforms using their preferred instant messenger service. During the second quarter of 2005, the Company released a number of new VoIP products and features which allowed users to communicate via mobile phones, traditional land line phones and/or computers. During the fourth quarter of 2005, the Company launched its new tglo.com website (www.tglo.com).

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

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

During 2006, the Company re-focused its efforts on VoIP product development, as well as the design and development of complementary interactive, web-based features. During the second quarter of 2006, the Company discontinued offering service to its small existing “paid” plan customer base and completed the implementation of a plan to significantly reduce the excess capacity and operating costs of its VoIP network. At the present time, the Company has revised its VoIP product marketing strategy and intends to pursue the licensing of its various VoIP and communications software to business enterprises rather than marketing its “paid” products directly to consumers. The Company also intends to continue to explore methods of monetizing its “peer-to-peer”, or free service plan, customer base. We currently derive no revenue from our existing VoIP subscriber base.

DESCRIPTION OF BUSINESS---DISCONTINUED OPERATIONS

DISCONTINUED OPERATIONS OF OUR MARKETING SERVICES BUSINESS

As a result of our sale of the business and substantially all of the net assets of SendTec, our former marketing services technology business, on October 31, 2005, the results of operations of SendTec have been reported separately as “Discontinued Operations” for the three and nine months ended September 30, 2005.

On September 1, 2004, the Company acquired SendTec, a direct response marketing services and technology company. SendTec provided 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”). SendTec was organized into two primary product line divisions: the DirectNet Advertising Division, which provided digital marketing services; and the Creative South Division, which provided creative production and media buying services. Additionally, its proprietary iFactz technology provided software tracking solutions that benefited both the DirectNet Advertising and Creative South businesses.

RESULTS OF OPERATIONS

The nature of our business has significantly changed from 2005 to 2006. As discussed above, we completed the sale of substantially all of the net assets and the business of SendTec, our former marketing services technology business on October 31, 2005. Also, on May 9, 2005, the Company entered into another line of business, Internet services, when it exercised its option to acquire Tralliance, a company which had recently been designated as the registry for the ".travel" top-level Internet domain. The results of Tralliance have been included in the Company's consolidated operating results from its date of acquisition. Primarily, as a result of the acquisition of Tralliance and the sale of SendTec, our results of operations for the three and nine months ended September 30, 2006, are not necessarily comparable to our results of operations for the three and nine months ended September 30, 2005.

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2005

CONTINUING OPERATIONS

NET REVENUE. Net revenue totaled $910 thousand for the three months ended September 30, 2006 as compared to $409 thousand for the three months ended September 30, 2005, an increase of approximately $501 thousand, or 122%, from the prior year period.

NET REVENUE BY BUSINESS SEGMENT:

Three months ended September 30,	2006	2005
Computer games	$ 517,604	$ 360,917
Internet services	385,755	—
VoIP telephony services	6,579	48,341
	$ 909,938	$ 409,258

Advertising revenue from the sale of print advertisements in the magazines published by our computer games business increased $150 thousand, or 60%, in the third quarter of 2006 as compared to the same quarter of the prior year. Net revenue attributable to subscription and newsstand sales of our magazines increased approximately $12 thousand, or 18%, as compared to the third quarter of 2005. Both increases resulted principally from the additional revenue generated from the first issue of Massive Magazine, our new multi-player gaming magazine publication which was released in September 2006. Sales of electronic games and related products through Chips & Bits, Inc., our Internet-based retail distribution subsidiary, decreased approximately $5 thousand, or 10%, in the 2006 third quarter as compared to the third quarter of 2005.

Our Internet services business, Tralliance, contributed $386 thousand in net revenue during the third quarter of 2006. Tralliance, which was acquired in May 2005, began collecting fees for Internet domain name registrations in October 2005. Net revenue attributable to domain name registrations is recognized as revenue on a straight-line basis over the term of the registrations.

VoIP telephony services net revenue decreased $42 thousand in the third quarter of 2006 as compared to the same quarter of the prior year due principally to the Company’s decision to discontinue the marketing of its retail consumer VoIP telephony products.

OPERATING EXPENSES BY BUSINESS SEGMENT:

Three months ended:	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization	Total
September 30, 2006						
Computer games	$ 298,071	$ 121,160	$ 110,612	$ 120,749	$ 6,987	$ 657,579
Internet services	118,057	883,995	—	397,561	51,141	1,450,754
VoIP telephony services	237,101	8,441	220,949	285,111	167,217	918,819
Corporate expenses	—	—	—	705,389	7,342	712,731
	$ 653,229	$ 1,013,596	$ 331,561	$ 1,508,810	$ 232,687	$ 3,739,883

	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization	Total

September 30, 2005						
Computer games	$ 502,345	$ 97,140	$ 178,366	$ 291,448	$ 7,723	$ 1,077,022
Internet services	—	87,143	—	314,179	30,668	431,990
VoIP telephony services	1,711,229	297,290	178,043	645,467	280,584	3,112,613
Corporate expenses	—	—	—	1,070,201	8,450	1,078,651
	$ 2,213,574	$ 481,573	$ 356,409	$ 2,321,295	$ 327,425	$ 5,700,276

COST OF REVENUE. Cost of revenue totaled $653 thousand for the three months ended September 30, 2006, a decline of $1.6 million, or 70%, from the $2.2 million reported for the three months ended September 30, 2005.

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Cost of revenue related to our computer games business segment consists primarily of printing and delivery costs of our games magazines, Internet connection charges, personnel costs, maintenance cost of website equipment and the costs of merchandise sold and shipping fees in connection with our online store. Cost of revenue of the computer games business segment declined $204 thousand, or 41%, in comparison to the third quarter of 2005 principally as a result of lower printing, paper and freight costs associated with the production of our Computer Games Magazine publication. We have reduced the total number of copies printed for each issue and also published one less issue of Computer Games Magazine in 2006 as compared to 2005. The additional cost of revenue related to the publishing of our initial issue of Massive Magazine during the third quarter of 2006 was almost entirely offset by the elimination of costs associated with the publication of Now Playing Magazine, which was sold in January of 2006.

Cost of revenue of our Internet services division consists primarily of fees paid to third party service providers which provide outsourced services, including verification of registration eligibility, maintenance of the ".travel" directory of consumer-oriented registrant travel data, as well as other services. Fees for some of these services vary based on transaction levels. Fees incurred for outsourced services are generally deferred and amortized to cost of revenue over the term of the related domain name registration.

