THEGLOBE COM INC
Form 10QSB
August 14, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

OR

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

FOR THE TRANSITION PERIOD FROM ________________ TO ____________________

COMMISSION FILE NO. 0-25053

theglobe.com, inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

STATE OF DELAWARE	14-1782422
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
110 EAST BROWARD BOULEVARD, SUITE 1400 FORT LAUDERDALE, FL.	33301
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(954) 769 - 5900

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

The number of shares outstanding of the Registrant's Common Stock, $.001 par value (the "Common Stock"), as of August 6, 2003 was 49,249,793.

theglobe.com, inc.

FORM 10-QSB

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PART I FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

theglobe.com, inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2003 (UNAUDITED)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 2,460,278
Accounts receivable, net	931,332
Inventory, net	374,019
Prepaid and other current assets	208,956
Total current assets	3,974,585
Intangible assets	533,710
Goodwill	554,315
Property and equipment, net	481,236
Other assets	47,000
Total assets	$ 5,590,846
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 1,206,377
Accrued expenses and other current liabilities	565,504
Deferred revenue	159,361
Current portion of long-term debt	1,589,332
Total current liabilities	3,520,574
Long-term debt	187,852
Stock subscription deposits	1,494,500
Total liabilities	5,202,926
Stockholders' equity:	
Common stock	32,582
Preferred stock, at liquidation value	500,000
Additional paid-in capital	221,230,190
Common stock, 699,281 common shares, held in treasury, at cost	(371,458)
Accumulated deficit	(221,003,394)
Total stockholders' equity	387,920
Total liabilities and stockholders' equity	$ 5,590,846

See accompanying notes to unaudited condensed consolidated financial statements.

theglobe.com, inc.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2002
	UNAUDITED	
Net revenue:		
Advertising	$ 477,986	$ 580,415
Electronic commerce and other	780,910	1,833,375
Telephony services	196,904	--
Total net revenue	1,455,800	2,413,790
Cost of revenue	895,704	1,564,945
Gross profit	560,096	848,845
Operating expenses:		
Sales and marketing	628,737	1,021,143
Product development	234,098	192,312
General and administrative	891,346	1,281,224
Total operating expenses	1,754,181	2,494,679
Loss from operations	(1,194,085)	(1,645,834)
Other income (expense), net:		
Interest income (expense), net	(1,508,327)	1,987
Other income (expense), net	(54,959)	7,015
Other income (expense), net	(1,563,286)	9,002
Loss before income tax benefit	(2,757,371)	(1,636,832)
Income tax benefit	--	(3,403)
Net loss	$ (2,757,371)	$ (1,633,429)
Basic and diluted net loss per common share	$ (0.09)	$ (0.05)
Weighted average basic and diluted shares outstanding	31,721,684	31,081,574

See accompanying notes to unaudited condensed consolidated financial statements.

theglobe.com, inc.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX
	200
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(3,43
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	5
Non-cash interest expense	1,48
Reserve against amounts loaned to Internet venture	25
Contributed officer compensation	10
Compensation related to non-employee stock options	1
(Gain) loss on sale of property and equipment	
Gain on sale of Happy Puppy assets	
Non-cash favorable settlements of liabilities	(6
Stock options granted in connection with termination	
Changes in operating assets and liabilities, net of acquisition and dispositions:	
Inventory, net	(1
Accounts receivable, net	47
Prepaid and other current assets	12
Other assets	4
Accounts payable	(21
Accrued expenses and other current liabilities	10
Deferred revenue	(1
Net cash used in operating activities	(1,09
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of marketable securities	
Proceeds from sale of property and equipment	
Cash acquired in acquisition of business	6
Amounts loaned to Internet venture	(29
Purchases of property and equipment	(16
Payment of security deposits / escrow	(
Net proceeds from sale of Happy Puppy assets	
Net cash provided by (used in) investing activities	(40
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowing on notes payable	1,75
Proceeds from issuance of preferred stock	50
Deposits on stock subscriptions	1,49
Proceeds from exercise of common stock options	
Payments on long-term debt, notes payable and capital lease obligations	(51
Net cash provided by (used in) financing activities	3,23

