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

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**Form 10-K**

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**(Mark One)**

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

**For the fiscal year ended December 31, 2012**

**£** 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: 0-24115**

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**WORLDS ONLINE INC.**  
**(Exact Name of Registrant as Specified in Its Charter)**

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Delaware  
**(State or Other Jurisdiction of  
Incorporation or Organization)**

27-4672745  
**(I.R.S. Employer  
Identification No.)**

**11 Royal Road, Brookline, MA 02445**  
**(Address of Principal Executive Offices)**

**(617) 909-4043**  
**(Registrant's Telephone Number, Including Area Code)**

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**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	<b>Name Of Each Exchange On Which Registered</b>
None	Not Applicable

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, \$.001 par value  
(Title of Class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

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  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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

- Large Accelerated Filer       Accelerated Filer  
 Non-Accelerated Filer       Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked closing price of such common equity, as of March 5, 2013 (closing price was \$0.075) was approximately \$1,905,866.

At March 5, 2013, the issuer had outstanding 25,411,549 shares of par value \$.001 Common Stock, of which 23,105,167 shares were held by non-affiliates.

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### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This report includes 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 statements involve risks and uncertainties and our actual results could differ significantly from those discussed herein. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "believe," and similar language, including those set forth in the discussion under "Description of Business," "Risk Factors" and "Management's Discussion and Analysis or Plan of Operation" as well as those discussed elsewhere in this Form 10-K. We base our forward-looking statements on information currently available to us, and we believe that the assumption and expectations reflected in such forward-looking statements are reasonable, and we assume no obligation to update them. Statements contained in this Form 10-K that are not historical facts are forward-looking statements that are subject to the "safe harbor" created by the Private Securities Litigation Reform Act of 1995.

## PART I

### ITEM 1. BUSINESS.

#### General

Worlds Online is a 3D entertainment portal which leverages its proprietary licensed technology to offer visitors a network of virtual, multi-user environments which we call "worlds". These worlds are visually engaging online environments featuring animation, motion and content where people can come together and, by navigating through the website, shop, interact with others, attend events and be entertained. In support of this portal and our overall business strategy, we design and develop software, content and related technology for the creation of interactive, three-dimensional ("3D") Internet web sites. Using our licensed technology, we create our own Internet sites, as well as sites available through third-party online service providers.

Sites using our technology allow numerous, simultaneous visitors to enter, navigate and share interactive "worlds". Our 3D Internet sites are designed to promote frequent, repeat and prolonged visitation by users by providing them with unique online communities featuring dynamic graphics, highly useful and entertaining information content, and interactive capabilities. We believe that our sites are highly attractive to advertisers because they offer access to demographic-specific user bases comprised of people that visit the site frequently and stay for relatively long periods of time.

Our 3D platform has been upgraded and, based upon its experience and knowledge of the industry, management believes that it is competitive with, current industry products. Worlds Inc. has expended over \$500,000 in technical development over the past seven years on its development efforts. These improvements include but are not limited to porting of the original Worlds player platform to a new rendering engine, Wild Magic, which provides for faster rendering of graphics and communicating with current graphic chip sets that are now standard in PC's. Worlds Inc. has also upgraded the avatar engine to provide more lifelike character movement and human face mapping and added enhanced lighting and particle effects. We also have added a micro-economy system which is tied into a Visa debit card platform for online and off line usage.

In addition to our current business of developing and/or maintaining worlds for our customers, we also plan to facilitate revenue generation through the acquisition of target companies that are either related to our core online virtual world properties or are operating in the areas of mobile content, casual games, virtual currency/ micro transactions, online advertising and e-learning. We believe that targeted acquisition candidates offer a new cross platform opportunity to acquire customers and revenue while synergistically complimenting our core competencies and technology platforms.

Going forward we will differ in business operation from Worlds Inc. by focusing solely on the development of virtual worlds, establishing strategic partnerships and pursuing related synergistic technology acquisitions, whereas Worlds Inc. will be focused solely on expanding its patent portfolio and to enforce its rights where it believes parties are infringing on its IP portfolio. With respect to acquisitions, there are no signed agreements or letters of intent at this time and we are only in the initial stages of discussion and negotiation. No assurance can be given that we will be successful in closing any deals or, even if we successfully close any deals, that we will see any revenues from such transactions

We will be free to engage in business development efforts completely independently of patent portfolio enforcement actions of Worlds Inc. We believe this structure is necessary to (i) insulate our potential strategic partners and licensees from patent enforcement activities to be undertaken by Worlds Inc., (ii) reduce the uncertainty of patent litigation, thereby allowing us easier access to financing, and (iii) permit us easier access to financing by allowing potential investors to focus on our business.

## **Our Developments**

We were formed on January 25, 2011 as a wholly-owned subsidiary of Worlds Inc. (formerly known as Worlds.com Inc.). Effective May 16, 2011 Worlds Inc. transferred to us the majority of its operations and related operational assets, except for its patent portfolio. Worlds Inc. has also given us a perpetual world-wide license to its patented technology. Pursuant to the license, we have the right to issue unlimited sublicenses to the licensed technology, subject to Worlds Inc.'s reasonable consent.

The assets transferred to us include: Worlds Inc.'s technology platform, Worlds Chat, Aerosmith World, DMC Worlds, Cinema Virtual, Pearson contracts and related revenue, the following URLs: Worlds.com, Cybersexworld.com, Hang.com, and Worldsfunds.com, a digital inventory of over 10,000 3D objects, animation sequences, an extensive avatar library, texture maps and virtual world architectures.

The transfer of assets occurred in the context of the spin-off by Worlds Inc. of its online and operational technologies businesses to us. The spin-off was effectuated by Worlds Inc. (formerly known as Worlds.com Inc.) declaring a dividend of its shares of its then wholly-owned subsidiary, Worlds Online, Inc. with each share of Worlds Inc. to receive 1/3 of a share of Worlds Online with all fractional shares rounded up. Worlds Inc. did not want a trading market to develop for its shares until the SEC completed its review of its registration statement on Form 10. Accordingly, the actual distribution of the dividend did not occur until the payment date of March 12, 2012. Our stock is quoted on the OTC Bulletin Board. Approximately 23,859,248 shares were issued as part of the dividend distribution and immediately following the distribution Worlds Inc. continued to own approximately 19.7% of our outstanding shares. Worlds Inc., intends to dispose of its stock in an orderly fashion into the open market or in private sales, in either case in ways designed not to impact the market, but in any event within five years. While it holds any of our shares it will vote them in proportion to the votes by other stockholders.

## **Our Technology**

There has been a tremendous amount of activity and press with respect to the 3D space on the Internet supporting our belief that the timing is right for our strategy and it is our intention, as the pioneers in 3D, to position ourselves as a leading participant in this market. For example:

The Gartner Group, in an article it published as a Gartner Group Report on April 24, 2007 was quoted as stating:

*“The collaborative and community-related aspects of these environments will dominate in the future, and significant transaction-based commercial opportunities will be limited to niche areas, which have yet to be clearly identified,”* said Steve Prentice, vice president and distinguished analyst at Gartner.

Fleishman Hillard was quoted in an article published on February 19, 2006, in its internal publication called NGT (Next Great Thing) Youth Trends: NGT 15, as stating:

*“While everyone was buzzing about Second Life, a lot was happening under the radar regarding avatars and virtual worlds. It's early still, but it is developing rapidly. If these applications continue to become easier to use and 3D content is further developed, the opportunity in this area will explode.”*

Other examples include (i) a February 2011 nationally published report by research firm eMarketer which stated that the social gaming market is expected to top \$1 billion in 2011, an increase of 28% from 2010 and that more than 59% of that revenue is expected to come from the sale of virtual goods, and (ii) a Wall Street Journal article on February 14, 2011, headlined “Zynga’s Talks With Investors Value Gaming Concern at Over \$7 Billion” that profiled the three-year old social-gaming company Zynga, “which makes...games like FarmVille and CityVille in which people spend real money to buy virtual goods, such as...virtual cash to construct buildings in CityVille. Using the social connections people maintain on Facebook to spread virally, CityVille and Farmville now have 96 million and 51 million active monthly players, respectively.”

All of the above-referenced articles are available at no cost or a nominal charge on the Internet or by written request to the author/ publisher.

We license our technology to produce three-dimensional portals and web sites for ourself and for third parties. We believe that our core technology delivers a considerably faster frame rate for user experiences and, in some cases, a meaningful productivity increase in art production and integration over its previous generation production tools. Our licensed technology permits the development of virtual worlds which have broad applications. These applications include but are not limited to:

- o a virtual meeting place (such as a fan club);
- o a 3D e-commerce store (where merchandise can be viewed in 3D and purchased online); and
- o a virtual classroom (where content can be viewed via video streaming and then discussed in real time).

The core technology has substantial elements written in, Java, including WorldsBrowser and WorldsShaper, so we expect that it can be made portable across Windows and UNIX Platforms because of Java's platform independence.

Our core technology includes:

- o **WorldsShaper:** WorldsShaper is the visual authoring component of our platform. It allows for quick assembly of pieces to create multi-user, shared state, virtual worlds. The WorldsShaper is an advanced compositing 3D building tool that integrates pre-existing or custom content, such as 3D models, textures or images created in Adobe's Photoshop, or midi or wave sound files, with architectural geometry and interactive behaviors and actions written in Java. The architectural building blocks for creating 3D worlds, the flexibility and power of integrating professional modeling and imaging tools, and the extensibility via Java make the WorldsShaper a tool well-suited for rapid creation of 3D environments.
- o **WorldsServer:** WorldsServer is the scalable software that we use to control and operate our on-line virtual communities. WorldsServer manages the registration and authentication of users, the locations of users within the 3D environment, the physical structure of the 3D environment, all information regarding objects that are "shared" by the participants and any of the interactions between the users such as text chat. This platform also integrates an HTTP server for the delivery of other content such as audio and video streaming and secure e-commerce applications.
- o **WorldsBrowser:** WorldsBrowser is used to access the 3D environments. The browser is optimized for speed, delivering relatively fast frame rates per second in highly textured virtual 3D worlds.
- o **WorldsPlayer™:** The WorldsPlayer allows users to view and experience our multi-user, interactive technology. Any world created with the WorldsShaper will be viewable and navigable with the WorldsPlayer. The WorldsPlayer has a high frame rate for fast, quality graphics, an easy-to-use graphic user interface, 2D web browser integration, automatic upgrade capability over the internet and a complete communication tool set including text chat, voice-to-voice chat, e-mail and animation.
- o **Worlds Gamma Libraries:** The Worlds Gamma Libraries are composed of sample worlds, textures, models, avatars, actions, sensors, sounds, motion sequences, and other behaviors.

