



Edgar Filing: THEGLOBE COM INC - Form 10-Q

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(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(954) 769 - 5900

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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

Large accelerated filer"

Accelerated filer

"

Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes x No "

The number of shares outstanding of the Registrant's Common Stock, \$.001 par value (the "Common Stock") as of August 10, 2012 was 441,484,838.

**THEGLOBE.COM, INC.**

**FORM 10-Q**

TABLE OF CONTENTS

|   |    |
|---|----|
| PART I: FINANCIAL INFORMATION   | 1  |
| Item 1. Financial Statements  | 1  |
| Condensed Consolidated Balance Sheets at June 30, 2012 (unaudited) and December 31, 2011                            | 1  |
| Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011 | 2  |
| Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011           | 3  |
| Notes to Unaudited Condensed Consolidated Financial Statements  | 4  |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations                       | 9  |
| Item 4. Controls and Procedures   | 13 |
| PART II: OTHER INFORMATION  | 13 |
| Item 1. Legal Proceedings   | 13 |
| Item 1A. Risk Factors   | 13 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds   | 16 |
| Item 3. Defaults Upon Senior Securities   | 17 |
| Item 4. Mine Safety Disclosures   | 17 |
| Item 5. Other Information   | 17 |
| Item 6. Exhibits  | 17 |
| SIGNATURES  | 18 |



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

|   | JUNE 30,<br>2012<br>(UNAUDITED) | DECEMBER 31,<br>2011 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Current Assets:   |                                 |                      |
| Cash and cash equivalents   | \$ 1,207                        | \$ 1,354             |
| Prepaid expenses  | 4,922                           | 4,972                |
| Total current assets  | \$ 6,129                        | \$ 6,326             |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                                 |                      |
| Current Liabilities:  |                                 |                      |
| Accounts payable to related party   | \$ 339,320                      | \$ 291,070           |
| Accounts payable  | 178,216                         | 178,184              |
| Accrued expenses and other current liabilities  | 436,631                         | 443,532              |
| Accrued interest due to related party   | 198,165                         | 173,233              |
| Notes payable due to related party  | 500,000                         | 500,000              |
| Net liabilities of discontinued operations  | 1,579,556                       | 1,609,556            |
| Total current liabilities   | 3,231,888                       | 3,195,575            |
| Stockholders' Deficit:  |                                 |                      |
| Common stock, \$0.001 par value; 500,000,000 shares authorized; 441,484,838 issued and outstanding at June 30, 2012 and December 31, 2011 | 441,485                         | 441,485              |
| Additional paid-in capital  | 294,301,845                     | 294,301,845          |
| Accumulated deficit   | (297,969,089 )                  | (297,932,579 )       |
| Total stockholders' deficit   | (3,225,759 )                    | (3,189,249 )         |
| Total liabilities and stockholders' deficit   | \$ 6,129                        | \$ 6,326             |

See notes to unaudited condensed consolidated financial statements.



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

|   | Three Months Ended June 30, |             | Six Months Ended June 30, |             |
|---|-----------------------------|-------------|---------------------------|-------------|
|   | 2012                        | 2011        | 2012                      | 2011        |
|   | (UNAUDITED)                 |             | (UNAUDITED)               |             |
| Net Revenue                                       | \$—                         | \$—         | \$—                       | \$—         |
| Operating Expenses:                               |                             |             |                           |             |
| General and administrative                        | 29,451                      | 23,986      | 78,804                    | 44,212      |
| Related party transactions                        | 60,000                      | 60,000      | 120,000                   | 120,000     |
|   | 89,451                      | 83,986      | 198,804                   | 164,212     |
| Operating Loss from Continuing Operations         | (89,451 )                   | (83,986 )   | (198,804 )                | (164,212 )  |
| Other Income (Expense), net:                      |                             |             |                           |             |
| Related party interest expense                    | (12,465 )                   | (12,465 )   | (24,931 )                 | (24,794 )   |
| Related party other income                        | 93,750                      | 87,500      | 187,500                   | 175,000     |
|   | 81,285                      | 75,035      | 162,569                   | 150,206     |
| Loss from Continuing Operations Before Income Tax | (8,166 )                    | (8,951 )    | (36,235 )                 | (14,006 )   |
| Income Tax Provision                              | —                           | —           | —                         | —           |
| Loss from Continuing Operations                   | (8,166 )                    | (8,951 )    | (36,235 )                 | (14,006 )   |
| Discontinued Operations, net of tax:              | (150 )                      | (150 )      | (275 )                    | (424 )      |
| Net Loss  | \$(8,316 )                  | \$(9,101 )  | \$(36,510 )               | \$(14,430 ) |
| Loss Per Share:                                   |                             |             |                           |             |
| Basic and Diluted:                                |                             |             |                           |             |
| Continuing Operations                             | \$—                         | \$—         | \$—                       | \$—         |
| Discontinued Operations                           | \$—                         | \$—         | \$—                       | \$—         |
| Weighted Average Common Shares Outstanding        | 441,484,838                 | 441,484,838 | 441,484,838               | 441,484,838 |