Net change in cash and cash equivalents	1,73
Effect of exchange rate changes on cash and cash equivalents	
Cash and cash equivalents at beginning of period	72
Cash and cash equivalents at end of period	$ 2,46

See accompanying notes to unaudited condensed consolidated financial statements.

theglobe.com, inc.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of theglobe.com

theglobe.com, inc. (the "Company" or "theglobe") was incorporated on May 1, 1995 (inception) and commenced operations on that date. theglobe.com was an online property with registered members and users in the United States and abroad which allowed its users to personalize their online experience by publishing their own content and interacting with others having similar interests. However, due to the decline in the advertising market, the Company was forced to take cost-reduction and restructuring initiatives, which included closing its community www.theglobe.com effective August 15, 2001. The Company then began to aggressively seek buyers for some or all of its remaining online and offline properties, which consisted primarily of games-related properties. In October 2001, the Company sold all of the assets used in connection with the Games Domain and Console Domain websites to British Telecommunications plc, and all of the assets used in connection with the Kids Domain website to Kaboose Inc. In February 2002, the Company sold all of the assets used in connection with the Happy Puppy website to Internet Game Distribution, LLC (see Note 4).

Effective June 1, 2002, Chairman Michael S. Egan and Director Edward A. Cespedes became Chief Executive Officer and President of the Company, respectively. As of June 30, 2003, the Company continues to operate its Computer Games print magazine and the associated website Computer Games Online (www.cgonline.com), as well as the games distribution business of Chips & Bits, Inc. (www.chipsbits.com). The Company continues to actively explore a number of strategic alternatives for its online and offline games properties, including continuing to operate the properties or selling some or all of the properties.

As of June 30, 2003, the Company's revenue sources were principally from the sale of print advertising in its Computer Games magazine; the sale of video games and related products through Chips & Bits, Inc., its games distribution business; the sale of its Computer Games magazine through newsstands and subscriptions; and the sale of Voice over the Internet Protocol ("VoIP") telephony services. The Company's primary business focus at the present time is the development and commercialization of its VoIP telephony services under the brand name "voiceglo."

On May 28, 2003, the Company acquired Direct Partner Telecom, Inc. ("DPT"), a company engaged in VoIP telephony services internationally, 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. (See Note 4).

On May 22, 2003, E&C Capital Partners together with certain affiliates of Michael S. Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of $1,750,000. The Convertible Notes are convertible at anytime into a maximum of approximately 19,444,000 shares of the Company's common stock (subject to certain adjustment mechanisms) at a blended rate of $0.09 per share. In addition, E&C Capital Partners was issued a warrant to acquire 3,888,889 shares of the Company's common stock. (See Note 5).

On February 25, 2003, the Company entered into a Loan and Purchase Option Agreement with a development stage Internet related business venture pursuant to which it agreed to fund, in the form of a loan, at the discretion of the Company, the venture's operating expenses and obtained the option to acquire all of the outstanding capital stock of the venture in exchange for, when and if exercised, $40,000 in cash and the issuance of an aggregate of 2,000,000 unregistered restricted shares of theglobe.com's common stock. As of June 30, 2003, $295,000 has been advanced to this venture.

On November 14, 2002, the Company acquired certain VoIP assets from an entrepreneur. In exchange for the assets, the Company issued warrants to acquire 1,750,000 shares of its common stock and an additional 425,000 warrants as part of an earn-out arrangement upon the attainment of certain performance targets, none of which have been attained as of June 30, 2003. In conjunction with the acquisition, E&C Capital Partners, a privately held investment vehicle owned by our Chairman and Chief Executive Officer, Michael S. Egan, and our President, Edward A. Cespedes, entered into a non-binding letter of intent with theglobe.com to provide new financing in the amount of $500,000 through the purchase of a new series of preferred securities. That investment closed on March 28, 2003. (See Note 5).