## **Worlds 3D Chat**

We license a proprietary online 3D Internet chat site known as Worlds.com, an interactive site employing our licensed 3D technology. Our licensed 3D technology enhances users' chat experiences by allowing users to see a representation of each other in the form of highly textured characters, known as avatars, and to explore a 3D environment together. Users have the option to create their own avatars or choose from pre-defined figures in our library. Users communicate with each other through text chat, as well as voice-to-voice chat and can move through the many virtual "worlds" of the 3D environment.

The user moves his or her avatar through these worlds using a mouse or keyboard arrow keys and can:

- o engage other avatars in one-on-one text-based or real voice-to-voice discussions;
- o enter theme-based chat rooms featuring group discussions on numerous music styles, specific recording artists and other topics;
- o experience interactive advertising and promotions;
- o access information on various recording artists, concert schedules and other music-related and non-music-related information;
- o view new music videos by leading recording artists;
- o listen to selections from newly released CDs by numerous recording artists;
- o purchase music and recording artist-related merchandise online; and
- o design their own unique avatar as a VIP subscriber.

We believe that the user base to the Worlds 3D Chat site will develop into a valuable asset. Worlds 3D Chat also contains an e-commerce component in the form of a real 3D virtual store online, selling music merchandise of various major recording artists.

In order to increase the number of potential subscribers to our 3D music sites, we offer a modified demo version of our Worlds 3D Chat product as a free download. By reducing the price barrier, we hope to generate new members to our Chat service. The proliferation of Worlds 3D Chat may also increase corporate brand identity that could translate into valuable consumer data and related advertising potential. The free demo can be accessed by going to [www.worldsonline.com](http://www.worldsonline.com) and following instructions for a log-in account.

We believe that there is an opportunity to further exploit the Worlds 3D Chat product in modified form. We are now exploring the modification of Worlds 3D Chat as a corporate Intranet chat and information service for corporate clients. The modified application of Worlds 3D Chat, if successfully modified and then marketed, could provide us with an ongoing revenue stream based on the licensing fees for our server technology, as well as annual membership subscription fees.

## **Our Strategy**

Our goal is to become a provider of interactive 3D Internet sites where entertainment content, interactive chat and e-commerce opportunities converge to provide communities for users and advertisers. Keys to achieving our goal are:

- o Producing interactive multimedia 3D sites. We believe that music and entertainment brands readily lend themselves to exploitation through web sites utilizing our technology. We also believe that the highly graphic, interactive nature of sites using our technology appeals to users drawn to music and entertainment based sites, differentiates such sites from other non-3D music and entertainment based sites and thereby encourages repeat visitation. Because our technology allows for the creation of multiple worlds accessible from a web site, it allows such sites to segregate users of different tastes and demographics.
- o Creating effective offline distribution partnerships with recording artists and their record companies. We are now actively seeking to enter into alliances with recording artists and their record companies.
- o Creating Brand Identity for Worldsonline.com. Public awareness of our site and products is critical to our success. We are now actively seeking to build this awareness by entering into co-branding arrangements with other high-profile Internet companies and music and entertainment companies.
- o Creating Other Services Using Our Interactive 3D Technology.
- o Pursuing Alliances and Cross Promotional Opportunities. Our strategy for expanding brand recognition through online advertising depends to some extent on our relationships with our distribution and content partners. We have entered into strategic alliances with several leading enterprises and regularly seek additional opportunities to provide our 3D Internet technology and content to other companies for their use in connection with the marketing and delivery of their own products and services.

Continuing the work begun by Worlds Inc., we are currently negotiating Joint Venture partnerships in seven primary strategic verticals which we believe have the potential to provide us with growth opportunities in each vertical for substantial revenue.

We have identified the following primary verticals which we are pursuing with current potential strategic partners and in which we are engaged in discussions with for world development and deployment:

- Music/entertainment
- Publishing
- Web to Mobile interface
- Hispanic language markets
- Eastern Europe
- Education – Distant learning
- Health and rehabilitation

There are no signed agreements or letters of intent at this time with respect to any joint ventures and we are only in the initial stages of discussion and negotiation. No assurance can be given that we will be successful in closing any deals or, even if we successfully close any deals, that we will see any revenues from such transactions.



## **Representative alliances and customers**

Worlds Inc. established strategic relationships and/or provided 3D content related services to the music group Aerosmith, among others. In January 2001, Worlds Inc. entered into a revenue sharing agreement with Aerosmith to create and operate an official 3D Aerosmith environment entitled "Aerosmith World" and to redesign Aerosmith's official website, which currently resides at [www.Aerosmith.com](http://www.Aerosmith.com). "Aerosmith World" is currently available for download from [www.WorldsOnline.com](http://www.WorldsOnline.com).

Worlds Inc. developed DMC World for Hip Hop Rapper, Darryl McDaniels, and this service is available for download from [www.dmcworlds.com](http://www.dmcworlds.com).

Worlds Inc. also established a strategic relationship with Pearson PLC to develop a series of virtual worlds to potentially be used within the existing Pearson education programs. In 1996 Pearson PLC invested \$1,263,900 in Worlds Inc. in the form of debt. Pearson has since agreed to forgive 50% of the note. Pearson PLC has agreed to allow Worlds Inc. to pay off the remaining 50% of the debt by providing them with products and services developed for Pearson PLC in the form of virtual worlds for training and distant learning. Over the years Worlds Inc. has reduced the note by \$355,000 through the provision of various products and services. During the years 2010 and 2009, the value of the products and services Worlds Inc. provided Pearson PLC (i.e. the value by which the debt has been reduced) represented 99.7% and 89% of Worlds Inc. revenues during such periods. As part of the spin-off, we have assumed the remaining debt and obligation to pay it by providing products and services. During 2011, \$50,000 had been amortized into income leaving a balance of \$226,950. Nothing has been amortized into income in 2012 as no services were performed, leaving the balance unchanged at \$226,950 at December 31, 2012.

See "Revenues" in Item 7 for additional disclosure of the relationship with Pearson PLC.

To the extent owned by Worlds Inc., all of these sites have been transferred to us and are now our assets and are being operated and maintained by us.

## **Competition**

The industry niche in which we operate within has been progressively segmenting into new markets categories which cover online video games, online social gaming, virtual training, distant learning, virtual simulation, mobile gaming, online music communities and 3D social networks. We are actively engaged in many of the aforementioned markets and have developed either online products or prototypes for each of the other categories we are not actively engaged in.

Currently, we actively operate in the virtual training, distant learning, online music communities and 3D social networks segments. As we attempt to expand and actively engage in other segments, we will face competition from numerous sources, including prospective customers which may develop and market their own competitive products and services, software companies, and online and Internet service providers. We believe that competition will be based primarily on ease of use, price and features, including communications capabilities and content.

There are many companies currently collaborating to establish standardization of 3D usage on the Internet, the adoption of which may require changes to our technology. If we fail to recognize or address the need for new service or product introductions our business and financial condition could be materially adversely affected. Competitors may develop superior technology or determine as a group to adopt standards with which our technology is not compatible.

Many companies now compete with us in one way or another and new ones may emerge in the future. The competition may be through entry into the same markets, or through technology that either obviates our advantages or lowers the barrier to entry in one of our markets. The markets in which we compete are characterized by rapid changes in technology and customer requirements, frequent new service and product introductions and evolving industry standards which could result in product obsolescence or short product life cycles. Accordingly, our ability to compete will be dependent upon our ability to develop and successfully introduce new products into the marketplace in a timely manner and to continually enhance and improve our technology to meet the increasingly sophisticated and varied needs of our users and prospective users.

The competitive nature of each market segment varies based upon capitalization, historic positioning and technical

capabilities among other attributes relative to these segments of each of the competitors within these markets. We believe we have (i) the technical capability to compete in all of these segments, and (ii) existing relationships in most of these market segments. However, we believe we are currently undercapitalized to effectively compete in all of the emerging market segments listed above and until we can raise sufficient capital to compete across the board we will have to cede certain segments while we focus our resources on those segments we believe we can be most competitive. Since as described above, the barriers to entry to any single segment are relatively low, a limited but sharply focused competitor will likely be able to overwhelm us in a specific segment. We are also unable to predict with any precision the particular segment in which such a competitor may arise and what our response will be as that will depend upon the resources available to us at that time.

## **Intellectual Property**

Trademark: Worldsplayer™ - The WorldsPlayer is especially designed to allow users to view and experience the multi-user, interactive Worlds Gamma technology. Any world created with the WorldsShaper will be viewable and navigable with WorldsPlayer. Utilizing the WorldsPlayer, a user assumes a persona (via a digital actor, or Avatars), and can then move, view, chat, play, express one's self via gestures and animations, voice chat, send email, join discussion groups, listen to music, shop at Worlds 3D stores, and watch videos, all in the company of users from around the world, within the 3D environment. The WorldsPlayer boasts high frame rate for fast, high quality graphics, an easy to use graphic user interface, seamless 2D Web browser integration, auto-upgrade capability over the Internet, and a complete communication tool set including chat, voice-to-voice chat, email and animation. The WorldsPlayer offers users the unique and creative experience of customizing their Avatars, while maintaining the ability to animate and activate their Avatars.

In addition to our trademarks, we intend to enter into confidentiality agreements with key employees and consultants to protect our IP and general know-how.

During 2009 and 2010, our former parent, Worlds Inc., invested approximately \$150,000 in software development.

## **Employees**

We currently have one full time employee, our president and CEO, Thomas Kidrin, who is also the president and CEO of our former parent, Worlds, Inc. for whom he continues provides services on an as-needed basis. We do not believe that Mr. Kidrin's obligations to Worlds Inc. will interfere with his ability to act as our president and CEO. Mr. Chris Ryan, our chief financial officer is a part-time employee who provides services to us on an as-needed basis. Mr. Ryan, who has the same arrangement with Worlds Inc., also has a full time job but based upon his past performance of his duties for Worlds Inc. we do not believe his outside duties will affect his ability to perform services for us as-needed. In the event our future growth requires a full time CFO, we expect to make any necessary arrangement's which could include hiring Mr. Ryan on a full time basis or hiring a new full time CFO. We similarly expect to monitor Mr. Kidrin's performance to determine if his duties to Worlds Inc. are interfering with his obligations to us.