Cost of revenue of our VoIP telephony services business segment is principally comprised of network data center, carrier transport and circuit interconnection costs, as well as personnel and consulting costs incurred in support of our Internet telecommunications network. VoIP telephony services cost of revenue decreased $1.5 million, or 86%, as compared to the third quarter of 2005, primarily as a result of declines of $910 thousand, or 92%, in network data center and carrier costs; $377 thousand, or 97%, in purchased software costs incurred in support of our network; and $101 thousand, or 53%, in direct costs of employees supporting our Internet telecommunications network. The Company discontinued the capitalization of software development costs in its VoIP telephony business as of December 31, 2004 and is charging such costs to operations as they are incurred. During 2006, we developed a plan to reconfigure, phase-out and eliminate certain components of our VoIP network. The implementation of this plan, which was completed during the second quarter of 2006, along with other VoIP cost reductions made during 2005 and 2006, have significantly reduced VoIP telephony services cost of revenue in the third quarter of 2006 compared to the prior year.

SALES AND MARKETING. Sales and marketing expenses consist primarily of salaries and related expenses of sales and marketing personnel, commissions, consulting, advertising and marketing costs, public relations expenses and promotional activities. Sales and marketing expenses totaled $1.0 million for the three months ended September 30, 2006 versus $482 thousand for the same period in 2005. Tralliance, our new Internet services business, incurred $884 thousand of sales and marketing expenses during the 2006 third quarter, including $309 thousand in Internet and television advertising costs related to its new web portal and search engine, www.search.travel, which was introduced in mid-August. During the third quarter of 2006, Tralliance also engaged several outside parties to promote its registry operations and www.search.travel website internationally, which resulted in the recognition of $173 thousand in consulting expenses. The remaining $402 thousand of sales and marketing expenses incurred by Tralliance during the 2006 third quarter consisted primarily of personnel costs and public relations expenses. Sales and marketing expenses of the VoIP telephony services business segment declined $289 thousand, or 97%, as compared to the third quarter of 2005. During 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. During 2006, the Company re-focused its efforts on the further expansion of its "peer-to-peer", or free service plan, customer base. As a result, the VoIP telephony services business segment has significantly reduced its sales and marketing spending and we presently intend to continue to limit its sales and marketing spending during the remainder of 2006. Additionally, in-house personnel which had previously concentrated on marketing our VoIP telephony services products were reassigned to Tralliance during the first quarter of 2006.

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 $332 thousand in the third quarter of 2006 as compared to $356 thousand in the third quarter of 2005.

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 totaled approximately $1.5 million in the third quarter of 2006 as compared to $2.3 million for the same quarter of the prior year, a decline of $812 thousand, or 35%. The $360 thousand decline in general and administrative expenses of our VoIP telephony services division as compared to the third quarter of 2005 was primarily due to lower consulting costs, including those related to the development of its VoIP services billing system. The Company discontinued the capitalization of software development costs in its VoIP telephony business as of December 31, 2004 and is charging such costs to operations as they are incurred. General and administrative expenses of our corporate office decreased $365 thousand as compared to the third quarter of 2005 primarily as a result of lower professional fees. During the third quarter of 2005, the Company's Board of Directors authorized the sale of the Company's SendTec marketing services business. Professional fees incurred in connection with the sale were included in general and administrative expenses of the corporate division until the completion of the sale, which occurred on October 31, 2005. A decline of $171 thousand in general and administrative expenses of our games division as compared to the 2005 third quarter resulted principally from a lower provision for bad debts. An increase of $83 thousand in general and administrative expenses of our Internet services segment was reported as compared to the 2005 third quarter.

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As discussed in Note 5, “Stock Option Plans,” of the Notes to Condensed Consolidated Financial Statements, we adopted Statement of Financial Accounting Standards No. 123R (“SFAS No. 123R”) effective January 1, 2006 using the modified prospective application method. SFAS No. 123R generally requires all companies to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees and to recognize the related cost in its financial statements. As a result, general and administrative expenses of the corporate division for the third quarter of 2006 included approximately $169 thousand of additional stock compensation expense recognized in accordance with the requirements of SFAS No. 123R. Prior to January 1, 2006, we accounted for employee stock options pursuant to Accounting Principles Board Opinion No. 25 and financial results in the accompanying condensed consolidated financial statements for prior periods have not been restated to give effect to the provisions of SFAS No. 123R. At September 30, 2006, there was approximately $656,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted-average period of 1.3 years.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense totaled $233 thousand for the three months ended September 30, 2006 as compared to $327 thousand for the three months ended September 30, 2005. A decline of $113 thousand in depreciation and amortization of our VoIP telephony services division as compared to the third quarter of 2005 was partially offset by a $20 thousand increase in this expense category reported by our Internet services business.

OTHER INCOME (EXPENSE), NET. Net interest expense of $1.1 million reported for the third quarter of 2005 included $1.0 million of non-cash interest expense related to the beneficial conversion features of the $1.0 million in secured demand convertible promissory notes acquired by entities controlled by our Chairman and Chief Executive Officer during the 2005 third quarter.

INCOME TAXES. The tax provision of $124 thousand recorded during the third quarter of 2006 principally resulted from additional state income taxes due upon the finalization of the Company’s 2005 consolidated tax returns. No tax benefit was recorded for the loss incurred during the third quarter of 2006 as we recorded a 100% valuation allowance against our otherwise recognizable deferred tax assets due to the uncertainty surrounding the timing or ultimate realization of the benefits of our net operating loss carryforwards in future periods. As of December 31, 2005, the Company had net operating loss carryforwards which may be available for U.S. tax purposes of approximately $147 million. These carryforwards expire through 2025. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Due to various significant changes in our ownership interests, as defined in the Internal Revenue Code of 1986, as amended, we have substantially limited the availability of our net operating loss carryforwards. There can be no assurance that we will be able to utilize any net operating loss carryforwards in the future. During the third quarter of 2005, an income tax benefit of approximately $389 thousand was recognized for continuing operations which served to offset the income tax provision of $373 thousand recorded for discontinued operations.

DISCONTINUED OPERATIONS

Income from discontinued operations, net of income taxes totaled $636 thousand in the third quarter of 2005. As a result of the Company’s October 2005 sale of its SendTec marketing services business, the results of SendTec’s operations have been reported as discontinued operations in the accompanying condensed consolidated statement of operations for the three months ended September 30, 2005.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2005

CONTINUING OPERATIONS

NET REVENUE. Net revenue totaled $2.4 million for the nine months ended September 30, 2006 as compared to $1.7 million for the nine months ended September 30, 2005, an increase of approximately $751 thousand, or 44%, from the prior year period.