The Company's December 31, 2002 consolidated financial statements have been prepared assuming the Company will continue as a going concern. We have received a report from our independent accountants containing an explanatory paragraph stating that we have suffered recurring losses from operations since inception that raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(b) 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.

(c) Unaudited Interim Condensed Consolidated Financial Information

The unaudited interim condensed consolidated financial statements of the Company as of June 30, 2003 and for the three and six months ended June 30, 2003 and 2002 included herein have been prepared in accordance with the instructions for Form 10-QSB 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 June 30, 2003 and the results of its operations for the three and six months ended June 30, 2003 and 2002 and its cash flows for the six months ended June 30, 2003 and 2002.

The results of operations for such periods are not necessarily indicative of results expected for the full year or for any future period. These financial statements should be read in conjunction with the audited financial statements as of December 31, 2002, and for the three years then ended and related notes included in the Company's Form 10-K filed with the Securities and Exchange Commission.

(d) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 and other factors. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents. The Company had no cash equivalents at June 30, 2003 or December 31, 2002.

(f) Comprehensive Loss

The Company's comprehensive loss for the three and six month periods ended June 30, 2003 and 2002 was the same as the net loss reported for the same periods on the accompanying unaudited condensed consolidated statements of operations. The Company had no accumulated other comprehensive loss as of December 31, 2002.

(g) Inventory

Inventories, consisting of products available for sale, are recorded using the average cost method and valued at the lower of cost or market value. The Company's provision for obsolete inventory as of June 30, 2003 and December 31, 2002 was approximately $103,000 and $100,000, respectively.

(h) Revenue Recognition

The Company's revenues were derived principally from the sale of print advertisements under short-term contracts in our games information magazine Computer Games; through the sale of video games and related products through our games distribution business Chips & Bits, Inc.; the sale of our games information magazine through newsstands and subscriptions; and from the sale of international minutes of calling time over the Internet.

Advertising revenues for the games information magazine are recognized at the on-sale date of the magazine. Sales from the online store are recognized as revenue when the product is shipped to the customer. Freight out costs are included in net sales and have not been significant to date. The Company provides an allowance for merchandise sold through its online store. The allowance provided to date has not been significant.

Newsstand sales of the games information magazine are recognized at the on-sale date of the magazine, net of provisions for estimated returns. Subscriptions are recorded as deferred revenue when initially received and recognized as income on a pro

rata basis over the subscription term. Revenues from the Company's share of the proceeds from its e-commerce partners' sales are recognized upon notification from its partners of sales attributable to the Company's sites, and to date, have been immaterial.

Telephony services revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured.

(i) Concentration of Credit Risk

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and trade accounts receivable. The Company maintains its cash and cash equivalents with various financial institutions. 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 is limited due to the Company's large number of customers.

For the three and six months ended June 30, 2003 and 2002, there were no customers that accounted for over 10% of net revenue generated by the Company.

(j) Net loss per share

Basic and diluted net loss per share were computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding for each period presented. Due to the Company's net losses, the effect of potentially dilutive securities or common stock equivalents that could be issued was excluded from the diluted net loss per share calculation due to the anti-dilutive effect. Such potentially dilutive securities and common stock equivalents consisted of the following for the three and six month periods ended June 30:

	2003	2002
Options to purchase common stock	8,220,000	3,344,000
Common shares issuable upon conversion of Series F Preferred Stock	16,667,000	--
Common shares issuable upon conversion of Convertible Notes	19,444,000	--
Common shares issuable upon conversion of Warrants	19,508,000	4,012,000
Total	63,839,000	7,356,000

Net loss attributable to common stockholders was calculated as follows:

	THREE MONTHS ENDED JUNE 30,		SIX
	2003	2002	2003
Net loss	$(2,757,371)	$(1,633,429)	$(3,439,118
Preferred conversion feature Of preferred stock	--	--	(500,000
Net loss attributable to common stockholders	$(2,757,371)	$(1,633,429)	$(3,939,118