Inasmuch as we anticipate that we will be acquiring other companies with synergistic technologies and businesses, it is possible that our current management team will be supplemented with officers of the acquired companies. In such event, if another individual is selected as our CEO, Mr. Kidrin may leave our employ to become a full-time employee of Worlds Inc. Alternatively, if Mr. Kidrin's services are truly needed by us full time, we expect he will resign his position with Worlds Inc. In either event, following a transition period of not more than 24 months, we expect Mr. Kidrin will be employed either by us or by Worlds Inc., but not by both companies, unless a majority of the independent directors of both companies determine that he is indispensable to both companies.

## **Corporate History**

The Company was created as a wholly-owned subsidiary of Worlds Inc. on January 25, 2011. On May 16, 2011, Worlds Inc. transferred to Worlds Online Inc. the majority of its operations and related operational assets, except for its patent portfolio.

## ITEM 1A. RISK FACTORS

Our business is subject to numerous risks, including but not limited to those set forth below. Our operations and performance could also be subject to risks that do not exist as of the date of this report but emerge thereafter as well as risks that we do not currently deem material.

### **Risks related to our operations**

*Our auditors have expressed doubt about our ability to continue as a going concern. If we do not generate substantial revenue from our new relationships and are also unable to obtain capital from other resources, we will significantly curtail our operations or halt them entirely.*

Our capital requirements for the development and commercialization of our technology, creation of our 3D sites and our general operations have been, when owned by Worlds Inc., and will continue to be now that we own it, significant. We will be dependent on financings to fund our development, working capital needs and the cost of future acquisitions. We have only limited cash or cash equivalents. Accordingly, if we do not develop any new projects or acquire profitable companies, we would have to severely diminish our operations or halt them entirely. The opinion of our auditors contains an explanatory paragraph regarding our ability to continue as a going concern.

*We have experienced relatively large losses during our development and, without significant increases in the market penetration of our services and improvements to our operating margins, we will not achieve profitability.*

Historically, our former parent incurred significant net losses over the last 17+ years developing our technology and developing our business model and assets. We anticipate that we will continue to incur significant losses for at least the short-term. We will not achieve profitable operations until we successfully attract and retain a significant number of advertisers to and users of our 3D sites and customers for our other services and generate revenues from these sources that are sufficient to offset the substantial up-front expenditures and operating costs associated with developing and commercializing our services. We may never be able to accomplish these objectives.

*It will be difficult for you to evaluate us based on our past performance because we are a relatively new company with a limited operating history.*

We have been actively engaged in the commercial sale of our 3D Internet-based services for a relatively short period of time and, accordingly, have only limited financial results on which you can evaluate our company and operations. We are subject to, and must be successful in addressing, the risks typically encountered by new enterprises and companies operating in the rapidly evolving Internet marketplace, including those risks relating to:

- o the failure to develop brand name recognition and reputation;
- o the failure to achieve market acceptance of our services;
- o a slow down in general consumer acceptance of the Internet as a vehicle for commerce; and
- o an inability to grow and adapt our business and technology to evolving consumer demand.

*We may not be able to successfully compete in our markets, which are characterized by intense competition and the presence of large competitors and rapidly changing technology.*

Operating with relatively limited resources but more than we currently have, our former parent was unable to effectively compete in our target markets. These markets are characterized by intense competition, rapidly changing technology and increasing numbers of new market entrants who have developed or are developing potentially competitive products and services, often resulting in product obsolescence or short product life cycles. Our competitors include other enterprises utilizing 3D-based technology for online entertainment and marketing purposes, online and Internet service providers, online shopping malls, online direct music retailers, online music and book sites and traditional music retailers. Most of our competitors have significantly greater financial and operating resources compared to us. Our ability to compete will be dependent on our ability to enhance and upgrade our technology platform in a timely manner

and to effectively offer our target customers attractive and exciting 3D content and services, all of which require the expenditure of funds that we currently do not have. In addition, the very companies with which we do business, such as the larger Internet service providers and record labels, may determine to create and distribute their own 3D Internet sites. If we are unable to overcome these obstacles, we will not be successful.

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*We may not be able to develop and maintain marketing relationships with other Internet companies.*

Our strategy for expanding brand recognition through online advertising depends to some extent on our relationship with other Internet companies. We are now seeking to enter into marketing agreements with those companies that will permit us to advertise our products and services on their web pages. There can be no assurance that we will be able to negotiate these agreements on favorable terms or at all. Additionally, other e-commerce and music-related sites, which advertise on popular web sites, may have exclusive advertising relationships with such sites or may otherwise object to our attempts to enter into marketing agreements or relationships with such sites. If we cannot secure or maintain these marketing agreements on favorable terms, our business prospects could be substantially harmed.

*Our limited resources may restrict our ability to manage any growth we may experience.*

Growth of our business may place a significant strain on our management systems and resources and may require us to implement new operating and financial systems, procedures and controls. Our failure to manage our growth and expansion could adversely affect our business, results of operations and financial condition. Moreover, our present technology backbone may not be adequate to accommodate rapid growth in user demand. Our inability to add additional hardware and software to upgrade our existing technology or network infrastructure to accommodate increased traffic may cause decreased levels of customer service and satisfaction. Failure to implement new systems effectively or within a reasonable period of time could adversely affect our business, results of operations and financial condition.

*In addition to our own technology, we use the technology of others in the creation of our products and we are dependent upon our continued ability to access these other technologies.*

Although our license to Worlds Inc.'s proprietary technology is the foundation of our products, we also use the technology of other companies in the creation and delivery of our products. Accordingly, any delay or termination by any of these third-party providers in the provision of their technologies to us because of our failure, or perceived inability, to pay such vendors or otherwise could cause a disruption in the commercial distribution of our own products. Further, any material increases in the prices these providers charge us for use of their technologies could force us to increase the prices we charge for our own products or possibly make the creation and distribution of our products no longer economically feasible or desirable. We cannot assure you that any of these companies will continue to provide their technology to us in an efficient, timely and cost-effective manner. An interruption in, or termination of, our access to any necessary third party technologies, and our subsequent inability to make alternative arrangements in a timely manner, if at all, would likely have a material adverse effect on our business and financial condition.

*Our future growth may be dependent, in part, on the sale of our services to foreign customers, and accordingly, are subject to the risks of doing business internationally.*

We currently market and provide our services both in the United States and internationally. Although our foreign customer base is quite small now and not a material part of our business, we hope to increase our international business significantly when funds are available to run significant marketing campaigns internationally. Servicing our foreign clients and marketing our services abroad requires the dedication of significant management and financial resources, which we currently do not have. Our international operations are, and will be, subject to a variety of risks associated with conducting business internationally, many of which are beyond our control. Operating internationally subjects us to risks relating to the following areas:

- o expenses associated with customizing products for foreign countries;
- o political and economic instabilities;
- o potentially adverse tax consequences and regulatory requirements;
- o uncertainty of product acceptance by different cultures;
- o dependence on local partners who may not be able to meet the needs of a growing international market;
- o greater difficulty in accounts receivable collection and longer collection periods;

- o difficulties and costs of staffing and managing foreign operations;
- o unexpected changes in regulatory requirements related to the Internet; and
- o limited or unfavorable intellectual property protection.

No assurance can be given that we will ever be able to significantly expand our international business.

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*The market may not readily accept our products.*

Demand and market acceptance for relatively new products, such as our 3D chat, are subject to a high level of uncertainty. The successful introduction of any new product requires a focused, efficient strategy to create awareness of and desire for the products. For example, in order to achieve market acceptance for our Worlds 3D chat sites, we will need to educate the members of the music industry, such as record companies, record labels and recording artists, about the marketing benefits this product could provide them. Similarly, we will have to make music buyers and Internet consumers aware of this product's existence, draw users to the site and compel them to return to the site for repeat visitations.

Our marketing strategy may be unsuccessful and is subject to change as a result of a number of factors, including changes in market conditions (including the emergence of market segments other than music which in our judgment can be readily exploited through the use of our technology), the nature of possible license and distribution arrangements and strategic alliances which may become available to us in the future and general economic, regulatory and competitive factors. There can be no assurance that our strategy will result in successful product commercialization or that our efforts will result in initial or continued market acceptance for our proposed products.

*If we are unable to protect our intellectual property rights, competitors may be able to use our technology or trademarks, which could weaken our competitive position.*

In addition to having to rely on Worlds Inc. protecting and expanding its patents, we rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also intend to enter into confidentiality or license agreements with our employees, consultants and customers, and control access to and distribution of our software, documentation and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Although Worlds Inc. has never been involved as a defendant in any intellectual property litigation, as a licensee of Worlds Inc.'s patents, we could become a party to litigation as a result of alleged infringement of others' intellectual property. These claims and any resulting lawsuits could subject us to significant liability for damages and invalidation of our proprietary rights.

*If we lose our key employee or fail to hire and retain other talented employees when necessary, our operations could be harmed.*

Our success is currently dependent, in large part, on the personal efforts of Thomas Kidrin, our president and chief executive officer. The loss of Mr. Kidrin's services could have a material adverse effect on our business and prospects. Our success is also dependent upon our ability to hire and retain additional qualified management, marketing, technical, financial, and other personnel if and when our growth so requires. Competition for qualified personnel is intense and we may not be able to hire or retain such additional qualified personnel. Any inability to attract and retain qualified management and other personnel would have a material adverse effect on our ability to grow our business and operations.

*In order to be successful, we must be able to enhance our existing technology and products and develop and introduce new products and services to respond to changing market demand.*

The markets in which we operate are characterized by frequently changing customer demand and the introduction of new technologies. In order to be successful, we must be able to enhance our existing technology and products and develop and introduce new products and services to respond to changing market demand. The development and enhancement of services and products entails significant risks, including:

- o the inability to effectively adapt new technologies to our business;
- o the failure to conform our services and products to evolving industry standards;
- o the inability to develop, introduce and market enhancements to our existing services and products or new services and products on a timely basis; and



o the non acceptance by the market of such new service and products.

We currently have only limited resources to enhance our technology or to develop new products.

*Our future results depend on continued evolution of the Internet.*

Our future results depend on continued growth in the use of the Internet for information, publication, distribution and commerce. Our growth is also dependent on increasing availability to residential consumers of broadband Internet access which will allow such persons to access higher-capacity content through the Internet. Our business could suffer if Internet usage and broadband availability does not continue to grow and evolve.

In addition, changes in network infrastructure, transmission and content delivery methods and underlying software platforms, and the emergence of new Internet access, such as television set-top boxes, could dramatically change the structure and competitive dynamic of the market for Internet real-time 3D products. We may not be able to adopt our technology and services for use in connection with other emerging technologies.