See notes to unaudited condensed consolidated financial statements.

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

|  | Six Months<br>Ended June 30,<br>2012      2011<br>(UNAUDITED) |            |
|--|---|------------|
| Cash Flows from Operating Activities:  |   |            |
| Net loss   | \$(36,510)  | \$(14,430) |
| Add back: loss from discontinued operations  | 275   | 424        |
| Net loss from continuing operations  | (36,235)  | (14,006)   |
| Adjustments to reconcile net loss from continuing operations to net cash flows from operating activities |   |            |
| Changes in operating assets and liabilities  |   |            |
| Prepaid and other current assets   | 50  | (90 )      |
| Accounts payable to related party  | 48,250  | 30,500     |
| Accounts payable   | 32  | 792        |
| Accrued expenses and other current liabilities   | (6,901 )  | (12,900)   |
| Accrued interest due to related party  | 24,932  | 24,795     |
| Net cash flows from operating activities of continuing operations  | 30,128  | 29,091     |
| Net cash flows from operating activities of discontinued operations                                      | (30,275)  | (30,424)   |
| Net cash flows from operating activities   | (147 )  | (1,333 )   |
| Net Decrease in Cash and Cash Equivalents  | (147 )  | (1,333 )   |
| Cash and Cash Equivalents, at beginning of period  | 1,354   | 2,689      |
| Cash and Cash Equivalents, at end of period  | \$1,207   | \$1,356    |

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. However, due to the deterioration of the online advertising market, the Company was forced to restructure and ceased the operations of its online community on August 15, 2001. The Company then sold most of its remaining online and offline properties. The Company continued to operate its Computer Games print magazine and the associated CGOnline website, as well as the e-commerce games distribution business of Chips & Bits. 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 entered into the Voice over Internet Protocol (“VoIP”) business by acquiring certain VoIP assets.

On May 9, 2005, the Company exercised an option to acquire all of the outstanding capital stock of Tralliance Corporation (“Tralliance”), an entity which had been designated as the registry for the “.travel” top-level domain through an agreement with the Internet Corporation for Assigned Names and Numbers (“ICANN”).

As more fully discussed in Note 3, “Discontinued Operations,” in March 2007, management and the Board of Directors of the Company made the decision to (i) cease all activities related to its computer games businesses, including discontinuing the operations of its magazine publications, games distribution business and related websites; and (ii) discontinue the operating, research and development activities of its VoIP telephony services business and terminate all of the remaining employees of that business.

On September 29, 2008, the Company sold its Tralliance business and issued 229,000,000 shares of its Common Stock to a company controlled by Michael S. Egan, the Company’s Chairman and Chief Executive Officer (see Note 3, “Sale of Tralliance and Share Issuance”). As a result of the sale of its Tralliance business, the Company became a shell company (as defined in Rule 12b-2 of the Securities and Exchange Act of 1934) with no material operations or assets. However, certain matters, as more fully discussed in Note 2, “Liquidity and Going Concern Considerations,” raise substantial doubt about the Company’s ability to continue as a going concern.

## 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 June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 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 June 30, 2012 and the results of its operations and its cash flows for the three and six months ended June 30, 2012 and 2011. 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 primarily to valuations of accounts payable and accrued expenses. At June 30, 2012 and December 31, 2011, a significant portion of our liabilities of discontinued operations relate to charges that have been disputed by the Company and for which estimates have been required. Our estimates, judgments and assumptions are continually evaluated based upon available information and experience. Because of estimates inherent in the financial reporting process, actual results could differ from those estimates.