(k) Segment Reporting

The Company applies the provisions of Statement of Financial Accounting Standards ("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. With the May 2003 acquisition of DPT, the Company is now organized in two operating segments for purposes of making operating decisions and assessing performance: computer games properties and VoIP telephony services. The chief operating decision maker evaluates performance, makes operating decisions and allocates resources based on financial data consistent with the presentation in the accompanying condensed consolidated financial statements. Separate segment disclosures have not been presented due to their immateriality. The Company expects to present segment disclosures beginning with the third quarter of 2003.

The Company's historical revenues have been earned primarily from customers in the United States. DPT's net revenue was attributable to the sale of telephony services outside of the United States. Telephony services revenue attributable to services provided to customers with operations in Thailand represented over 10% of consolidated net revenue for the three months ended June 30, 2003. All significant operations and assets of the Company are based in the United States.

(l) Recent Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments Hedging Activities." This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations or financial position.

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

(2) STOCK OPTIONS

On May 31, 2000, the Company offered to substantially all of its employees, excluding executive officers and the Board of Directors, the right to amend certain outstanding stock options and receive new options with an exercise price equal to the then current fair market value of the stock. Options to purchase a total of approximately 1.1 million shares, approximately 20% of outstanding options on that date, were amended and approximately 856,000 new options were granted at an exercise price of $1.594 per share, which was based on the closing price of the Company's common stock on May 31, 2000. The new options vest at the same rate that they would have vested under previous option plans. The Company is accounting for these re-priced stock options using variable accounting in accordance with FIN No. 44. In addition, as a result of options, which were granted within six months of the cancellations, an additional 244,000 options also require variable accounting in accordance with FIN No. 44. For the three and six months ended June 30, 2003, there was no compensation charge relating to the re-pricing due to the decrease in value of the common stock price. Depending upon movements in the market value of the Company's common stock, this accounting treatment may result in significant non-cash compensation charges in future periods.

A total of 2,375,000 stock options were granted during the six months ended June 30, 2003, including grants of 80,000 stock options to non-employees. Compensation expense of $11,750 was recognized during the six months ended June 30, 2003 with respect to non-employee stock options. A total of 125,000 stock options were exercised and 1,500 stock options were cancelled during the six months ended June 30, 2003.

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 2003: no dividend yield; an expected life of five years; 160% expected volatility and 3.00% risk free interest rate.

In accordance with SFAS No. 123, the Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based awards granted to employees. Accordingly, no compensation cost was recognized for employee stock options in the accompanying unaudited condensed consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its employee stock options issued under SFAS No. 123, the Company's net loss for the three and six months ended June 30, 2003 would have increased to the pro forma amounts below. No material grants or vesting of employee stock options occurred during the three and six month periods ended June 30, 2002, thus pro forma information for those periods has been omitted.

Period ended June 30, 2003,	Three Months	Six Months
Net loss:		
As reported	$ (2,757,371)	$ (3,439,118)
Pro forma	(3,805,000)	(4,487,000)
Basic and diluted loss per common share:		
As reported	$ (0.09)	$ (0.13)
Pro forma	(0.12)	(0.16)

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(3) LITIGATION

On and after August 3, 2001 and as of the date of this filing, six putative shareholder class action lawsuits were filled against the Company, certain of its current and former officers and directors, and several investment banks that were the underwriters of the Company's November 23, 1998 initial public offering and its May 19, 1999 secondary offering. The lawsuits were filed in the United States District Court for the Southern District of New York. The complaints against the Company have been consolidated into a single action and a Consolidated Amended Complaint, which is now the operative complaint, was filed on April 19, 2002.

The lawsuit purports to be a class action 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. The action seeks damages in an unspecified amount.