*We may not be able to economically comply with any new government regulation that may be adopted with respect to the Internet.*

New Internet legislation or regulation, or the application of existing laws and regulations to the Internet and e-commerce could add additional costs and risks to doing business on the Internet. We are subject to regulations applicable to businesses generally and laws or regulations directly applicable to communications over the Internet and access to e-commerce. Although there are currently few laws and regulations directly applicable to e-commerce, it is possible that a number of laws and regulations may be adopted with respect to the Internet, covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust, taxation and characteristics and quality of products and services.

*Legislation regarding privacy of personal information about users may affect our communities.*

We are subject to and must comply with data protection legislation which restricts our ability to collect and exploit users' personal data. Our business is particularly dependent on the existing and future data protection laws in the United States, Europe, and in each specific country where we operate or have members. European data protections legislation is drafted in very broad terms, and there are few sources of guidance as to its interpretation. It is difficult to foresee the extent to which its enforcement by relevant authorities will restrict our operations. We believe that a rigid interpretation of data protection legislation could hinder our ability to conduct our business as planned. Our failure to comply with applicable law could subject us to severe legal sanctions which could have a material adverse effect on our business and results of operations. We maintain a privacy policy which is to not disclose individually identifiable information about any user of our products or services to a third party without the user's consent. Despite this policy, however, if third persons were able to penetrate our network security or otherwise misappropriate users' personal information, we could be subject to liability claims.

*We face potential liability for the content delivered over our sites.*

While we intend to acquire all licenses and other rights necessary to conduct our business without violating any copyrights, there can be no assurance that we will be able to do so. Due to the nature of our business, we could become involved in litigation regarding the music, video and other content transmitted over our sites which could force us to incur significant legal defense costs, could result in substantial damage awards against us and could otherwise damage our brand name and reputation.

In addition, because music materials may be downloaded from our sites and may be subsequently distributed to others, claims could be made against us for "pirating" and copyright or trademark infringement. Claims could also be made against us if material deemed inappropriate for viewing by children is accessed or accessible through our sites. While we intend to carry insurance policies, our insurance may not cover these types of claims or may not be otherwise adequate to cover liability that may be imposed. Any partially or completely uninsured claim against us, if successful and of sufficient magnitude, would have a material adverse effect on us.

## **Risks related to our common stock**

*Possible issuances of our capital stock would cause dilution to our existing shareholders.*

While we currently have only approximately 23 million shares of common stock outstanding, we are authorized to issue up to 100,000,000 shares of common stock. Therefore, we will be able to issue a substantial number of additional shares without obtaining shareholder approval. In the event we elect to issue additional shares of common stock in connection with any financing, acquisition or otherwise, current shareholders could find their holdings substantially diluted, which means they will own a smaller percentage of our company. In addition, we are authorized to issue up to 5,000,000 shares of blank preferred stock that our board of directors can issue under any terms it wants and without any shareholder approval.

*No dividends have been paid on our common stock.*

We do not expect to declare or pay dividends on the common stock in the foreseeable future. In addition, the payment of cash dividends may be limited or prohibited by the terms of any future loan agreements.

*We are subject to "penny stock" regulations which may adversely impact the liquidity and price of our common stock.*

Our common stock is currently deemed a "penny stock." Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information on penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, broker-dealers who sell such securities to persons other than established customers and accredited investors (generally, those persons with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse), the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction.

These requirements could reduce the level of trading activity, if any, in the secondary market for our common stock. As a result of the foregoing, our shareholders may find it more difficult to sell their shares.

**ITEM 2. DESCRIPTION OF PROPERTIES.**

We do not own any property nor do we have any contracts or options to acquire any property in the future. Presently, we are operating out of offices in our president's residence at 11 Royal Road, Brookline, Massachusetts 02445, where we occupy approximately 800 square feet. This space is adequate for our present and our planned future operations. We currently pay no rent to our president for use of this space, although when funds are available we may do so in the future. In addition we have no written agreement or formal arrangement with our president pertaining to the use of this space. No other businesses operate from this office. We have no current plans to occupy other or additional office space.

**ITEM 3. LEGAL PROCEEDINGS.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock began trading on the OTC Bulletin Board on May 9, 2012 under the symbol "WORX." The following table sets forth, for the periods indicated, the high and low bids for our common stock as reported on the OTC Bulletin Board or the Pink Sheets (representing interdealer quotations, without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions):

#### Year Ended December 31, 2012:

	High		Low	
	\$	N/A	\$	N/A
Second quarter	\$	0.60	\$	0.06
Third quarter	\$	0.12	\$	0.03
Fourth quarter	\$	0.05	\$	0.03

#### Holdings

As of March 5, 2013 we had approximately 639 shareholders of record of our common stock. .

#### Dividends

We have never paid a dividend on our common stock and do not anticipate paying any dividends in the near future.

#### Recent Sales of Unregistered Securities

N/A

### Company Equity Compensation Plans

The following table sets forth information as of December 31, 2012 with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	5,979,164	\$ 0.10	3,020,836
Equity compensation plans not approved by stockholders	0	\$ N/A	-
<b>Total</b>	<b>5,979,164</b>	<b>\$ 0.10</b>	<b>3,020,836</b>

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **Forward Looking Statements**

When used in this form 10-K and in future filings by the Company with the Commission, The words or phrases such as "anticipate," "believe," "could," "would," "should," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. These factors include, but are not limited to, changes that may occur to general economic and business conditions; changes in current pricing levels that we can charge for our services or which we pay to our suppliers and business partners; changes in political, social and economic conditions in the jurisdictions in which we operate; changes to regulations that pertain to our operations; changes in technology that render our technology relatively inferior, obsolete or more expensive compared to others; foreign currency fluctuations; changes in the business prospects of our business partners and customers; increased competition, including from our business partners; delays in the delivery of broadband capacity to the homes and offices of persons who use our services; general disruptions to Internet service; and the loss of customer faith in the Internet as a means of commerce.

The following discussion should be read in conjunction with the financial statements and related notes which are included in this report under Item 8.

We do not undertake to update our forward-looking statements or risk factors to reflect future events or circumstances.

### **Overview**

#### **General**

We are a 3D entertainment portal which leverages its proprietary technology to offer visitors a network of virtual, multi-user environments which we call "worlds". These worlds are visually engaging online environments featuring animation, motion and content where people can come together and, by navigating through the website, shop, interact with others, attend events and be entertained.

Sites using our technology allow numerous simultaneous visitors to enter, navigate and share interactive "worlds". Our 3D Internet sites are designed to promote frequent, repeat and prolonged visitation by users by providing them with unique online communities featuring dynamic graphics, highly useful and entertaining information content, and interactive capabilities. We believe that our sites are highly attractive to advertisers because they offer access to demographic-specific user bases comprised of people that visit the site frequently and stay for relatively long periods of time.

We were formed on January 25, 2011 and effective May 16, 2011 Worlds Inc. (formerly known as Worlds.com Inc.) transferred to us a substantial portion of its operational assets and granted us a world-wide license to its existing, and future, 3-D related patent portfolio. Accordingly, we have only had operations of our own since May 16, 2011. Our fiscal year ends on December 31.

## **Revenues**

One source of revenues derives from the entry into development agreement with clients in which a development, license and maintenance fee is paid for the creation and administration of a 3D virtual world to be offered to a select user base.

In other types of joint venture agreements we would agree to fund the development costs in return for recoupment of development costs on first monies in from ongoing participation in VIP, advertising and sponsorship revenue.

VIP revenues are funds, typically \$2 - \$6 per month, charged to users for either an enhanced avatar with additional virtual clothes and virtual goods or access to VIP only areas of the virtual World. To illustrate, in Worlds Inc. creation of Aerosmith World, only VIP members have access to Steven Tyler's studio and his secret world, providing VIP members a greater opportunity to meet Mr. Tyler when he is online as well as mingle with other VIP guests and watch Aerosmith music videos in the VIP media lounge.

Our financial statements currently reflect an entry called "deferred revenue". This is specific to the conversion of a note Worlds Inc. issued to Pearson PLC in 1996 in the initial face amount of \$1,263,900. Pearson has agreed to forgive 50% of the note and convert the balance of the note into deferred revenue for products and services Worlds Inc. develops for Pearson in the form of virtual worlds for training and distant learning. Each product Worlds Inc. develops for Pearson has been reviewed and accepted by a senior Pearson executive as part of an ongoing internal sales and capabilities program between various divisions within Pearson. As part of the Spin-off we assumed this obligation and intend to continue to pay down the debt by providing additional products and services.

Revenue that was generated resulted from VIP subscriptions to the Worlds Ultimate 3-D Chat service and software development fees to provide a site for a 3-D world under a deferred revenue agreement.

## **Expenses**

We classify our expenses into two broad groups:

- O cost of revenues; and
- O selling, general and administration.

## **Liquidity and Capital Resources**

We raised a small amount of capital to enable us to begin upgrading our technology, develop new products and actively solicit additional business. We expect to continue to pursue additional sources of capital though we have no current arrangements with respect to, or sources of, additional financing at this time and there can be no assurance that any such financing will become available. However, we believe we have sufficient funds to operate for at least another 12 months. If we cannot raise additional capital, form an alliance of some nature with another entity, or start to generate sufficient revenues, we may need to scale back operations.

## **RESULTS OF OPERATIONS**

Our net revenues for the year ended December 31, 2012 was \$785 and for the period from inception (January 25, 2011) through December 31, 2011 was \$125,607. We had revenue from VIP subscriptions to our Worlds 3-D chat service in 2012 while in the period ended December 31, 2011 we had revenue from software development fees to provide a site for a 3-D world under a deferred revenue agreement, consulting revenue from a consulting agreement whereby the Company advised on the licensing of patents and virtual world technologies and VIP subscriptions.

## **Year ended December 31, 2012 compared to the period from inception through December 31, 2011**

Revenue decreased by \$124,822 to \$785 for the year ended December 31, 2012 from \$125,607 in the prior period from inception to December 31, 2011. The Company's revenue in the prior period consisted of software development fees to provide a site for a 3-D world under a deferred revenue agreement and consulting revenue from a consulting agreement whereby the Company advised on the licensing of patents and virtual world technologies. For the year ended 2012 the Company only had revenue from VIP subscriptions. We need to raise a sufficient amount of capital to provide the resources required that would enable us to continue running the business.

Cost of revenue decreased by \$3,077 to \$19,948 for the year ended December 31, 2012 from \$23,025 for the period of formation through December 31, 2011. Cost of revenue includes software development and hosting fees.

Selling general and administrative (SG&A) expenses decreased by \$4,069 to \$184,430 for the year ended December 31, 2012 from \$188,499 for the period from formation through December 31, 2011. Payroll and related increased by \$133,420 to \$225,548 for the year ended December 31, 2012 from \$92,128 for the period from formation through December 31, 2011. Increase is due to hiring of 2 new employees 2012.