## NET INCOME PER SHARE

The Company reports basic and diluted net income per common share in accordance with FASB ASC Topic 260, "Earnings Per Share." 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 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.

Due to the anti-dilutive effect of potentially dilutive securities or common stock equivalents that could be issued, such securities were excluded from the diluted net loss per common share calculation for all periods presented. Such potentially dilutive securities and common stock equivalents consisted of the following for the periods ended June 30:

|  | 2012       | 2011       |
|--|------------|------------|
| Options to purchase common stock                 | 13,480,000 | 13,527,500 |
| Common shares issuable upon exercise of warrants | 2,250,000  | 2,250,000  |
| Total  | 15,730,000 | 15,777,500 |

## RECENT ACCOUNTING PRONOUNCEMENTS

Management has determined that all recently issued accounting pronouncements will not have a material impact on the Company's financial statements or do not apply to the Company's operations.

## RECLASSIFICATIONS

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

## (2) LIQUIDITY AND GOING CONCERN CONSIDERATIONS

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on a going concern basis, which contemplates the

realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. However, for the reasons described below, Company management does not believe that cash on hand and cash flow generated internally by the Company will be adequate to fund its limited overhead and other cash requirements beyond a short period of time. These reasons raise significant doubt about the Company's ability to continue as a going concern.

Since 2008, the Company was able to continue operating as a going concern due principally to funding of \$500,000 received during 2008 under a Revolving Loan Agreement with an entity controlled by Michael S. Egan, its Chairman and Chief Executive Officer and a total of approximately \$1,256,000 received during 2009 to 2012 under an Earn-out Agreement with an entity also controlled by Mr. Egan.

At June 30, 2012, the Company had a net working capital deficit of approximately \$3,226,000. Such working capital deficit included (i) a total of approximately \$698,000 in principal and accrued interest owed under the aforementioned Revolving Loan Agreement; (ii) a total of approximately \$339,000 in management service fees owed under a Master Services Agreement to an entity controlled by Mr. Egan; and (iii) an aggregate of approximately \$2,194,000 in unsecured accounts payable and accrued expenses owed to vendors and other non-related third parties (of which approximately \$1,580,000 relates to liabilities of our VoIP telephony service discontinued business). Approximately \$1,200,000 of the aforementioned non-related party unsecured liabilities have been disputed by the Company. These disputed liabilities relate primarily to telecommunications network service fees charged by several former vendors of the Company's discontinued VoIP telephony services business during the period from 2004 to 2007 (see Note 3, "Discontinued Operations"). These charges have been disputed by the Company primarily due to such items as incorrect quantities, rates, service dates, regulatory fees/charges, late fees and contract termination fees. theglobe believes that its ability to continue as a going concern for any significant length of time in the future will be heavily dependent, among other things, on the continued forbearance of Mr. Egan and related entities in making demand for payment for amounts outstanding under the Revolving Loan Agreement and the Master Services Agreement, and its ability to prevail and avoid making any payments with respect to such disputed vendor charges and/or to negotiate favorable settlements (including discounted payment and/or payment term concessions) with the aforementioned creditors.

As discussed previously, on September 29, 2008, the Company (i) sold the business and substantially all of the assets of its Tralliance Corporation subsidiary to Tralliance Registry Management, and (ii) issued 229,000,000 shares of its Common Stock (the "Shares") to Registry Management (the "Purchase Transaction"). Tralliance Registry Management and Registry Management are entities controlled by Michael S. Egan. The closing of the Purchase Transaction resulted in the cancellation of all of the Company's remaining Convertible Debt, related accrued interest and rent and accounts payable owed to entities controlled by Mr. Egan as of the date of closing (totaling approximately \$6,400,000).

However, the Company continues to be obligated to repay its principal borrowings totaling \$500,000, plus accrued interest at the rate of 10% per annum (approximately \$198,000 as of June 30, 2012), due to an entity controlled by Mr. Egan under the aforementioned Revolving Loan Agreement. All unpaid borrowings under the Revolving Loan Agreement, as amended on May 7, 2009, including accrued interest, are due and payable by the Company in one lump sum on the earlier of (i) five business days following any demand for payment, which demand can be made at any time, or (ii) the occurrence of an event of default as defined in the Revolving Loan Agreement. The Company currently has no ability to repay this loan should a demand for payment be made by the noteholder. All borrowings under the Revolving Loan Agreement are secured by a pledge of all of the assets of the Company and its subsidiaries. After giving effect to the closing of the Purchase Transaction and the issuance of the Shares thereunder, Mr. Egan owned approximately 76% of the Company's Common Stock and continues to own such amount at June 30, 2012.