NET REVENUE BY BUSINESS SEGMENT:

Nine months ended September 30,		2006		2005
Computer games	$	1,344,441	$	1,477,692
Internet services		1,062,042		—
VoIP telephony services		34,385		211,726
	$	2,440,868	$	1,689,418

Advertising revenue from the sale of print advertisements in the magazines published by our computer games business declined $24 thousand, or 2%, in the first nine months of 2006 as compared to the same period of the prior year. Magazine sales, through subscriptions and newsstands, decreased $15 thousand, or 6%, in the first nine months of 2006 as compared to the same period in 2005. These advertising and magazine sales net revenue declines reflect the impact of lower Computer Games Magazine advertising revenue levels in 2006 compared to 2005, the elimination of revenue associated with the publication of Now Playing Magazine, which was sold in January 2006, and incremental revenue generated from the first issue of Massive Magazine, which was published in September 2006. Sales of electronic games and related products through Chips & Bits, our Internet-based retail distribution subsidiary, decreased $94 thousand, or 47%, in the first nine months of 2006 as compared to the first nine months of 2005.

Our Internet services business, Tralliance, contributed $1.1 million in net revenue during the first nine months of 2006. Tralliance, which was acquired in May 2005, began collecting fees for Internet domain name registrations in October 2005. Net revenue attributable to domain name registrations is recognized as revenue on a straight-line basis over the term of the registrations.

VoIP telephony services net revenue decreased $177 thousand in the first nine months of 2006 as compared to the same period of the prior year due principally to the Company's decision to discontinue the marketing of its retail consumer VoIP telephony products.

OPERATING EXPENSES BY BUSINESS SEGMENT:

Nine months ended:	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization	Total
September 30, 2006						
Computer games	$ 807,582	$ 400,634	$ 371,780	$ 371,311	$ 20,961	$ 1,972,268
Internet services	373,999	1,818,326	—	1,237,934	178,899	3,609,158
VoIP telephony services	2,532,935	231,181	718,663	1,835,790	661,517	5,980,086
Corporate expenses	—	—	—	2,156,124	24,167	2,180,291
	$ 3,714,516	$ 2,450,141	$ 1,090,443	$ 5,601,159	$ 885,544	$ 13,741,803

	Cost of Revenue	Sales and Marketing	Product Development	General and Administrative	Depreciation and Amortization	Total
September 30, 2005						
Computer games	$ 1,717,730	$ 318,342	$ 497,493	$ 615,809	$ 23,161	$ 3,172,535
Internet services	—	96,381	—	499,715	49,468	645,564
VoIP telephony services	4,661,415	1,307,335	513,173	2,092,632	829,160	9,403,715
Corporate expenses	—	—	—	2,525,916	27,607	2,553,523
	$ 6,379,145	$ 1,722,058	$ 1,010,666	$ 5,734,072	$ 929,396	$ 15,775,337

COST OF REVENUE. Cost of revenue totaled $3.7 million for the nine months ended September 30, 2006, a decline of $2.7 million, or 42%, from the $6.4 million reported for the nine months ended September 30, 2005.

Cost of revenue related to our computer games business segment declined $910 thousand, or 53%, as compared to the first nine months of 2005. Approximately 70% of the total decrease in cost of revenue of our computer games business segment as compared to the prior year-to-date period resulted principally from lower printing, paper and freight costs associated with the production of our Computer Games Magazine publication. We have reduced the total number of copies printed for each issue and also published one less issue of Computer Games Magazine in 2006 as compared to 2005. The remaining decrease in cost of revenue in 2006 as compared to 2005 resulted primarily from the elimination of costs associated with the publication of Now Playing magazine, which was sold in January 2006, partially offset by additional costs incurred in the publication of Massive Magazine, which premiered in September 2006.

Cost of revenue of our Internet services division, totaling $374 thousand for the nine months ended September 30, 2006, consists primarily of fees paid to third party service providers which provide outsourced services, including verification of registration eligibility, maintenance of the ".travel" directory of consumer-oriented registrant travel data, as well as other services. Fees for some of these services vary based on transaction levels. Fees incurred for outsourced services are generally deferred and amortized to cost of revenue over the term of the related domain name registration.

As previously described in the comparison of the three months ended September 30, 2006 to the three months ended September 30, 2005, during 2006 we placed significant emphasis on the reduction of excess capacity of our VoIP network, which included the renegotiation, non-renewal and/or termination of certain network agreements, as well as network personnel cost reductions. These efforts, as well as steps taken during the latter half of 2005 to reduce network support costs, resulted in the $2.1 million decrease in cost of revenue of our VoIP telephony services business segment as compared to the first nine months of 2005. Network data center and carrier costs decreased $1.2 million, or 39%, and direct costs of employees supporting our Internet telecommunications network declined $485 thousand, or 57%, in comparison to the first nine months of 2005. Additionally, costs related to the purchase of network software declined $341 thousand from the same period of the prior year. The Company discontinued the capitalization of software development costs in its VoIP telephony business as of December 31, 2004 and is charging such costs to operations as they are incurred.

SALES AND MARKETING. Sales and marketing expenses totaled $2.5 million for the nine months ended September 30, 2006 versus $1.7 million for the same period in 2005, an increase of $728 thousand, or 42%. Tralliance, our new Internet services business, incurred $1.8 million of sales and marketing expenses during the first nine months of 2006, consisting primarily of advertising, public relations, personnel, promotional and trade show costs incurred in launching the ".travel" top-level domain registry and the www.search.travel website and search engine. Sales and marketing expenses of the VoIP telephony services business segment decreased $1.1 million, or 82%, from the first nine months of 2005. 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. During 2006, the Company re-focused its efforts on the further expansion of its "peer-to-peer", or free service plan, customer base. As a result, the VoIP telephony services business segment has significantly reduced its sales and marketing spending and presently intends to continue to limit its sales and marketing spending during the remainder of 2006. Additionally, in-house personnel which had previously concentrated on marketing our VoIP telephony services products were reassigned to Tralliance during the first quarter of 2006.