Other expenses decreased by \$13,969 to \$181,646 for the year ended December 31, 2012 from \$195,615 for the period from formation through December 31, 2011. Other expenses include options expense to directors and officers. We had an unrealized loss on the market value of our investment in a publicly traded security of \$32,000 for the year ended December 31, 2012 compared to a loss of \$3,750 for the period from formation through December 31, 2011. For the year ended December 31, 2012 we had a loss on the investment in the publicly traded security of \$2,753.

As a result of the foregoing, for the year ended December 31, 2012 we had a loss of \$809,540 compared to a loss of \$377,410 for the period from January 25, 2011 through December 31, 2011.

### **Liquidity and Capital Resources**

Our unrestricted cash and cash equivalents was \$8,585 at December 31, 2012.

At December 31, 2011 we had cash and cash equivalents of \$118,803. There were no capital expenditures in the year ended December 31, 2012 or for the period from formation through December 31, 2011.

In May 2011, we raised \$300,070 through the issuance of 526,315 shares of our common stock at a price of \$0.57 per share. The funds raised in the financing was used to develop new products and services, pay salaries to management and pay professional fees to our attorneys and auditors to prepare and file reports with the Securities and Exchange Commission and other legal expenses arising from our day-to-day operations and acquisitions, if any. We hope to raise additional funds to be used for advertising our existing products and services and to fund the development of additional products and services. No assurances can be given that we will be able to raise any additional funds. As described above, we are currently negotiating with various musical artists, educational companies and other entities to develop worlds for them. While no assurance can be given that any of these deals will be concluded, if successful they would likely generate additional cash flows.



## Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

In May 2011, FASB issued Accounting Standards Update No. 2011-04, “Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU 2011-04”). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. The Company anticipates that the adoption of this standard will not materially expand its financial statement note disclosures.

In June 2011, FASB issued ASU No. 2011-05, “Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income” (“ASU 2011-05”), which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders’ equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011, with early adoption permitted. The Company is reviewing ASU 2011-05 to ascertain its impact on the Company’s financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

In September 2011, the FASB issued ASU 2011-08, “Testing Goodwill for Impairment”, which allows, but does not require, an entity when performing its annual goodwill impairment test the option to first do an initial assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount for purposes of determining whether it is even necessary to perform the first step of the two-step goodwill impairment test. Accordingly, based on the option created in ASU 2011-08, the calculation of a reporting unit’s fair value is not required unless, as a result of the qualitative assessment, it is more likely than not that fair value of the reporting unit is less than its carrying amount. If it is less, the quantitative impairment test is then required. ASU 2011-08 also provides for new qualitative indicators to replace those currently used. Prior to ASU 2011-08, entities were required to test goodwill for impairment on at least an annual basis, by first comparing the fair value of a reporting unit with its carrying amount. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test is performed to measure the amount of impairment loss, if any. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company adopted ASU 2011-08 during the first quarter of fiscal 2013. The adoption of ASU 2011-08 did not impact the Company’s results of operations or financial condition.

In December 2011, FASB issued Accounting Standards Update 2011-11, “Balance Sheet - Disclosures about Offsetting Assets and Liabilities” to enhance disclosure requirements relating to the offsetting of assets and liabilities on an entity’s balance sheet. The update requires enhanced disclosures regarding assets and liabilities that are presented net or gross in the statement of financial position when the right of offset exists, or that are subject to an enforceable master netting arrangement. The new disclosure requirements relating to this update are retrospective and effective for annual and interim periods beginning on or after January 1, 2013. The update only requires additional disclosures, as such, the Company does not expect that the adoption of this standard will have a material impact on its results of operations, cash flows or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment”. The guidance allows companies to perform a “qualitative” assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test.

ASU 2012-02 allows companies the option to first assess qualitatively whether it is more likely than not that an indefinite-lived intangible asset is impaired, before determining whether it is necessary to perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired. Companies can choose to perform the qualitative assessment on none, some, or all of its indefinite-lived intangible assets or choose to only perform the quantitative impairment test for any indefinite-lived intangible in any period.

ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company is in the process of evaluating the guidance and the impact ASU 2012-02 will have on its financial statements.

**ITEM 8. FINANCIAL STATEMENTS.**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Worlds Online Inc.

We have audited the accompanying balance sheets of Worlds Online Inc. (the "Company") as of December 31, 2011 and 2012 and the related statements of operations, stockholders' deficit, and cash flows for the period from inception (January 25, 2011) through December 31, 2011 and for the year ended December 31, 2012. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Worlds Online Inc. (a Delaware corporation) as of December 31, 2011 and 2012 and the results of its operations and its cash flows for period from inception (January 25, 2011) through December 31, 2011 and for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring operating losses, has an accumulated stockholders' deficit, has negative working capital, has had minimal revenues from operations, and has yet to generate an internal cash flow that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Bongiovanni & Associates, CPA'S

Bongiovanni & Associates, CPA'S  
Cornelius, North Carolina  
March 18, 2013



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Worlds Online Inc.  
Balance Sheets  
December 31, 2012 and December 31, 2011

	Audited 31-Dec-12	Audited 31-Dec-11
<b>Current Assets</b>		
Cash	\$ 8,585	\$ 118,803
Prepaid expenses	94,000	-
Trading securities	19,250	71,250
<b>Total Current Assets</b>	121,835	190,053
<b>TOTAL ASSETS</b>	<u>\$ 121,835</u>	<u>\$ 190,053</u>
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	273,987	77,959
Account payable - related party	134,653	43,818
Deferred revenue	\$ 226,950	\$ 226,950
<b>Total Current Liabilities</b>	<u>635,590</u>	<u>348,728</u>
<b>Stockholders' (Deficit)</b>		
Common Stock (Par value \$0.001 authorized 100,000,000 shares, issued and outstanding 25,411,549 and 0 on December 31, 2012 and December 31, 2011 respectively)	\$ 25,412	\$ —
Common stock subscribed but not yet issued (400,000 and 526,315 shares at December 31, 2012 and 2011, respectively)	400	526
Common Stock Warrants	1,165,563	1,165,563
Additional Paid in Capital	(518,180)	(947,354)
Accumulated (Deficit)	(1,186,950)	(377,410)
Total stockholders (deficit)	(513,755)	(158,675)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<u>\$ 121,835</u>	<u>\$ 190,053</u>

See Notes to Condensed Financial Statements and Report of Independent Registered Public Accounting Firm

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Worlds Online Inc.

Statements of Operations

For the Year Ended December 31, 2012 and For the Period From Inception (January 25, 2011) through December 31, 2011

	For the Year Ended Dec 31, 2012	Audited For the Period From Inception (January 25, 2011) Through Dec 31, 2011
<b>Revenues</b>		
Revenue	\$ 785	\$ 125,607
<b>Total</b>	<b>785</b>	<b>125,607</b>
<b>Cost and Expenses</b>		
Cost of Revenue	19,948	23,025
Gross (Loss)	(19,163)	102,582
Selling, general & administrative expenses:		
Options expense	181,646	195,615
Common stock issued for services rendered	164,000	—
Selling, General & Admin - other	184,430	188,499
Payroll and related taxes	225,548	92,128
Total expenses	755,624	476,242
Operating (loss)	(774,787)	(373,660)
<b>Other Income (Expense)</b>		
Realized loss on trading securities	(2,753)	—
Unrealized loss on trading securities	(32,000)	(3,750)
<b>Net (Loss)</b>	<b>\$ (809,540)</b>	<b>\$ (377,410)</b>
<b>Weighted Average (Loss) per common share (basic and fully diluted)</b>		
	<b>\$ (0.04)</b>	<b>\$ (1.04)</b>
<b>Weighted Average Common Shares Outstanding</b>	<b>19,810,436</b>	<b>361,723</b>

See Notes to Condensed Financial Statements and Report of Independent Registered Public Accounting Firm.

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Worlds Online Inc  
 Statements of Cash Flows  
 For the Year Ended December 31, 2012 and for the Period From Inception (January 25, 2011) Through December 31, 2011

	Audited For the Year Ended Dec 31, 2012	Audited For the period From Inception (January 25, 2011) Through Dec 31, 2011
Cash flows from operating activities:		
Net (loss)	\$ (809,540)	\$ (377,410)
Adjustments to reconcile net (loss) to net cash provided by operating activities		
Realized loss on trading securities	2,753	—
Unrealized loss on trading securities	32,000	3,750
Common stock issued for services rendered including amortization of prepaids	164,000	—
Stock received for consulting services	—	(75,000)
Fair value of stock options issued to Directors	181,646	195,615
Changes in operating assets and liabilities		
Accounts payable and accrued expenses	210,841	77,959
Accounts payable related party	90,835	43,818
Deferred revenue	—	(50,000)
Net cash (used in) operating activities:	<u>(127,465)</u>	<u>(181,267)</u>
Cash flows from investing activities:		
Proceeds from sales of trading securities	17,247	—
Net cash provided by investing activities:	<u>17,247</u>	<u>—</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	300,070
Officer loan	—	—
Net cash provided by financing activities	<u>—</u>	<u>300,070</u>
Net increase (decrease) in cash and cash equivalents	<u>(110,238)</u>	<u>118,803</u>
Cash and cash equivalents beginning of period	118,803	—
Cash and cash equivalents end of period	<u>\$ 8,585</u>	<u>\$ 118,803</u>
Non-cash financing activities:		
Stock options issued as part of stock dividend	<u>\$ —</u>	<u>\$ 1,165,563</u>
Common stock issued for accrued expenses	<u>\$ 14,813</u>	<u>\$ —</u>
Common stock issued for prepaid compensation	<u>\$ 228,000</u>	<u>\$ —</u>
Supplemental disclosure of cash flow information:		
Cash paid during the periods for:		
Interest	\$ —	\$ —
Income taxes	\$ —	\$ —

See Notes to Condensed Financial Statements and Report of Independent Registered Public Accounting Firm.