As additional consideration under the Purchase Transaction, Tralliance Registry Management is obligated to pay an earn-out to theglobe equal to 10% (subject to certain minimums) of Tralliance Registry Management's net revenue (as defined) derived from ".travel" names registered by Tralliance Registry Management from September 29, 2008 through May 5, 2015 (the "Earn-out"). The minimum Earn-out payable by Tralliance Registry Management to theglobe was \$300,000 in the first year, increasing by \$25,000 in each subsequent year (pro-rated for the final year of the Earn-out).

In connection with the closing of the Purchase Transaction, the Company also entered into a Master Services Agreement with an entity controlled by Mr. Egan whereby for a fee of \$20,000 per month (\$240,000 per annum) such entity will provide personnel and services to the Company so as to enable it to continue its existence as a public company without the necessity of any full-time employees of its own. Additionally, commensurate with the closing of the Purchase Transaction, Termination Agreements with each of its current executive officers, which terminated their previous and then existing employment agreements, were executed. Notwithstanding the termination of these employment agreements, each of our current executive officers and directors remain as executive officers and directors of the Company.

Immediately following the closing of the Purchase Transaction, theglobe became a shell company with no material operations or assets, and no source of revenue other than under the Earn-out. It is expected that theglobe's future operating expenses as a public shell company will consist primarily of expenses incurred under the aforementioned Master Services Agreement and other customary public company expenses, including legal, audit and other miscellaneous public company costs.

## **MANAGEMENT'S PLANS**

As a shell company, management believes that theglobe will most likely continue to incur net losses and cash flow deficiencies for the foreseeable future. However, assuming that no significant unplanned costs are incurred, management believes that theglobe's future losses will be limited. Further, in the event that Registry Management is successful in substantially increasing net revenue derived from ".travel" name registrations (and as the result

maximizing theglobe's Earn-out revenue) in the future, theglobe's prospects for achieving profitability will be enhanced. To date, the Company has received only the minimum payments pursuant to the Earn-out. There can be no assurance that theglobe will be able to collect the minimum payments over the remaining life of the Earn-out.

It is the Company's preference to avoid filing for protection under the U.S. Bankruptcy Code. However, based upon the Company's current financial condition as discussed above, management believes that additional debt or equity capital will need to be raised in order for theglobe to continue to operate as a going concern on a long-term basis. Such capital will be needed both to (i) fund its expected limited future net losses and (ii) repay the \$698,000 of secured debt and related accrued interest due under the Revolving Loan Agreement and the \$339,000 of management service fees due under the Master Services Agreement, and a portion of the \$2,194,000 unsecured indebtedness (assuming theglobe is successful in favorably resolving and settling certain disputed and non-disputed vendor charges related to such unsecured indebtedness). Any such capital would likely come from Mr. Egan, or affiliates of Mr. Egan, as the Company currently has no access to credit facilities and had traditionally relied upon borrowings from related parties to meet short-term liquidity needs. Any such capital raised would likely result in very substantial dilution in the number of outstanding shares of the Company's Common Stock.

On a short-term liquidity basis, the Company must be successful in collecting the quarterly Earn-out payments contractually due from Tralliance Registry Management on a timely basis, and must receive the continued indulgence of substantially all of its creditors, in order to continue to operate as a going concern in the near term. Given theglobe's current financial condition and the state of the current United States capital markets and economy, it has no current intent to seek to acquire, or start, any other businesses.

### **(3) DISCONTINUED OPERATIONS**

In March 2007, management and the Board of Directors of the Company made the decision to cease all activities related to its Computer Games businesses, including discontinuing the operations of its magazine publications, games distribution business and related websites. The Company's decision to shutdown its computer games businesses was based primarily on the historical losses sustained by these businesses during the recent past and management's expectations of continued future losses. As of June 30, 2012, all significant elements of its computer games business shutdown plan have been completed by the Company.