PRODUCT DEVELOPMENT. Product development expenses totaled $1.1 million in the first nine months of 2006 as compared to $1.0 million in the first nine months of 2005. An increase of $205 thousand in product development expenses of our VoIP telephony services business segment was partially offset by a $126 thousand decrease in product development expense of our computer games businesses in comparison to the first nine months of 2005.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses totaled $5.6 million in the nine months ended September 30, 2006, a decline of $133 thousand as compared to the $5.7 million reported for the same period of the prior year. General and administrative expenses of our Internet services business, Tralliance, increased $738 thousand as compared to the first nine months of 2005. Tralliance was acquired on May 9, 2005, and the consolidated results of operations for the first nine months of 2005 include the operating results of Tralliance only since its date of acquisition versus the inclusion of a full nine months of expenses during the 2006 period. Personnel costs and travel-related expenses involved in increasing awareness of the ".travel" top-level domain incurred by Tralliance represented approximately 36% and 30% of the total general and administrative costs of the Internet services segment during the first nine months of 2006 and 2005, respectively. Although a decrease of $257 thousand in general and administrative expenses of the VoIP telephony services business segment was reported as compared to the first nine months of 2005, legal expenses of the segment actually rose $728 thousand as compared to the prior year-to-date period. See Note 6, "Litigation," of the Notes to Condensed Consolidated Financial Statements, for discussion of legal claims involving our VoIP telephony services division. Excluding legal expenses, general and administrative expenses of the VoIP telephony services division decreased approximately $985 thousand, or 51%, as compared to the first nine months of 2005, primarily due to lower information technology consulting costs. General and administrative expenses of the Corporate division declined $370 thousand, or 15%, as compared to the first nine months of 2005, due primarily to lower professional fees. As mentioned in the comparison of the results of operations for the third quarter of 2006 versus the third quarter of the prior year, during the third quarter of 2005, the Company's Board of Directors authorized the sale of the Company's SendTec marketing services business. Professional fees incurred in connection with the sale were included in general and administrative expenses of the corporate division until the completion of the sale on October 31, 2005. A decrease of $244 thousand in general and administrative expenses of our games businesses was also reported as compared to the 2005 year-to-date period.

As discussed in Note 5, "Stock Option Plans," of the Notes to Condensed Consolidated Financial Statements, we adopted Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R") effective January 1, 2006 using the modified prospective application method. SFAS No. 123R generally requires all companies to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees and to recognize the related cost in its financial statements. As a result, general and administrative expenses of the corporate division for the first nine months of 2006 included approximately $344 thousand of additional stock compensation expense recognized in accordance with the requirements of SFAS No. 123R. Prior to January 1, 2006, we accounted for employee stock options pursuant to Accounting Principles Board Opinion No. 25 and financial results in the accompanying condensed consolidated financial statements for prior periods have not been restated to give effect to the provisions of SFAS No. 123R. At September 30, 2006, there was approximately $656,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted-average period of 1.3 years.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense totaled $886 thousand for the nine months ended September 30, 2006 as compared to $929 thousand for the nine months ended September 30, 2005. The decline in this expense category as compared to the same period of 2005 resulted principally from the $168 thousand decrease in depreciation and amortization expense of the VoIP telephony services business segment, partially offset by an increase of $129 thousand in depreciation and intangible asset amortization expenses incurred by our Internet services business.

OTHER INCOME (EXPENSE), NET. Other income, net, totaled $146 thousand for the first nine months of 2006 and included: $127 thousand of net interest income earned on invested funds; a $130 thousand net gain on the sale of our Now Playing Magazine publication and associated website; and a $130 thousand net loss on the sale of certain VoIP property and equipment. Total other expense, net, of $4.4 million was reported for the first nine months of 2005, which included $4.0 million in non-cash interest expense related to the beneficial conversion features of the $4,000,000 secured demand convertible promissory notes issued by the Company to entities controlled by its Chairman and Chief Executive Officer and $280 thousand in reserves against amounts loaned by the Company to Tralliance prior to its acquisition.

INCOME TAXES. The tax provision of $124 thousand recorded during the first nine months of 2006 principally resulted from additional state income taxes due upon the finalization of the Company's 2005 consolidated tax returns. No tax benefit was recorded for the loss incurred during the first nine months of 2006 as we recorded a 100% valuation allowance against our otherwise recognizable deferred tax assets due to the uncertainty surrounding the timing or ultimate realization of the benefits of our net operating loss carryforwards in future periods. As of December 31, 2005, the Company had net operating loss carryforwards which may be available for U.S. tax purposes of approximately $147 million. These carryforwards expire through 2025. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Due to various significant changes in our ownership interests, as defined in the Internal Revenue Code of 1986, as amended, we have substantially limited the availability of our net operating loss carryforwards. There can be no assurance that we will be able to utilize any net operating loss carryforwards in the future. During the first nine months of 2005, an income tax benefit of approximately $1.0 million was recognized for continuing operations which served to offset the income tax provision of $1.0 million recorded for discontinued operations.

DISCONTINUED OPERATIONS

Income from discontinued operations, net of income taxes totaled $1.7 million in the first nine months of 2005. As a result of the Company's October 2005 sale of its SendTec marketing services business, the results of SendTec's operations have been reported as discontinued operations in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ITEMS

As of September 30, 2006, we had approximately $6.9 million in cash and cash equivalents as compared to $16.5 million as of December 31, 2005. Cash and cash equivalents are exclusive of the $250 thousand and $1.0 million in restricted cash maintained by the Company in various escrow accounts as of September 30, 2006 and December 31, 2005, respectively. Net cash flows used in operating activities of continuing operations totaled $10.6 million and $9.0 million, for the nine months ended September 30, 2006 and 2005, respectively, or an increase of approximately $1.6 million. The decline in net losses from continuing operations as compared to the first nine months of 2005 was more than offset by unfavorable changes in non-cash adjustments and working capital including: the reduction in non-cash interest expense as compared to the prior year period; the Company's payment of its 2005 income tax liabilities in the current year period; and an unfavorable accounts payable change as compared to the first nine months of 2005. A total of $1.2 million in net cash flows were provided by the discontinued operations of SendTec during the first nine months of 2005. The business and substantially all of the net assets of SendTec were sold by the Company on October 31, 2005.

Net cash flows of $997 thousand were provided by investing activities of continuing operations during the first nine months of 2006. As a result of the October 2005 sale of the SendTec business, we were required to place $1.0 million of cash in an escrow account to secure our indemnification obligations. On March 31, 2006, pursuant to the related escrow agreement, $750 thousand of the escrow funds were released to the Company. The remaining $32 thousand in escrow funds released during the first nine months of 2006 represented funds which had been held in escrow in connection with sweepstakes promotions conducted by the VoIP telephony services division. In addition, during the first nine months of 2006, we received proceeds of $138 thousand and $130 thousand from the sales of certain VoIP property and equipment and our Now Playing magazine publication and website, respectively. During the first nine months of 2005, we used a total of $459 thousand in investing activities of continuing operations, including $258 thousand of capital expenditures and $280 thousand of loans to Tralliance prior to its acquisition by the Company. A total of $171 thousand in net cash flows were used during the first nine months of 2005 for capital expenditures related to the discontinued operations of SendTec.

Financing activities used net cash flows of $12 thousand during the first nine months of 2006. Net cash flows provided by financing activities during the first nine months of 2005 totaled $3.8 million. We received proceeds from the issuance of $4.0 million in convertible notes and paid $278 thousand of debt outstanding during the first nine months of 2005.