The action is being coordinated with approximately 300 other nearly identical actions filed against other companies. On July 15, 2002, the Company moved to dismiss all claims against it and the Individual Defendants. On October 9, 2002, the Court dismissed the Individual Defendants from the case without prejudice based on stipulations of dismissal filed by the plaintiffs and the Individual Defendants. On February 19, 2003, the Court denied the motion to dismiss the compliant against the Company. The Company has approved a Memorandum of Understanding ("MOU") and related agreements which set forth the terms of a settlement between the Company and the plaintiff class. It is anticipted that any potential financial obligations of the Company to plaintiffs due pursuant to the terms of the MOU and related agreements will be covered by existing insurance. Therefore, the Company does not expect that the settlement will involve any payment by the Company. The MOU and related agreements are subject to a number of contingencies, including the negotiation of a settlement agreement and approval by the Court. We cannot opine as to whether or when a settlement will occur or be finalized and, consequently, are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

In addition, subsequent to the quarter ended June 30, 2003, an action was commenced against one of the Company's subsidiaries. Global Communication Consulting Corp. v. Michelle Nelson, Jason White, VLAN, Inc., Geoffrey Amend, James Magruder, Direct Partner Telecom, Inc., et al. was filed in the Superior Court of New Jersey, Monmouth County, on July 3, 2003. Plaintiff is the former employer of Michelle Nelson, a consultant of Direct Partner Telecom, Inc. ("DPT"), a subsidiary of the Company. Plaintiff alleges that while Nelson was its employee, she provided plaintiff's confidential and proprietary trade secret information, to among others, DPT and certain employees, and diverted corporate opportunities from plaintiff to DPT and the other named defendants. Plaintiff asserts claims against Nelson including breach of fiduciary duty, breach of the duty of loyalty and tortious interference with contract. Plaintiff also assets claims against Nelson and DPT, among others, for contractual interference, tortious interference with prospective economic advantage and misappropriation of proprietary information and trade secrets. Plaintiff seeks injunctive relief and damages in an unspecified amount, including punitive damages.

The Answer to the Complaint is currently due to be filed on August 27, 2003. Defendants deny plaintiff's allegations of improper and unlawful conduct in their entirety and intend to vigorously defend against these claims. At the present time, we are unable to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

(4) ACQUISITIONS AND DISPOSITION

Acquisition of Direct Partner Telecom, Inc.

On May 28, 2003, the Company acquired Direct Partner Telecom, Inc. ("DPT"), a company engaged in VoIP telephony services internationally, in exchange for 1,375,000 shares of the Company's common stock and the issuance of warrants to acquire 500,000 shares of the Company's common stock. The warrants are exercisable any time before May 23, 2013 at an exercise price of $0.72 per share. In addition, the former shareholders of DPT may earn additional warrants to acquire up to 2,750,000 shares of the Company's common stock at an exercise price of $0.72 per share if DPT achieves certain revenue and earnings targets over approximately the next three years. These warrants will also accelerate and be deemed earned in the event of a "change in control" of the Company, as defined in the acquisition documents. In addition, as part of the transaction, the Company agreed to repay loans totaling $600,000 to certain of the former shareholders of DPT, including $500,000 immediately after the closing of the acquisition. The Company issued promissory notes for $100,000, with a two-year maturity and interest at prime, for the balance.

The total purchase price of DPT was allocated as follows (in thousands):

Cash	$ 61
Accounts receivable	155
Fixed assets	196
Non-compete agreement	375
Goodwill	554
Assumed debt to former shareholders	(600)
Other assumed liabilities	(103)
Purchase price	$ 638

As part of the acquisition transaction, the former Chief Executive Officer of DPT agreed to an employment agreement with a one-year term which automatically renews for an additional year. The employment agreement also contains non-compete provisions during the term of the agreement and for a period of three years following termination of the agreement, as specified. The $375,000 value assigned to the non-compete agreement is being amortized on a straight-line basis over 5 years. Annual amortization expense of the non-compete agreement is estimated to be $43,750 in 2003; $75,000 in 2004 through 2007; and $31,250 in 2008. The related accumulated amortization as of June 30, 2003, was $6,250.