In addition, in March 2007, management and the Board of Directors of the Company decided to discontinue the operating, research and development activities of its VoIP telephony services business and terminate all of the remaining employees of the business. The Company's decision to discontinue the operations of its VoIP telephony services business was based primarily on the historical losses sustained by the business during the past several years, management's expectations of continued losses for the foreseeable future and estimates of the amount of capital required to attempt to successfully monetize its business. As of June 30, 2012, all significant elements of its VoIP telephony services business shutdown plan have been completed by the Company, except for the resolution of certain vendor disputes and the payment of remaining outstanding vendor payables.

Results of operations for the Computer Games and VoIP telephony services businesses have been reported separately as "Discontinued Operations" in the accompanying condensed consolidated statements of operations for all periods presented. There are no discontinued operations assets included in the accompanying condensed consolidated balance sheets. The remaining liabilities of the VoIP telephony services business, totaling approximately \$1,580,000 and \$1,610,000 at June 30, 2012 and December 31, 2011, respectively, have been included in the caption, "Liabilities of Discontinued Operations" in the accompanying condensed consolidated balance sheets. Approximately \$1,000,000 of such liabilities at June 30, 2012 and December 31, 2011 relate to charges that have been disputed by the Company and for which estimates were required.

#### (4) STOCK OPTION PLANS

We have several stock option plans under which nonqualified stock options may be granted to officers, directors, other employees, consultants and advisors of the Company. In general, options granted under the Company's stock option plans expire after a ten-year period and generally vest no later than three years from the date of grant. Incentive options granted to stockholders who own greater than 10% of the total combined voting power of all classes of stock of the Company must be issued at 110% of the fair market value of the stock on the date the options are granted. As of June 30, 2012, there were approximately 9,504,000 shares available for grant under the Company's stock option plans.

There were no stock option grants or exercises during each of the six months ended June 30, 2012 and 2011.

Stock option activity during the six months ended June 30, 2012 was as follows:

|                                  | Total Options | Weighted<br>Average Exercise<br>Price |
|----------------------------------|---------------|---------------------------------------|
| Outstanding at December 31, 2011 | 13,502,500    | \$ 0.17                               |
| Granted                          | —             |                                       |

|                                      |            |    |      |
|--------------------------------------|------------|----|------|
| Exercised                            | —          |    |      |
| Expired                              | (22,500    | )  | 0.04 |
| Outstanding at June 30, 2012         | 13,480,000 | \$ | 0.17 |
| Options exercisable at June 30, 2012 | 13,480,000 | \$ | 0.17 |

Each of the weighted-average remaining contractual terms of stock options outstanding and stock options exercisable at June 30, 2012 were 1.7 years. The aggregate intrinsic value of both options outstanding and stock options exercisable at June 30, 2012 was \$0.

Stock compensation cost is recognized on a straight-line basis over the vesting period. At June 30, 2012, there was no unrecognized compensation expense related to unvested stock options.

The Company estimates the fair value of each stock option at the grant date by using the Black Scholes option-pricing model using the following assumptions: no dividend yield; a risk free interest rate based on the U.S. Treasury yield in effect at the time of grant; an expected option life based on historical and expected exercise behavior; and expected volatility based on the historical volatility of the Company’s stock price over a time period that is consistent with the expected life of the option.

## **(5) LITIGATION**

On October 14, 2011, the Company was served with a summons and complaint dated October 11, 2011 (the “Complaint”) filed in the United States Bankruptcy Court for the Middle District of Florida (the “Court”). The deadline for the Company to respond to the Complaint was November 10, 2011. The Complaint was filed by Stanley A. Murphy, as the Distribution Trustee of the Distribution Trust Created under the Confirmed Plan of Reorganization of SendTec, Inc. (formerly RelationServe Media, Inc.) (the “Distribution Trust”).

SendTec, Inc. (“SendTec”) was a direct response marketing services and technology business that was originally purchased by the Company on September 1, 2004. On October 31, 2005 all of the business and substantially all of the assets of SendTec (including the name “SendTec”) were sold to a subsidiary of RelationServe Media, Inc. (together “RelationServe”) (the “Purchase Transaction”) for a purchase price of \$39.9 million.

The Complaint alleges, among other things, that SendTec or one of its affiliates was insolvent at the time of, or was rendered insolvent, as a result of, the Purchase Transaction. The Complaint further alleges that the Purchase Transaction was made with the actual intent to hinder, delay or defraud creditors of SendTec or its affiliates and that it received less than reasonably equivalent value for the purchase price paid to the Company in connection therewith. The Complaint alleges that the Purchase Transaction was a fraudulent transfer under applicable Florida Statutes and that it is avoidable under such Florida Statutes and applicable federal bankruptcy law. The Complaint seeks to recover all monies received by the Company in connection with the Purchase Transaction for the benefit of the Distribution Trust.