FUTURE AND CRITICAL NEED FOR CAPITAL

As of November 6, 2006, the Company’s total cash and cash equivalents balance was approximately $6.5 million, inclusive of $250 thousand held in escrow to secure the Company’s indemnification obligations related to the sale of the SendTec business. The Company continues to incur substantial consolidated net losses and management believes that the Company will continue to be unprofitable and use cash in its operations for the near-term future.

We presently believe that the Company’s current net cash and cash equivalents balance will provide sufficient liquidity to enable the Company to operate its businesses on a going concern basis through at least the first quarter of 2007. However, in order to ensure the Company's financial viability beyond the first quarter of 2007, we believe that we must raise capital and successfully implement a strategic business plan focused principally on expanding our Tralliance Internet services business segment while continuing to reduce, if not eliminate, the operating losses currently generated by our VoIP telephony and computer games business segments. Our strategic business plan may include the sale, abandonment or disposal of certain businesses or components of businesses, including the sale of certain technologies or other long-lived assets. The amount of capital required to be raised by the Company will be dependent upon the Company’s performance in executing its current and future business plans, as measured principally by the time period needed to begin generating positive internal consolidated cash flow. The Company currently has no access to credit facilities with traditional third party lenders and has historically relied on borrowings from related parties to meet short-term liquidity needs. As of the date of this report, $3.4 million of convertible notes, due on demand, are outstanding to related parties. There can be no assurance that the Company will be able to raise additional capital or obtain short-term financing from any sources, including related parties, in the future. In addition, any financing that could be obtained would likely significantly dilute existing shareholders.

Tralliance, the Company’s Internet services business, began collecting fees related to its “.travel” registry business in October 2005. In August 2006, we introduced our online search portal dedicated to the travel industry, www.search.travel, and launched a national television campaign to promote the new search engine and website. During the third quarter of 2006, we also expanded Tralliance’s domestic and international sales and marketing infrastructure, principally by entering into a number of arrangements with third party consultants and travel-related organizations, and plan to further increase Tralliance’s sales and marketing resources in the future. At this time, our primary objective is to quickly and substantially increase Tralliance’s revenue levels. In this regard, we are focused on accelerating the rate of new “.travel” domain name registrations, both in the U.S. and in international markets, in order to generate current revenue and to also provide a base for future registration renewal revenue. Additionally, we are focused on generating sponsorship and search advertising revenue streams from our newly established www.search.travel search engine and website. Management presently believes that its success in quickly and substantially increasing Tralliance’s revenue levels will be a critical factor in the Company’s ability to continue as a going concern.

In order to offer our VoIP services, we have invested substantial time, capital and other resources on the development of our VoIP network. Our inability to generate any significant telephony revenue and the fixed costs of operating our VoIP network has resulted in the Company incurring substantial losses during the past several years. In an effort to reduce the excess capacity of our VoIP network and to decrease the Company’s net losses, we developed a plan to reconfigure, phase-out and eliminate certain components of our VoIP network. The implementation of this plan, which involved the renegotiation, non-renewal and/or termination of certain network agreements, was completed during the second quarter of 2006 and has reduced minimum amounts payable for network data center and carrier circuit interconnection service expenses during the next twelve months, exclusive of regulatory taxes, fees and charges, to approximately $450 thousand at September 30, 2006 (down from $1.1 million at December 31, 2005). The implementation of this plan, along with other VoIP cost reductions made during 2005 and 2006, has significantly reduced total VoIP operating expenses incurred during the third quarter of 2006 compared to prior periods. Management is also in the process of taking certain other actions that will further reduce total VoIP operating costs in future periods. Additionally, we are currently pursuing the licensing of our VoIP communications technology and are also exploring other methods of generating VoIP revenue through various advertising programs. At the present time, management does not intend to invest significant funds in the further development of its VoIP communication technology and believes that it must quickly implement any and all changes required to bring the operating results of its VoIP telephony services segment to a break-even level.

During 2005, the Company’s computer games business recognized certain incremental losses in connection with attempts to broaden and expand its business beyond games and into other areas of the entertainment industry. In developing its 2006 business plan, the Company decided to abort its diversification efforts and to refocus its strategy back to operating and improving its traditional games-based businesses. In this regard, the computer games division has recently completed the implementation of a number of revenue enhancement and cost-reduction programs geared mainly toward achieving profitability and positioning its computer games businesses for future growth. These initiatives include the introduction of Massive Magazine, a new quarterly magazine publication, and a related website, dedicated to the rapidly growing "massively multiplayer online" game market. The first issue of the magazine was released in September 2006. In order to minimize the expenses associated with the new publication, the Company is utilizing its existing editorial staff to produce content for both its Computer Games Magazine and the new magazine publication.

As more fully discussed in Note 6, "Litigation," in the Notes to the Condensed Consolidated Financial Statements, the Company is a defendant in various legal matters, including a lawsuit filed by MySpace, Inc. on June 1, 2006. Additionally, the Company is currently a party to certain other claims and disputes arising in the ordinary course of business. Although uncertain at the present time, the legal costs of defending and settling such lawsuits, outstanding claims and disputes could be material and could utilize a significant portion of our cash resources and adversely affect our financial condition. Such litigation may also make it more difficult for us to raise additional capital.

As discussed earlier, we believe that our longer term viability will be determined mainly by our ability to raise additional capital, successfully execute our existing and future business plans and to successfully resolve the legal proceedings, claims and disputes discussed in the paragraph above. There can be no assurance that we will be successful in taking any of the above actions. The aforementioned uncertainties regarding the future direction and financial performance of the Company create substantial doubt that the Company will be able to continue as a going concern beyond the end of the first quarter of 2007.

The shares of our Common Stock were delisted from the NASDAQ national market in April 2001 and are now traded in the over-the-counter market on what is commonly referred to as the electronic bulletin board or OTCBB. Since the trading price of our Common Stock is less than $5.00 per share, trading in our Common Stock may also become subject to the requirements of Rule 15g-9 of the Exchange Act if our net tangible assets should fall below $2.0 million. Under Rule 15g-9, brokers who recommend penny stocks to persons who are not established customers and accredited investors, as defined in the Exchange Act, must satisfy special sales practice requirements, including requirements that they make an individualized written suitability determination for the purchaser; and receive the purchaser's written consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosures in connection with any trades involving a penny stock, including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated with that market. Such requirements may severely limit the market liquidity of our Common Stock and the ability of purchasers of our equity securities to sell their securities in the secondary market. We may also incur additional costs under state blue sky laws if we sell equity due to our delisting.

EFFECTS OF INFLATION

Due to relatively low levels of inflation in 2006 and 2005, inflation has not had a significant effect on our results of operations since inception.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Certain of our accounting policies require higher degrees of judgment than others in their application. These include revenue recognition, valuation of 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 revenue from continuing operations was derived principally from the sale of print advertisements under short-term contracts in our magazine publications; through the sale of our magazine publications through newsstands and subscriptions; from the sale of video games and related products through our online store Chips & Bits; from the sale of Internet domain registrations 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 revenue for the Company's magazine publications is recognized at the on-sale date of the magazines.