The following unaudited pro forma condensed consolidated results of operations for the three and six months ended June 30, 2003, assumes the acquisition occurred as of October 1, 2002, the date which DPT began operations. There would be no change to the unaudited condensed consolidated results of operations of the Company for the three and six month periods ended June 30, 2002. The unaudited pro forma information is not necessarily indicative of the results of operations of the combined company had these events occurred at the beginning of the periods presented, nor is it necessarily indicative of future results.

Period ended June 30, 2003,	Three Months	Six Mont
Revenue	$ 1,798,000	$ 3,906,
Net Loss	(2,782,000)	(3,526,
Basic and diluted loss per common share	$ (0.09)	$ (0

Loan and Purchase Option Agreement

On February 25, 2003, theglobe.com entered into a Loan and Purchase Option Agreement with a development stage Internet related business venture pursuant to which it agreed to fund, in the form of a loan, at the discretion of the Company, the venture's operating expenses and obtained the option to acquire all of the outstanding capital stock of the venture in exchange for, when and if exercised, $40,000 in cash and the issuance of an aggregate of 2,000,000 unregistered restricted shares of theglobe.com's common stock (the "Option"). The Loan is secured by a lien on the assets of the venture and matures on December 12, 2003. The Option is exercisable at anytime on or before ten days after theglobe.com's receipt of notice relating to the award of a certain contract currently being pursued by the venture. In the event of the exercise of the Option, (i) the existing CEO and CFO of the venture have agreed to enter into employment agreements whereby each would agree to remain in the employ of the venture for a period of two years following the closing of the Option in exchange for base compensation plus participation in a bonus pool based upon the pre-tax income of the venture and (ii) the 2,000,000 shares of theglobe.com Common Stock issued upon such exercise will be entitled to certain "piggy-back" registration rights. If the Option is not exercised, then theglobe.com has agreed, subject to certain exceptions, to forgive repayment of $60,000 of the amount loaned. As of June 30, 2003, $295,000 has been advanced to this venture. Due to the uncertainty of collectibility of the Loan, as it is to a development stage business, the Company has set up a reserve for all of the Loan except the $40,000 attributable to the acquisition should the Company exercise the Option. The amount of the reserve, $255,000 was included in other expense in the accompanying statement of operations for the six months ended June 30, 2003.

Disposition

On February 27, 2002 the Company sold to Internet Game Distribution, LLC all of the assets used in connection with the Happy Puppy website. The total consideration received was $135,000. The Company received $67,500 immediately, and $67,500 to be held in escrow until the Company transferred all assets used in connection with the Happy Puppy website. On May 6, 2002, $67,500 was released to the Company. The Company recognized a gain on the sale of $134,500, in the first quarter of 2002.

(5) OTHER EVENTS

On May 22, 2003, E&C Capital Partners together with certain affiliates of Michael S. Egan, entered into a Note Purchase Agreement with the

Company pursuant to which they acquired convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of $1,750,000. The Convertible Notes are convertible at anytime into a maximum of approximately 19,444,000 shares of the Company's common stock at a blended rate of $0.09 per share. The Convertible Notes have a one year maturity date, which may be extended at the option of the holders of the Convertible Notes for periods aggregating two years, and are secured by a pledge of substantially all of the assets of the Company. The Convertible Notes bear interest at the rate of ten percent per annum, payable semi-annually. At the election of the holders of the Convertible Notes, interest may be payable in shares of the Company's common stock.

In addition, E&C Capital Partners was issued a warrant ("Warrant") to acquire 3,888,889 shares of the Company's common stock at an exercise price of $0.15 per share. The Warrant is exercisable at any time on or before May 22, 2013. The conversion prices of the Convertible Notes and the exercise price of the Warrant, together with the number of shares for which the Warrant is exercisable, are subject to adjustment upon the occurrence of certain events, including downward adjustment on a weighted-average basis in the event the Company should issue securities in the future at a purchase price below the respective conversion prices and exercise price of the Convertible Notes and Warrant.