The Company filed a motion to dismiss the lawsuit on several grounds and in the alternative for a more definitive statement. The Court held a hearing on the Company’s motion to dismiss on April 17, 2012. The Court granted the Company’s motion to dismiss, but allowed the Distribution Trust to amend the Complaint to attempt to resolve the deficiencies therein.

On May 15, 2012, an amended Complaint was filed by the Distribution Trust. Shortly thereafter, the Company filed another motion to dismiss the lawsuit. As of the date hereof, the Court has not issued a ruling on the amended Complaint and the Company’s subsequent motion to dismiss the lawsuit.

The Company intends to vigorously defend itself against the allegations made in the Complaint. However, we have very limited cash resources and the legal costs that may be incurred in the defense and resolution of this matter alone could adversely affect our ability to continue as a going concern.

The Company is currently a party to certain other claims and disputes arising in the ordinary course of business, including certain disputes related to vendor charges incurred by its discontinued VoIP telephony services business. The Company believes that it has recorded adequate accruals on its balance sheet to cover such disputed charges, totaling approximately \$1.2 million, and is seeking to resolve and settle such disputed charges for amount substantially less than recorded amounts. An adverse outcome in any of these matters, however, could materially and adversely effect our financial position and prospects, utilizing all or a significant portion of our limited cash resources, and adversely affect our ability to continue as a going concern (see Note 2, “Liquidity and Going Concern Considerations”).

## **(6) RELATED PARTY TRANSACTIONS**

On June 6, 2008, the Company entered into a Revolving Loan Agreement with Dancing Bear Investments, Inc. (“Dancing Bear”), pursuant to which Dancing Bear may loan up to \$500,000 to the Company on a revolving basis (the “Credit Line”). Dancing Bear is an entity controlled by Michael S. Egan, the Company’s Chairman and Chief Executive Officer. During 2008 the Company made borrowings totaling the full amount of the \$500,000 Credit Line. At June 30, 2012, outstanding principal and accrued interest under the Credit Line totaled \$500,000 and \$198,165, respectively. During both the six months ended June 30, 2012 and 2011, interest expense related to the Credit Line of approximately \$25,000 was recorded. All borrowings under the Credit Line, including accrued interest on borrowed funds at the rate of 10% per annum, were initially due and payable in one lump sum on the first anniversary of the Credit Line, or June 6, 2009, or sooner upon the occurrence of an event of default under the loan documentation. On May 7, 2009, such repayment terms were amended so as to require the Company to repay any or all amounts due under the Credit Line in one lump sum on the earlier of (i) five business days following any demand for payment that is made on or after June 6, 2009, or (ii) the occurrence of an event of default as defined in the Revolving Credit Agreement.

During the six months ended June 30, 2012 and 2011, the Company received minimum Earn-out installment payments totaling \$187,500 and \$175,000, respectively, from Tralliance Registry Management Company LLC (“Tralliance Registry Management”) under an Earn-out Agreement entered into on September 29, 2008 by and between Tralliance Registry Management and the Company. Tralliance Registry Management is an entity controlled by Michael S. Egan, and each of our two remaining executive officers and Board members, Edward A. Cespedes, our President, and Robin S. Lebowitz, our Vice President of Finance, who own a minority interest in The Registry Management Company, LLC, the parent company of Tralliance Registry Management.

During the six months ended June 30, 2012 and 2011, the Company paid management services fees totaling \$71,750 and \$89,500, respectively, to Dancing Bear under a Master Services Agreement entered into on September 29, 2008 by and between Dancing Bear and the Company. At June 30, 2012, a total of \$339,320 in management service fees remains unpaid and is accrued on the Company’s condensed consolidated balance sheet.

## **(7) SUBSEQUENT EVENTS**

We have performed an evaluation of subsequent events that have occurred after the balance sheet date, but before the financial statements were available to be issued, which the Company considers to be the date the financial statements were issued. There were none.

**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:

· the outcome of pending litigation;

· our ability to negotiate favorable settlements with unsecured creditors;

· our ability to successfully resolve disputed liabilities;

· our estimates or expectations of continued losses;

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