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 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.

INTERNET SERVICES

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

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.

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 in circumstances indicate that the carrying value may not be recoverable or at least on an annual basis. Some factors we consider important which could trigger an impairment review include the following:

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

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

LONG-LIVED ASSETS

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

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

In June 2006, the FASB issued Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of FASB Statement No. 109, “Accounting for Income Taxes,” which clarifies accounting for and disclosure of uncertainty in tax positions. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of adopting FIN No. 48 on our consolidated financial statements.

In November 2005, the FASB issued final FASB Staff Position (“FSP”) FAS No. 123R-3, “Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.” The FSP provides an alternative method of calculating excess tax benefits from the method defined in SFAS No. 123R for share-based payments. A one-time election to adopt the transition method in this FSP is available to those entities adopting SFAS No. 123R using either the modified retrospective or modified prospective method. Up to one year from the initial adoption of SFAS No. 123R or the effective date of the FSP is provided to make this one-time election. However, until an entity makes its election, it must follow the guidance in SFAS No. 123R. The FSP is effective upon initial adoption of SFAS No. 123R and became effective for the Company in the first quarter of 2006. We are currently evaluating the allowable methods for calculating excess tax benefits and have not yet determined whether we will make a one-time election to adopt the transition method described in this FSP, nor the expected impact on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, “Accounting for Changes and Error Corrections, a Replacement of Accounting Principles Board (“APB”) Opinion No. 20 and FASB Statement No. 3.” SFAS No. 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 No. 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 adoption of this standard did not have a material impact on the Company’s financial condition, results of operations or liquidity.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, “Statement of Cash Flows.” The statement eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS No. 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. The statement also requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. It establishes fair value as the measurement objective in accounting for share-based payment arrangements and generally requires all companies to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees. In March 2005, the Securities and Exchange Commission (the “SEC”) issued Staff Accounting Bulletin 107 which describes the SEC staff’s expectations in determining the assumptions that underlie the fair value estimates and discusses the interaction of SFAS No. 123R with existing guidance. The Company has adopted SFAS No. 123R effective January 1, 2006, using the modified prospective application method in accordance with the statement. This application requires the Company to record compensation expense for all awards granted after the adoption date and for the unvested portion of awards that are outstanding at the date of adoption. The Company expects that the adoption of SFAS No. 123R will result in charges to operating expense of continuing operations of approximately \$194,000, \$77,000 and \$19,000, in the years ended December 31, 2006, 2007 and 2008, related to the unvested portion of outstanding employee stock options at December 31, 2005.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. Interest rate risk refers to fluctuations in the value of a security resulting from changes in the general level of interest rates. Investments that we classify as cash and cash equivalents have original maturities of three months or less and therefore, are not affected in any material respect by changes in market interest rates. At September 30, 2006**,** debt outstanding was composed of $3.4 million of fixed rate instruments due on demand with an aggregate average interest rate of 10.00%.

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

ITEM 4. CONTROLS AND PROCEDURES

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

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2006. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in alerting them in a timely manner to material information regarding us (including our consolidated subsidiaries) that is required to be included in our periodic reports to the SEC.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated any change in our internal control over financial reporting that occurred during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, and have determined there to be no reportable changes.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS GENERALLY

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

We received a report from our independent accountants, relating to our December 31, 2005 audited financial statements, containing a paragraph stating that our recurring losses from operations and our accumulated deficit subject the Company to certain liquidity and profitability considerations. The Company continues to incur substantial consolidated net losses and management believes the Company will continue to be unprofitable and use cash in its operations for the near-term future. Based upon the Company's present cash resources and cash flow projections, management believes that the Company has sufficient liquidity to operate as a going concern through at least the first quarter of 2007.

As more fully discussed in Note 6, "Litigation," the Company is a defendant in a number of lawsuits, including a lawsuit filed by MySpace, Inc. on June 1, 2006. Additionally, the Company is currently a party to certain other claims and disputes arising in the ordinary course of business. Although uncertain at the present time, the legal costs of defending and settling such lawsuits, outstanding claims and disputes could be material and could utilize a significant portion of our cash resources and adversely affect our financial condition.

In order to assure the Company's financial viability beyond the first quarter of 2007, we believe we must raise additional capital, successfully implement our existing and future business plans and successfully resolve the legal proceedings, claims and disputes discussed in the paragraph above. Our business plans may include the sale, abandonment or disposal of certain businesses or components of businesses, including the sale of certain technologies or other long-lived assets. There can be no assurance that the Company will be successful in taking any of the above actions. The aforementioned uncertainties regarding the future direction and financial performance of the Company create substantial doubt that the Company will be able to continue as a going concern beyond the first quarter of 2007 (see the "Future and Critical Need for Capital" section of Management's Discussion and Analysis of Financial Condition and Results of Operations for further details).

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

Since our inception, we have incurred net losses each year and we expect that we will continue to incur net losses for the foreseeable future. We had losses from continuing operations, net of applicable income tax benefits, of approximately $13.3 million, $24.9 million and $11.0 million for the years ended December 31, 2005, 2004 and 2003, respectively. We incurred a net loss from continuing operations of approximately $11.3 million for the nine months ended September 30, 2006. The principal causes of our losses are likely to continue to be:

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

Although we have restructured our businesses, we still expect to continue to incur losses as we attempt to improve the performance and operating results of our Internet services, VoIP telephony services and computer games businesses and while we explore a number of strategic alternatives for our businesses, including continuing to operate the businesses; selling, abandoning and/or otherwise disposing of certain businesses or assets. At the present time, none of our business lines operate at a profit.

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 litigation. At this time we cannot reasonably estimate the range of any loss or damages resulting from any of the pending lawsuits due to uncertainty regarding the ultimate outcome. The defense of any litigation may be expensive and divert management's attention from day-to-day operations. An adverse outcome in any litigation could materially and adversely affect our results of operations and financial position and may utilize a significant portion of our cash resources. See Note 6, "Litigation," in the Notes to the Condensed Consolidated Financial Statements for further details regarding the lawsuits.

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

UNCERTAINTIES.

During our recent past, we have entered into a number of new business lines through acquisitions. 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:

- 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;
- diversion of management's attention and resources from our existing businesses;
- significant write-offs if we determine that the business acquisition does not fit or perform up to expectations;
- the incurrence of debt and contingent liabilities or impairment charges related to goodwill and other long-lived assets;

difficulties in the assimilation of operations, personnel, technologies, products and information systems of the acquired companies;

regulatory and tax risks relating to the new or acquired business;

the risks of entering geographic and business markets in which we have no or limited prior experience;

the risk that the acquired business will not perform as expected; and

material decreases in short-term or long-term liquidity.