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Worlds Online Inc  
Statement of Stockholders Deficit  
For the Period Of Inception (January 25, 2011) Through December 31, 2012

	Common Stock Shares	Common Stock Amount	Additional Paid-in capital	Common Shares Subscribed but not Issued	Common Stock Subscribed but not Issued	Common Stock Warrants	Accumulated Deficit	Total stockholders' equity (deficit)
Balance, January 25, 2011	—	\$ —	\$ —	—	—	—	—	\$ —
Transfer of deferred revenue from Worlds Inc.	—	—	(276,950)	—	—	—	—	(276,950)
Issuance of common stock for cash investment			299,544	526,315	526	—	—	300,070
Stock options for directors and officer transferred from Worlds Inc.	—	—	(1,165,563)	—	—	1,165,563	—	—
Issuance of stock options to Directors	—	—	195,615	—	—	—	—	195,615
Net Loss for the period ended December 31, 2011	—	—	—	—	—	—	(377,410)	(377,410)
Balances, December 31, 2011			\$ (947,354)	526,315	\$ 526	\$ 1,165,563	\$ (377,410)	\$ (158,675)
Common stock issued to officer for accrued expense	25,987	\$ 26	\$ 14,787					14,813
Stock Dividend	23,859,248	\$ 23,859	\$ (23,859)					—
Issuance of common stock for cash investment	526,314	526		(526,315)	(526)			—
Common stock subscribed for prepaid compensation			\$ 227,600	400,000	\$ 400			228,000
Amortization of deferred compensation								—
Stock options for directors and officers			\$ 181,646					181,646
Issuance of common stock for services rendered	1,000,000	\$ 1,000	\$ 29,000					30,000
Net Loss for the year ended December 31, 2012	—	—	—	—	—	—	(809,540)	(809,540)
Balances, December 31, 2012	<u>25,411,549</u>	<u>\$ 25,412</u>	<u>\$ (518,180)</u>	<u>400,000</u>	<u>\$ 400</u>	<u>\$ 1,165,563</u>	<u>\$ (1,186,950)</u>	<u>\$ (513,755)</u>

See Notes to Condensed Financial Statements and Report of Independent Registered Public Accounting Firm.





Worlds Online Inc.  
NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2012 and for the period of inception (January 25, 2011) through December 31, 2011

**NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF ACCOUNTING POLICIES**

**Description of Business**

Worlds Online Inc. (the "Company") designs and develops software content and related technologies for the creation of interactive, three-dimensional ("3D") Internet sites on the World Wide Web. Using licensed technology the Company creates its own Internet sites, as well as sites available through third party on-line service providers.

The Company was formed on January 25, 2011 as a wholly-owned subsidiary of Worlds Inc. (formerly known as Worlds.com Inc.). On May 16, 2011, Worlds Inc. transferred to the Company the majority of its operations and related operational assets, except for its patent portfolio. Worlds Inc. has also given to the Company a perpetual world-wide license to its patented technology. Pursuant to the license, the Company has the right to issue unlimited sublicenses to the licensed technology, subject to World Inc.'s reasonable consent.

The assets transferred to us include: Worlds Inc.'s technology platform, Worlds Ultimate Chat, Aerosmith World, DMC Worlds, Cinema Virtual, Pearson contracts and related revenue, the following URLs: Worlds.com, Cybersexworld.com, Hang.com, and Worldsfunds.com, a digital inventory of over 10,000 3D objects, animation sequences, an extensive avatar library, texture maps and virtual world architectures. None of the transferred assets have any carrying value on the financial statements of the Company.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), which contemplates continuation of the Company as a going concern. The Company has always been considered a developmental stage business, has incurred significant losses since its inception and has had minimal revenues from operations. The Company will require substantial additional funds for development and enforcement of its patent portfolio. There can be no assurance that the Company will be able to obtain the substantial additional capital resources to pursue its business plan or that any assumptions relating to its business plan will prove to be accurate. The Company has not been able to generate sufficient revenue or obtain sufficient financing which has had a material adverse effect on the Company, including requiring the Company to reduce operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. For the past year the Company has been operating at a significantly reduced capacity, with only one full time employee, performing primarily consulting services and licensing software and using consultants to perform any additional work that may be required.

**Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents are comprised of highly liquid money market instruments, which have original maturities of three months or less at the time of purchase.

**Trading Securities**

Trading securities is common stock in a publicly traded company that was received as compensation for performing consulting services. The carrying value of the investment is the market price of the shares at December 31, 2012 and December 31, 2011. Any unrealized gain or loss are recorded under other income/(expense) in the accompanying statements of operations.

**Property and Equipment**

Property and equipment are stated at cost. Depreciation is provided on a straight line basis over the estimated useful lives of the assets ranging from three to five years. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income. Maintenance and repairs are charged to expense in the period incurred.

## **Impairment of Long Lived Assets**

The Company evaluates the recoverability of its fixed assets and other assets in accordance with section 360-10-15 of the FASB Accounting Standards Codification for disclosures about Impairment or Disposal of Long-Lived Assets. Disclosure requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds its expected cash flows. If so, it is considered to be impaired and is written down to fair value, which is determined based on either discounted future cash flows or appraised values.

## **Fair Value of Financial Instruments**

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification (“ASC”) for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB ASC (“Paragraph 820-10-35-37”) to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

Level 1	Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.
Level 2	Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
Level 3	Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company’s financial assets and liabilities, such as cash and accounts payable approximate their fair values because of the short maturity of these instruments.

The Company does not have any assets or liabilities measured at fair value on a recurring or a non-recurring basis, consequently, the Company did not have any fair value adjustments for assets and liabilities measured at fair value at December 31, 2012 and 2011 nor gains or losses are reported in the statement of operations that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date for the for the periods ended December 31, 2012 and 2011, respectively.

## **Accounts Payable Related Party**

Accounts payable related party is comprised of cash payments made by Worlds Inc. on behalf of Worlds Online Inc. for shared operating expenses.

## **Revenue Recognition**

The Company has the following sources of revenue: (1) consulting/licensing revenue from the performance of development work performed on behalf of the Company, licensing revenue or from the sale of certain software to third parties; and (2) VIP subscriptions to our Worlds Ultimate 3-D Chat service. The Company recognizes revenue when all of the following criteria are met: evidence of an arrangement exists such as a signed contract, delivery has occurred, the price is fixed or determinable, and collectibility is reasonable assured. This will usually be in the form of a receipt of a customer’s acceptance indicating the product has been completed to their satisfaction except for development work and service revenue which is recognized when the services have been performed. Deferred revenue represents cash payments received in advance to be recorded as revenue when earned. The corresponding cost associated with those contracts is also deferred as deferred costs until the revenue is ultimately recognized.

## **Deferred Revenue**

Deferred revenue represents advance payments for the license, the design and development of the software, content and related technology for the creation of an interactive, 3D entertainment portal on the internet.

## **Research and Development Costs**

Research and development costs are charged to operations as incurred.

## **Stock-Based Compensation**

The Company accounts for stock-based compensation using the fair value method following the guidance set forth in section 718-10 of the FASB Accounting Standards Codification for disclosure about Stock-Based Compensation. This section requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award- the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

## **Income Taxes**

The Company accounts for income taxes under Section 740-10-30 of the FASB Accounting Standards Codification. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

## **Related Party Transactions**

The Company follows subtopic 850-10 of the FASB Accounting Standards Codification for the identification of related parties and disclosure of related party transactions.

Pursuant to Section 850-10-20 the Related parties include a. affiliates of the Company; b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity; c. trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; d. principal owners of the Company; e. management of the Company; f. other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of financial statements is not required in those statements. The disclosures shall include: a. the nature of the relationship(s) involved; b. a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements; c. the dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period; and d. amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

## **Comprehensive Income (Loss)**

The Company reports comprehensive income and its components following guidance set forth by section 220-10 of the FASB Accounting Standards Codification which establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. There were no items of comprehensive income (loss) applicable to the Company during the period covered in the financial statements.

## **Loss Per Share**

Net loss per common share is computed pursuant to section 260-10-45 of the FASB Accounting Standards Codification. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of shares of common stock and potentially outstanding shares of common stock during each period. There were no potentially dilutive shares outstanding as of December 31, 2012 or 2011.

## **Commitments and Contingencies**

The Company follows subtopic 450-20 of the FASB Accounting Standards Codification to report accounting for contingencies. Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal

proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Management does not believe, based upon information available at this time that these matters will have a material adverse effect on the Company's financial position, results of operations or cash flows. However, there is no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

### **Risk and Uncertainties**

The Company is subject to risks common to companies in the technology industries, including, but not limited to, litigation, development of new technological innovations and dependence on key personnel.

### **Off Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

### **Uncertain Tax Positions**

The Company did not take any uncertain tax positions and had no adjustments to unrecognized income tax liabilities or benefits pursuant to the provisions of Section 740-10-25 for the periods ended December 31, 2012 or 2011.

### **Subsequent Events**

The Company evaluated for subsequent events through the issuance date of the Company's financial statements.

### **Recent Accounting Pronouncements**

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

In May 2011, FASB issued Accounting Standards Update No. 2011-04, "Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU 2011-04"). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. The Company anticipates that the adoption of this standard will not materially expand its financial statement note disclosures.

In June 2011, FASB issued ASU No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income" ("ASU 2011-05"), which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011, with early adoption permitted. The Company is reviewing ASU 2011-05 to ascertain its impact on the Company's financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment", which allows, but does not require, an entity when performing its annual goodwill impairment test the option to first do an initial assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount for purposes of determining whether it is even necessary to perform the first step of the two-step goodwill impairment test. Accordingly, based on the option created in ASU 2011-08, the calculation of a reporting unit's fair value is not required unless, as a result of the qualitative assessment, it is more likely than not that fair value of the reporting unit is less than its carrying amount. If it is less, the quantitative impairment test is then required. ASU 2011-08 also provides for new qualitative indicators to replace those currently used. Prior to ASU 2011-08, entities were required to test goodwill for impairment on at least an annual basis, by first comparing the fair value of a reporting unit with its carrying amount. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test is performed to measure the amount of impairment loss, if any. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early

adoption permitted. The Company adopted ASU 2011-08 during the first quarter of fiscal 2013. The adoption of ASU 2011-08 did not impact the Company's results of operations or financial condition.

In December 2011, FASB issued Accounting Standards Update 2011-11, "Balance Sheet - Disclosures about Offsetting Assets and Liabilities" to enhance disclosure requirements relating to the offsetting of assets and liabilities on an entity's balance sheet. The update requires enhanced disclosures regarding assets and liabilities that are presented net or gross in the statement of financial position when the right of offset exists, or that are subject to an enforceable master netting arrangement. The new disclosure requirements relating to this update are retrospective and effective for annual and interim periods beginning on or after January 1, 2013. The update only requires additional disclosures, as such, the Company does not expect that the adoption of this standard will have a material impact on its results of operations, cash flows or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment". The guidance allows companies to perform a "qualitative" assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test.

ASU 2012-02 allows companies the option to first assess qualitatively whether it is more likely than not that an indefinite-lived intangible asset is impaired, before determining whether it is necessary to perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired. Companies can choose to perform the qualitative assessment on none, some, or all of its indefinite-lived intangible assets or choose to only perform the quantitative impairment test for any indefinite-lived intangible in any period.

ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company is in the process of evaluating the guidance and the impact ASU 2012-02 will have on its financial statements.

## **NOTE 2 - GOING CONCERN**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Worlds Online Inc. has had only minimal revenues from operations, has a negative working capital, has a negative stockholders deficit and negative cash flows from operations. There can be no assurance that the Company will be able to obtain the substantial additional capital resources necessary to fully implement its business plan or that any assumptions relating to its business plan will prove to be accurate. The Company is pursuing sources of additional financing and there can be no assurance that any such financing will be available to the Company on commercially reasonable terms, or at all. Any inability to obtain additional financing will likely have a material adverse effect on the Company, including possibly requiring the Company to reduce and/or cease operations.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **NOTE 3 - PRIVATE PLACEMENTS OF EQUITY**

During May of 2011, the Company completed a private placement of 526,315 shares of its common stock at a price per share of \$0.57 for aggregate proceeds of \$300,070 from three "accredited" investors. The shares were physically issued in 2012.

During the year ended December 31, 2012 the Company issued an aggregate of 1,000,000 shares of common stock as payment for services rendered with an aggregate value of \$30,000, of which \$2,500 has been expensed in 2012 and \$27,500 was recorded as prepaid expense at December 31, 2012.

During the year ended December 31, 2012 the Company issued an aggregate of 25,987 shares of common stock as payment for an accrued expense with an aggregate value of \$14,813.

During the year ended December 31, 2012, the Company issued 23,859,248 common shares as part of its stock dividend to the shareholders of Worlds, Inc.

## **NOTE 4 - DEFERRED REVENUE**

As part of a debt refinancing in 2000 with Worlds Inc. (formerly Worlds.com), \$631,950 of debt was renegotiated to deferred revenue representing future services to be provided by the Company. \$355,000 has been amortized into income through December 31, 2010. The balance of \$276,950 has been transferred to the Company. During the period presented herein, \$50,000 has been amortized into income in 2011 leaving a balance at December 31, 2011 of \$226,950. Nothing has been amortized into income in 2012 as no services were performed, leaving the balance unchanged at \$226,950 at December 31, 2012.

## **NOTE 5 - PROPERTY AND EQUIPMENT**

There is no property and equipment on the balance sheet at December 31, 2012 or December 31, 2011. The Company does have property and equipment, however, for accounting purposes, the property and equipment that was transferred was fully depreciated by Worlds Inc. prior to the transfer. Therefore it has no carrying value to the Company.

**NOTE 6 - STOCK OPTIONS**

During the year ended December 31, 2012, the Company issued 5,000,000 stock options to directors and officers of the Company. 4,500,000 stock options were issued as part of the employment agreement with its President and CEO, Thom Kidrin. The stock option allows Mr. Kidrin to purchase 4,500,000 shares of the Company's common stock at \$0.01 per share. The options expire on September 30, 2017. The Company issued 300,000 stock options to Chris Ryan, the Company's CFO. The stock option allows Chris Ryan to purchase 300,000 shares of the Company's common stock at \$0.025 per share per each individual option. The options expire on December 20, 2017. The Company issued 100,000 shares to each of the Company's directors, Bernard Stolar and Robert Fireman. The stock options allow each director to purchase 100,000 shares of the Company's common stock at \$0.025 per share per each individual option. The options expire on December 20, 2017. The Company did not grant any registration rights with respect to any shares of common stock issuable upon exercise of the options.

During the period ended December 31, 2012, the Company recorded an expense of \$181,646, equal to the estimated fair value of the options at the date of grants. These options were granted for services to be performed. The fair market value was calculated using the Black-Scholes options pricing model, assuming approximately 0.77% risk-free interest, 0% dividend yield, 65% volatility, and expected life of five years.

During 2011, the Company issued 675,000 stock options to various Directors. The stock options allow the parties to purchase shares of the Company's common stock at various prices per share per each individual option agreement. The options allow the various parties to purchase one share of its stock for each option. The options expire at various times through December 31, 2013 per each individual option agreement. The Company did not grant any registration rights with respect to any shares of common stock issuable upon exercise of the options. During the period from inception (January 25, 2011) through December 31, 2011, the Company recorded an expense of \$195,615, equal to the estimated fair value of the options at the date of grants. These options were granted to the Directors for services to be performed. The fair market value was calculated using the Black-Scholes options pricing model, assuming approximately 1.8% risk-free interest, 0% dividend yield, 65% volatility, and expected life of two and three quarter years.

During the period from inception (January 25, 2011) through December 31, 2011 we also issued 5,570,829 stock options exercisable at \$0.57 per share to various option holders of Worlds Inc. The options were issued on the same basis as the stock dividend i.e. one stock option for every three stock options held in Worlds Inc. However, the exercise price of all such options was increased to \$0.57 per share. 5,000,000 stock options were given to Thomas Kidrin, the President and CEO, during the year ended December 31, 2012, the options expired and were replaced with the 4.5 million options mentioned above.

During the year ended December 31, 2012, no stock options or warrants were exercised. There are no outstanding warrants as of December 31, 2012. Approximately five million options expired in 2012.

Stock options outstanding and exercisable as of December 31, 2012 are as follows:

	Exercise Price per Share	Shares Under Option	Remaining Life in Years
Outstanding			
	\$ 0.57	845,832	1.00
	\$ 0.57	33,333	0.86
	\$ 0.57	99,999	0.38
	\$ 0.025	500,000	4.97
	\$ 0.01	4,500,000	4.67
		<u>5,979,164</u>	
Exercisable			
	\$ 0.57	845,832	1.00
	\$ 0.57	33,333	0.86
	\$ 0.57	99,999	0.38
	\$ 0.01	1,500,000	4.67
		<u>2,479,164</u>	



## NOTE 7 - INCOME TAXES

At December 31, 2012, the Company had federal and state net operating loss carry forwards of approximately \$1,187,000 that expire in 2024.

Due to operating losses, there is no provision for current federal or state income taxes for the periods ended December 31, 2012 or 2011.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for federal and state income tax purposes.

The Company's deferred tax asset at December 31, 2012 consists of a net operating loss calculated using federal and state effective tax rates equating to approximately \$463,000 less a valuation allowance in the amount of approximately \$463,000. Because of the Company's lack of earnings history, the deferred tax asset has been fully offset by a valuation allowance. The measurement valuation allowance increased by \$316,000 and \$147,000 during the 2012 and 2011 periods respectively.

The Company's total deferred tax asset as of December 31, 2012 is as follows:

Deferred tax asset - gross	\$	463,000
Valuation allowance		<u>(463,000)</u>
Net deferred tax asset	\$	<u>—</u>

The reconciliation of income taxes computed at the federal and state statutory income tax rate to total income taxes for the periods ended December 31, 2012 and 2011 is as follows:

	2012	2011
Income tax computed at the federal statutory rate	34%	34%
Income tax computed at the state statutory rate	5%	5%
Valuation allowance	<u>(39%)</u>	<u>(39%)</u>
Total deferred tax asset	<u>0%</u>	<u>0%</u>

## NOTE 8 - TRADING SECURITIES

Marketable equity securities	Cost	Market value	Unrealized Loss
	\$ 75,000	\$ 19,250	\$ 35,750

Fair market measurement at December 31, 2012 were computed using quoted prices in an active market for identified assets, (level 1 ). The shares were obtained as compensation for performing consulting services.

The unrealized losses of \$32,000 and \$3,750 is included in the Company Statements of Operations for the periods ended December 31, 2012 and 2011.

## **NOTE 9 - RELATED PARTY TRANSACTIONS**

The Company was formed on January 25, 2011 as a wholly-owned subsidiary of Worlds Inc. (formerly known as Worlds.com Inc.). On May 16, 2011 Worlds Inc. transferred to the Company the majority of its operations and related operational assets, except for its patent portfolio. Worlds Inc. has also given to the Company a perpetual world-wide license to its patented technology. Pursuant to the license, the Company has the right to issue unlimited sublicenses to the licensed technology, subject to World Inc.'s reasonable consent.

The assets transferred to the Company include: Worlds Inc.'s technology platform, Worlds Ultimate Chat, Aerosmith World, DMC Worlds, Cinema Virtual, Pearson contracts and related revenue, the following URLs: Worlds.com, Cybersexworld.com, Hang.com, and Worldsfunds.com, a digital inventory of over 10,000 3D objects, animation sequences, an extensive avatar library, texture maps and virtual world architectures. None of the transferred assets have any carrying value on the financial statements of the Company. Deferred revenue of \$226,950 at December 31, 2012 and 2011 was transferred from Worlds, Inc.

Account payable related party is comprised of cash payments made by Worlds Inc. on behalf of Worlds Online Inc. for shared operating expenses. The balance due at December 31, 2012 is \$134,653. Included in the accompanying Balance Sheets at December 31, 2012 and 2011 is \$134,653 and \$43,818 respectively payable to Worlds Inc. for payments made on shared expenses.

## **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The Company is committed to an employment agreement with its President and CEO, Thom Kidrin. The agreement, dated as of August 30, 2012, is for five years with a one-year renewal option held by Mr. Kidrin. The agreement provides for a base salary of \$175,000, which increases 10% on September 1 of each year; a monthly car allowance of \$500; an annual bonus equal to 2.5% of Pre-Tax Income (as defined in the agreement); an additional bonus as follows: \$75,000, if Pre-Tax Income for the year is between 150% and 200% of the prior fiscal year's Pre-Tax Income or (B) \$100,000, if Pre-Tax Income for the year is between 201% and 250% of the prior fiscal year's Pre-Tax Income or (C) \$200,000, if Pre-Tax Income for the year is 251% or greater than the prior fiscal year's Pre-Tax Income, but in no event shall this additional bonus exceed five (5%) percent of Pre-Tax Income for such year; payment of up to \$10,000 in life insurance premiums; options to purchase 4.5 million shares of Worlds Inc. common stock at an exercise price of \$0.01 per share, of which one-third vested on August 30, 2012, one-third vest on August 30, 2013 and the balance vested on August 30, 2014; a death benefit of at least \$2 million dollars; and a payment equal to 2.99 times his base amount (as defined in the agreement) in the event of a Change of Control (as defined in the agreement). The agreement also provides that Mr. Kidrin can be terminated for cause (as defined in the agreement) and that he is subject to restrictive covenants for 12 months after termination. The balance due Mr. Kidrin at December 31, 2012 is \$87,839 and is included in accrued expenses.