An allocation of the proceeds received from the issuance of the Convertible Notes was made between the debt instruments and the Warrant by determining the pro-rata share of the proceeds for each by comparing the fair value of each security issued to the total fair value. The fair value of the Warrant was determined using the Black Scholes model. The fair value of the Convertible Notes was determined by measuring the fair value of the common shares on an as converted basis. As a result, $290,500 was allocated to the Warrant and recorded as a discount on the debt issued and additional paid in capital. The value of the beneficial conversion feature of the Convertible Notes was calculated by comparing the fair value of the underlying common shares of the Convertible Notes on the date of issuance to the "effective" conversion price. This resulted in a

preferential conversion discount, limited to the previously discounted value of the Convertible Notes, of $1,459,500, which was recorded as interest expense in the accompanying unaudited condensed consolidated statements of operations as the Convertible Notes were immediately convertible into common shares.

On November 14, 2002, E & C Capital Partners, a privately held investment holding company owned by Michael S. Egan, our Chairman and CEO and a major shareholder, and Edward A. Cespedes, our President and a Director, entered into a non-binding letter of intent with theglobe.com to provide $500,000 of new financing via the purchase of shares of a new Series F Preferred Stock of theglobe.com. On March 28, 2003, the parties signed a Preferred Stock Purchase Agreement and other related documentation pertaining to the investment and closed on the investment (the "Preferred Stock Investment"). Pursuant to the Preferred Stock Purchase Agreement, E & C Capital Partners received 333,333 shares of Series F Preferred Stock convertible into shares of the Company's Common Stock at a price of $0.03 per share. The conversion price is subject to adjustment upon the occurrence of certain events, including downward adjustment on a weighted-average basis in the event the Company should issue securities at a purchase price below $0.03 per share. If fully converted, and without regard to the anti- dilutive adjustment mechanisms applicable to the Series F Preferred Stock, an aggregate of approximately 16,667,000 shares of Common Stock could be issued. The Series F Preferred Stock has a liquidation preference of $1.50 per share (and thereafter participates with the holders of Common Stock on an "as-converted" basis), will pay a dividend at the rate of 8% per annum and entitles the holder to vote on an "as converted" basis with the holders of Common Stock. In addition, as part of the $500,000 investment, E & C Capital Partners received warrants to purchase approximately 3,333,000 shares of theglobe.com Common Stock at an exercise price of $0.125 per share. The warrant is exercisable at any time on or before March 28, 2013. E & C Capital Partners is entitled to certain demand registration rights in connection with its investment.

At the time of issuance of the preferred shares, an allocation of proceeds received was made between the Series F Preferred Stock and the warrants. The allocation was made by determining the pro-rata share of the proceeds for each by comparing the fair value of each security issued to the total fair value. The fair value of the warrants was determined using the Black Scholes model. The fair value of the Series F Preferred Stock was determined by measuring the fair value of the common shares on an as converted basis. As a result, $83,000 was allocated to the warrants sold. In addition, the value of the preferential conversion was calculated by comparing the fair value of the underlying common shares on the date of issuance to the conversion price. This resulted in a preferential conversion discount, limited to the proceeds from the sale, of $417,000. The sum of the two discounts, $500,000, has been recorded as a dividend to the preferred stockholders in March 2003, as the preferred shares were immediately convertible into common shares.

As a result of the issuance of the Series F Preferred Stock, the Convertible Notes and the associated warrants at their respective conversion and exercise prices, certain anti-dilution provisions applicable to previously outstanding warrants to acquire approximately 4,103,000 shares of theglobe.com common stock were triggered. Like many types of warrants commonly issued, these outstanding warrants to acquire shares of the Company's common stock include weighted average anti-dilution provisions which result in a lowering of the exercise price, and an increase in the number of warrants to acquire shares of the Company's common stock anytime shares of common stock are issued (or options or other securities exercisable or convertible into common stock) for a price per share less than the then exercise price of the warrants. As a result of the Preferred Stock Investment and the issuance of the Convertible Notes, the exercise price was lowered from approximately $1.39 to $0.68 per share on these warrants and the number of shares issuable upon exercise was proportionally increased from approximately 4,103,000 shares to 6,588,000 shares. The total number of warrants outstanding as of June 30, 2003, including those issued in the Preferred Stock Investment, the Convertible Notes and as a result of the acquisition of DPT (including 3,175,000 certain earn-out warrants), is approximately 19,508,000 (this total excludes the warrants issued pursuant to the Series G Automatically Converting Preferred Stock offering described in Note 6).