OUR NET OPERATING LOSS CARRYFORWARDS MAY BE SUBSTANTIALLY LIMITED.

As of December 31, 2005, we had net operating loss carryforwards which may be potentially available for U.S. tax purposes of approximately $147 million. These carryforwards expire through 2025. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Due to various significant changes in our ownership interests, as defined in the Internal Revenue Code of 1986, as amended, we have substantially limited the availability of our net operating loss carryforwards. There can be no assurance that we will be able to utilize any net operating loss carryforwards in the future.

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

Our Internet services, VoIP telephony services 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:

inadequate network infrastructure;

security and authentication concerns;

inadequate quality and availability of cost-effective, high-speed service;

general economic and business downturns; and

catastrophic events, including war and terrorism.

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

delays in the development or adoption of new operating and technical standards and performance improvements required to handle increased levels of activity;

increased government regulation;

potential governmental taxation of such services; and insufficient availability of telecommunications services which could result in slower response times and adversely affect usage of the Internet.

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

There are an increasing number of federal, state, local and foreign laws and regulations pertaining to the Internet and telecommunications. In addition, a number of federal, state, local and foreign legislative and regulatory proposals are under consideration. Laws and regulations have been and will likely continue to be adopted with respect to the Internet relating to, among other things, 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 of 1994, 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.

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.

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 business 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 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 have been awarded and are also seeking additional patent protection for certain VoIP 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, sending unsolicited email messages or providing advertising on a keyword basis that links a specific search term entered by a user to the appearance of a particular advertisement. Moreover, from time to time, third parties have asserted and may in the future assert claims of alleged infringement by us of their intellectual property rights. In June 2006, MySpace, Inc., ("MySpace"), filed a lawsuit alleging, among other things, that we sent unsolicited and unauthorized email messages to MySpace members and that our alleged activities were in violation of various federal and state laws and regulations and that we infringed upon MySpace's trademarks. See Note 6, "Litigation," in the Notes to the Condensed Consolidated Financial Statements for further details regarding the lawsuit. Any litigation claims or counterclaims could impair our business because they could:

be time-consuming;

result in significant costs;

subject us to significant liability for damages;

result in invalidation of our proprietary rights;

divert management's attention;

cause product release delays; or

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

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

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

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

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

If we fail to promote and maintain our various brands or our 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 and disposition of other lines of business, our historical quarterly operating results are not necessarily reflective of future results. The factors that will cause our quarterly operating results to fluctuate in the future include:

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

the addition or loss of advertising clients of our computer games businesses, subscribers to our magazines, “.travel” domain name registrants, VoIP customers and electronic commerce partners on our websites;

overall usage and acceptance of the Internet;

seasonal trends in advertising and electronic commerce sales and member usage in our businesses;

costs relating to the implementation or cessation of marketing plans for our various lines of business;

other costs relating to the maintenance of our operations;

the restructuring of our business;

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

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, particularly as it pertains to our Internet and VoIP services businesses. Our prospects should be considered in light of the risks encountered by companies operating in new and rapidly evolving markets like ours. We may not successfully address these risks. For example, we may not be able to:

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

generate and maintain adequate levels of ".travel" domain name registrations;

generate and maintain adequate www.search.travel advertising revenue;

monetize our VoIP communications technology;

maintain or increase magazine advertising and subscription revenue;

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

identify, attract, retain and motivate qualified personnel.

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

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

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

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

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

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

our management will be able to achieve the rapid execution necessary to fully exploit the market opportunity for our products and services.

WE DEPEND ON HIGHLY QUALIFIED TECHNICAL AND MANAGERIAL PERSONNEL.

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

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

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

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

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

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

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

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

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

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

Consumer and supplier confidence in our businesses depends on maintaining relevant security features. Substantial or ongoing security breaches on our systems or other Internet-based systems could significantly harm our business. We incur substantial expenses protecting against and remedying security breaches. Security breaches also could damage our reputation and expose us to a risk of loss or litigation. Experienced programmers or "hackers" have successfully penetrated our systems and we expect that these attempts will continue to occur from time to time. Because a hacker who is able to penetrate our network security could misappropriate proprietary or confidential information (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 insurance policies may not cover all potential liabilities to which we are exposed.

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

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

We have not yet developed a Section 404 implementation plan. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. 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 a Section 404 plan on a timely basis. The Company's liquidity position in 2006 and 2007 may also impact our ability to adequately fund our Section 404 efforts.

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

RISKS RELATING TO OUR VOIP TELEPHONY BUSINESS

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

We entered into a number of agreements (generally for initial terms of one year, with the terms of several agreements extending beyond one year) for leased communications transmission capacity and data center facilities with various carriers and other third parties. In the second quarter of 2006, we completed the implementation of a plan to reconfigure, phase-out and eliminate certain components of our VoIP network. Although the implementation of this plan, which involved the renegotiation, non-renewal and/or termination of certain network agreements, has significantly reduced the ongoing costs of operating our VoIP network, the minimum amounts payable under these agreements and the underlying current capacity of our VoIP network still exceeds our current VoIP telephony business revenue forecasts. If we are not able to generate sufficient levels of VoIP telephony revenue, or alternatively further reduce our VoIP network and operating costs in future periods, our liquidity and financial condition could be materially and adversely impacted. (See the “Liquidity and Capital Resources” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations for further details).

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 OR TAXATION AS TRADITIONAL TELEPHONY.

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). Because their services are not currently regulated to the same extent as telecommunications services, some VoIP providers, such as the Company, can currently avoid paying certain charges and incurring certain costs and expenses that traditional telephone companies must pay and incur. Many traditional telephone operators are lobbying the 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 providers of VoIP services, such as the Company, become subject to additional regulation by the FCC or any state regulatory agencies, the cost of complying with such additional regulation would likely increase the costs of providing such services. In addition, the FCC or any such state agencies may impose new surcharges, taxes, fees and/or other charges upon providers or users of VoIP services. Such charges could include, among others, access charges payable to local exchange carriers to carry and terminate traffic, contributions to the Universal Service Fund or other charges. Such new charges would likely increase our cost of VoIP operations and, to the extent that any or all of them are passed along to our VoIP customers, they could adversely affect our revenues from our VoIP services. Accordingly, more aggressive state and/or federal 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.