(6) SUBSEQUENT EVENTS

On July 2, 2003, the Company completed a private offering of 17,360 shares of Series G Automatically Converting Preferred Stock ("Series G

Preferred Stock") and warrants to acquire 3,472 shares of Series G Preferred Stock at a purchase price of $500 per share for a total of $8,680,000 in proceeds. Each share of Series G Preferred Stock was automatically converted into 1,000 shares of theglobe's Common Stock on July 29, 2003, the effective date of the amendment to the Company's certificate of incorporation increasing its authorized shares of Common Stock from 100,000,000 shares to 200,000,000 shares (the "Capital Amendment"). Similarly, upon the effective date of the Capital Amendment, each warrant to acquire a share of the Series G Preferred Stock was automatically converted into a warrant to acquire 1,000 shares of Common Stock. The warrants are exercisable for a period of 5 years at an initial exercise price of $1.39 per share. A total of 17,360,000 shares of Common Stock were issued pursuant to the Series G Preferred Stock private offering, while a total of 3,472,000 shares of Common Stock will be issuable upon exercise of the associated warrants. As of June 30, 2003, approximately $1,495,000 was received by the Company and recorded in the accompanying condensed consolidated balance sheet as stock subscription deposits.

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

FORWARD LOOKING STATEMENTS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations or Plan of Operation contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "estimates," "plans," "may," "intends," "will," or similar terms. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors described under "Risk Factors" and elsewhere in this report. 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, 2002.

OVERVIEW AND PLAN OF OPERATION

As of June 30, 2003, the Company was involved in two business segments: computer games properties and Voice over Internet Protocol ("VoIP") telephony services. The games properties are: our print publication Computer Games Magazine; our Computer Games Online website (www.cgonline.com), which is the online counterpart to Computer Games Magazine; and our Chips & Bits, Inc. (www.chipsbits.com) games distribution company. Each of our games properties specializes in the games business by delivering games information and selling games in the United States and abroad. Our newly created VoIP operations include

Direct Partner Telecom, Inc. ("DPT"), an international licensed telecommunications carrier engaged in the purchase and resale of telecommunications services over the Internet and our new retail VoIP service offering, voiceglo. DPT was acquired on May 28, 2003, 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. Management of the Company continues to actively explore a number of strategic alternatives for its online and offline game properties, including continuing to operate the properties or selling some or all of the game properties.

As of June 30, 2003, our revenues were derived principally from the sale of print advertisements under short-term contracts in our games information magazine Computer Games; through the sale of video games and related products through our games distribution business Chips & Bits, Inc.; through the sale of our games information magazine through newsstands and subscriptions; and from the resale of international minutes of calling time over the Internet.

On July 2, 2003, theglobe.com, inc. completed a private offering of a newly created series of preferred stock known as the "Series G Automatically Converting Preferred Stock" for an aggregate purchase price of approximately $8.7 million. In accordance with the terms of such Preferred Stock, the Series G Preferred shares converted into common stock at $0.50 per share (or an aggregate of approximately 17.4 million shares) upon the filing of an an amendment to the Company's certificate of incorporation to increase its authorized shares of Common Stock from 100,000,000 shares to 200,000,000 shares. Such an amendment was filed on July 29, 2003. Investors also received warrants to acquire approximately 3.5 million shares of common stock. The warrants are exercisable for a period of 5 years at an exercise price of $1.39 per comm