RECENT REGULATORY ENACTMENTS BY THE FCC REQUIRE INTERCONNECTED VOIP PROVIDERS TO PROVIDE ENHANCED EMERGENCY 911 DIALING CAPABILITIES, TO COMPLY WITH THE REQUIREMENTS OF THE COMMUNICATIONS ASSISTANCE FOR LAW ENFORCEMENT ACT OF 1994, AND TO CONTRIBUTE TO THE UNIVERSAL SERVICES FUND. WHILE WE ARE NOT AN INTERCONNECTED VOIP PROVIDER, THE FCC HAS ASKED FOR PUBLIC COMMENT AS TO WHETHER CERTAIN OF THESE REQUIREMENTS SHOULD APPLY TO VOIP PROVIDERS OTHER THAN INTERCONNECTED VOIP PROVIDERS. IF WE BECOME SUBJECT TO THESE REQUIREMENTS, IT WILL RESULT IN INCREASED COSTS AND RISKS ASSOCIATED WITH OUR DELIVERY OF VOIP SERVICES.

Interconnected VoIP service is currently subject to certain FCC regulations for which VoIP services which are not “interconnected” are not subject. "Interconnected VoIP Service" is defined as a VoIP service that: (1) enables real-time, two-way voice communications; (2) requires a broadband connection from the user’s location; (3) requires Internet protocol-compatible customer premises equipment; and (4) generally permits users to receive calls that originate on the public switched telephone network and to terminate calls to the public switched telephone network (“PSTN”). During the second quarter of 2006, we discontinued offering service to all of our Interconnected VoIP Service subscribers in anticipation of the release of a new VoIP product offering resulting from our most recent development efforts. The new VoIP product offering will include certain features and functionality, including “peer-to-peer” calling, available to all subscribers at no charge. The new service will allow outbound dialing to the PSTN only, for which subscribers will be charged and, therefore, does not constitute an "Interconnected VoIP Service." Accordingly, it is not subject to the E911 Order, the Communications Assistance for Law Enforcement Act of 1994 (“CALEA”) Order, or the Universal Service Fund (“USF”) Order. However, we cannot predict whether in the future the FCC or any state or other regulatory agencies will expand the scope of their regulations, or implement new ones, so as to include VoIP services other than Interconnected VoIP Service within the scope of such regulations. If it is necessary to suspend our VoIP services for a material period of time while formulating a technological solution to comply with new regulatory requirements, such action could materially adversely affect our overall financial condition and/or results of operations.

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.

Although the use of private IP networks to provide voice services over the Internet is currently permitted by United States federal law and largely unregulated within the United States, several foreign governments have adopted laws and/or regulations that could restrict or prohibit the provision of voice communications services over the Internet or private IP networks. Some 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.

The European Union has, for example, adopted a directive that imposes restrictions on the collection and use of personal data. 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 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.

NEW LAWS AND REGULATIONS AFFECTING THE INTERNET GENERALLY 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.

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 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.

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/or 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 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 and Sprint, either presently or potentially compete or can compete directly with us. Other Internet telephony service providers, such as Skype, Net2Phone, Vonage, Go2Call 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 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. AOL, Google and Yahoo! also now offer new services that have features similar to some of our products and services. 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 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.

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 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 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 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 RELATING TO OUR COMPUTER GAMES BUSINESS

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 us or that we will be successful in selling advertising to new advertisers.

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.

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:

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

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.

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

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

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

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

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

REGULATORY AND STATUTORY CHANGES COULD HARM OUR INTERNET SERVICES BUSINESS.

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

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 November 6, 2006, we had issued and outstanding approximately 174.8 million shares, of which approximately 84.2 million shares were freely tradable over the public markets. There is limited trading volume in our shares and we are now traded only in the over-the-counter market. Most of our outstanding restricted shares of Common Stock were issued more than one year ago and are therefore eligible to be resold over the public markets pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended.

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

In addition, as of September 30, 2006, there were outstanding options to purchase approximately 20.0 million shares of our Common Stock, which become eligible for sale in the public market from time to time depending on vesting and the expiration of lock-up agreements. The shares issuable upon exercise of these options are registered under the Securities Act and consequently, subject to certain volume restrictions as to shares issuable to executive officers, will be freely tradable.

Also as of November 6, 2006, we had issued and outstanding warrants to acquire approximately 6.9 million shares of our Common Stock. Many of the outstanding instruments representing the warrants contain anti-dilution provisions pursuant to which the exercise prices and number of shares issuable upon exercise may be adjusted.

OUR CHAIRMAN MAY CONTROL US.

Michael S. Egan, our Chairman and Chief Executive Officer, beneficially owns or controls, directly or indirectly, approximately 140 million shares of our Common Stock as of November 6, 2006, which in the aggregate represents approximately 56% of the outstanding shares of our Common Stock (treating as outstanding for this purpose the shares of Common Stock issuable upon exercise and/or conversion of the options, convertible promissory notes and warrants owned by Mr. Egan or his affiliates). Accordingly, Mr. Egan will be able to exercise significant influence over, if not control, any stockholder vote.

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

The shares of our Common Stock were delisted from the NASDAQ national market in April 2001 and are now traded in the over-the-counter market on what is commonly referred to as the electronic bulletin board or "OTCBB." As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the market value of the securities. The delisting has made trading our shares more difficult for investors, potentially leading to further declines in share price and making it less likely our stock price will increase. It has also made it more difficult for us to raise additional capital. We may also incur additional costs under state blue-sky laws if we sell equity due to our delisting.

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

Since the trading price of our Common Stock is less than $5.00 per share, trading in our Common Stock would be subject to the requirements of Rule 15g-9 of the Exchange Act if our net tangible assets were to fall below $2.0 million. Under Rule 15g-9, brokers who recommend penny stocks to persons who are not established customers and accredited investors, as defined in the Exchange Act, must satisfy special sales practice requirements, including requirements that they make an individualized written suitability determination for the purchaser; and receive the purchaser's written consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosures in connection with any trades involving a penny stock, including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated with that market. Such requirements may severely limit the market liquidity of our Common Stock and the ability of purchasers of our equity securities to sell their securities in the secondary market. For all of these reasons, an investment in our equity securities may not be attractive to our potential investors.

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

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

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

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

OUR STOCK PRICE IS VOLATILE AND MAY DECLINE.

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

- the performance and public acceptance of our new product lines;
- quarterly variations in our operating results;
- competitive announcements;
- sales of any of our businesses;
- the operating and stock price performance of other companies that investors may deem comparable to us;
- news relating to trends in our markets; and
- disposition or entry into new lines of business and acquisitions of businesses, including our Tralliance acquisition.

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

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

(a) Unregistered Sales of Equity Securities.

None.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

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

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

SIGNATURES

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

theglobe.com, inc.

Dated : *November 10, 2006*

By: /s/ *Michael S. Egan*

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

By: /s/ *Edward A. Cespedes*

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

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