The Company is committed to a consulting agreement with an unrelated business consultant. The contract is dated January 1, 2012, calls for monthly payments in the amounts of \$5,000 for the 24 month term of the contract and expires on January 1, 2014

## **NOTE 11 - SEGMENTS**

The Company determined that it do not operate in any material, separately reportable operating segments as of December 31, 2012 and 2011.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES.**

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure. We concluded that our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act were effective as of December 31, 2011 to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in SEC rules and forms.

#### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth in Internal Control Over Financial Reporting — Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Subject to the inherent limitations described in the following paragraph, our management has concluded that our internal controls over financial reporting was effective as December 31, 2012 at the reasonable assurance level.

#### **Inherent Limitations Over Internal Controls**

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, our internal controls and procedures are designed to provide reasonable assurance of achieving their objectives.

#### **Changes in Internal Control over Financial Reporting**

We have made no change in our internal control over financial reporting during the fourth quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Attestation Report of the Registered Public Accounting Firm**

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report on Form 10-K.

**ITEM 9B. OTHER INFORMATION.**

None.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following table sets forth the name, age and position of our directors and executive officers. Our directors are elected annually and serve until the next annual meeting of stockholders. Except for Mr. Kidrin, all of our directors are independent, based upon the definition of “independence” used by NASDAQ, even though we are not subject to such regulation.

Name	Age	Position
Thomas Kidrin	60	President, Chief Executive Officer, Secretary, Treasurer, Director
Christopher J. Ryan	52	Vice President-Finance, Principal Accounting and Chief Financial Officer
Bernard Stolar	66	Director
Robert Fireman	64	Director

Thomas Kidrin has been our president, chief executive officer, secretary and treasurer since our formation. He also held such positions from December 1997 through July 2007 in Worlds Inc. then added the title chief executive officer of Worlds Inc. since August 2007. Mr. Kidrin was also president and a director of Worlds Acquisition Corp. from April 1997 to December 1997. He has been the chairman and president of Datastream Corporation, a designer and developer of interactive products and services, since 1993. From December 1991 to June 1996, Mr. Kidrin was a founder, director, and President of UC Television Network Corp., a company engaged in the design and manufacture of interactive entertainment/advertising networks in the college market under the brand name College Television Network, the largest private network on college campuses in the United States sold to MTV in 1996 now operating under MTVU. Mr. Kidrin has attended Drake University and the New School of Social Research.

Christopher J. Ryan has been our Vice President-Finance and chief financial officer since our formation. He also held such positions with Worlds Inc. since May 2000 and principal accounting and finance officer since August 2000. From August 1991 through April 2000, Mr. Ryan held a variety of financial management positions at Reuters America, an information services company. From 2001 through 2003, Mr. Ryan was the founder and President of CJR Advisory Services, a personal corporation through which he provided financial consulting services to various entities. Since 2004, Mr. Ryan has been the VP Finance of Peminic, Inc. Mr. Ryan is an inactive certified public accountant. He is a graduate of Montclair State University in New Jersey and received an M.B.A. degree from Fordham University in New York.

Bernard Stolar, noted for his expertise in both identifying and developing market-driving content and forging successful business partnerships, brings to the board over twenty years of senior-level experience within the interactive entertainment industry in all phases of company operations, including sales and marketing, product development, licensing, distribution, strategic planning and management. Mr. Stolar has served in high profile leadership roles at publicly and privately held interactive entertainment companies. Currently, Mr. Stolar is Dean of Games and Game Evangelist for Google, Inc. From February 2006 until its purchase by Google, Inc. in February 2007, Mr. Stolar was the Chairman of the Board of Adscape Media. Prior to this, he was president and chief operating officer of BAM! Entertainment, where he transformed the company from a hand-held content company to a developer and marketer of interactive entertainment for next generation video game consoles. In 2000, Mr. Stolar joined Mattel, Inc. as president of Mattel Interactive, where he was responsible for directing and reorganizing the \$1 billion Mattel Interactive division. From 1996 to 1999, Mr. Stolar served as president and chief operating officer of Sega of America, Inc. where he helped increase sales from \$200 million to over \$1 billion in three years, and orchestrated the launch of the Sega Dreamcast(TM), the fastest selling video game console in US history at that time. Mr. Stolar also served as executive vice president of Sony Computer Entertainment of America, where he was a key leader of the Sony Playstation® launch team, directing all third-party publishing in the U.S. Prior to that, Mr. Stolar served as president of Atari America's game division.

Robert Fireman is a seasoned executive in the building of technology and consumer driven companies. He brings to Worlds vast experience in the development of real time, loyalty based, stored value products and services. Mr. Fireman was a founder and former Director and General Manager of SmartSource Direct, Inc., a subsidiary of News America Marketing (News Corp). Mr. Fireman was responsible for the development, marketing and distribution of card-based loyalty, financial, and database products & services in retail, grocery and drug store chains encompassing over 50,000 stores throughout the U.S. Mr. Fireman has been a practicing attorney for over 25 years and is the managing attorney of Fireman & Associates LLP.

The board does not have any standing committees and when necessary, the entire board acts to perform such functions.

## **Family Relationships**

None.

## **Legal Proceedings**

None.

## **Audit Committee**

We do not have a separately designated standing audit committee. Pursuant to Section 3(a)(58)(B) of the Exchange Act, the entire Board of Directors acts as an audit committee for the purpose of overseeing the accounting and financial reporting processes, and audits of our financial statements. The Commission recently adopted new regulations relating to audit committee composition and functions, including disclosure requirements relating to the presence of an "audit committee financial expert" serving on its audit committee. We have only recently begun operations, and we are not in a position at this time to attract, retain and compensate additional directors in order to acquire a director who qualifies as an "audit committee financial expert" or to so designate one of our current directors, but we intend to either retain an additional director who will qualify as such an expert or designate one of our current directors as such an expert, as soon as reasonably practicable. Our current directors, by virtue of their past employment experience, have considerable knowledge of financial statements, finance, and accounting, and have significant employment experience involving financial oversight responsibilities. Accordingly, we believe that our current directors capably fulfill the duties and responsibilities of an audit committee in the absence of such a designated expert at this time.

## **Code of Ethics**

We have adopted a code of ethic (the "Code of Ethics") that applies to our principal chief executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics was filed as Exhibit 14.1 to a previous annual report. The Code of Ethics is being designed with the intent to deter wrongdoing, and to promote the following:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships
- Full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the Commission and in other public communications we make
- Compliance with applicable governmental laws, rules and regulations
- The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code
- Accountability for adherence to the code

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Under Section 16(a) of the Exchange Act, all executive officers, directors, and each person who is the beneficial owner of more than 10% of the common stock of a company that files reports pursuant to Section 12 of the Exchange Act, are required to report the ownership of such common stock, options, and stock appreciation rights (other than certain cash-only rights) and any changes in that ownership with the Commission. Specific due dates for these reports have been established, and we are required to report, in this Form 10-K, any failure to comply therewith during the fiscal year ended December 31, 2011. Except as disclosed below, we believe that all of these filing requirements were satisfied by its executive officers, directors and by the beneficial owners of more than 10% of our common stock. In making this statement, we have relied solely on copies of any reporting forms received by us, and upon any written representations received from reporting persons that no Form 5 (Annual Statement of Changes in Beneficial Ownership) was required to be filed under applicable rules of the Commission. Each of our directors did not timely file one Form 4.

**ITEM 11. EXECUTIVE COMPENSATION.**

The following table sets forth the compensation paid by us during the period from formation through December 31, 2012 to our chief executive officer and to our other most highly compensated executive officers whose compensation exceeded \$100,000 for those fiscal periods.

**SUMMARY COMPENSATION TABLE (1)(2)**

Name and principal position (a)	Year (b)	Salary (\$)(c)	Bonus (\$)(d)	Stock Awards (\$)(e)	Option Awards (\$)(f)	Securities underlying options (g)	All Other Compensation (\$)(i)	Total (\$)(j)
Thomas Kindrin President and CEO	2011	\$64,615	0	0	0	0	0	\$64,615
	2012	\$0(3)	0	0	\$173,650	4,500,000	0	\$173,650(3)
Christopher Ryan VP and CFO	2011	\$12,563	0	0	0	0	0	\$12,563
	2012	\$0	0	0	\$4,797	300,000	0	\$4,797

(1) The compensation reported on the Table does not include other personal benefits, the total value of which do not exceed \$10,000.

(2) Pursuant to the regulations promulgated by the SEC, the table omits columns reserved for types of compensation not applicable to us.

(3) Mr. Kidrin has an employment agreement, effective August 30, 2012 with an annualized salary for 2012 of \$175,000. A portion of his compensation has been paid by Worlds Inc. with the remaining balance deferred due to lack of funds.

**Stock Option Grants**

The following table sets forth information as of December 31, 2012 concerning unexercised options, unvested stock and equity incentive plan awards for the executive officers named in the Summary Compensation Table.

**OUTSTANDING EQUITY AWARDS AT YEAR-ENDED DECEMBER 31, 2012**

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards:		
			Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
Thom Kidrin	1,500,000	3,000,000	0	\$ 0.01	09-30-17
Chris Ryan	0	300,000		\$ 0.025	12-19-17
Bernard Stolar	0	100,000		\$ 0.025	12-19-17
Robert Fireman	0	100,000		\$ 0.025	12-19-17

**Compensation of Directors**



The Board of Directors adopted a compensation program for the directors whereby each non-employee director will receive compensation in the form of stock options for serving on the board. Five-year non-qualified stock options to purchase 100,000 shares of the Corporation's common stock are to be granted annually to each non-employee director then in office at an exercise price equal to the last reported trading price of our common stock on the date of issue, with such options to vest in 12 months, provided the director serves for at least six months, following the date of grant. In addition, every non-employee director upon first joining our board receives 150,000 stock options that vest immediately and are exercisable for five years at a price equal to the last reported trading price of our common stock on that day. Persons becoming a non-employee director in the middle of a year will receive a pro rata amount of options.

The following table sets forth information concerning the compensation paid to each of our non-employee directors during 2012 for their services rendered as directors.

**DIRECTOR COMPENSATION**

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Total (\$)
Robert Fireman	0	0	1,599	1,599
Bernard Stolar	0	0	1,599	1,599

(1) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2012 fiscal year for the fair value of stock options granted to the named director in fiscal year 2012, in accordance with SFAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized from these awards by the named director.

**Employment Agreements**

On August 30, 2012, the board of Worlds Online Inc. approved entry into an employment agreement with its president, Thom Kidrin. The agreement, dated as of August 30, 2012 is for five years with a one-year renewal option held by Mr. Kidrin. The agreement provides for a base salary of \$175,000, which increases 10% on September 1 of each year; a monthly car allowance of \$500; an annual bonus equal to 2.5% of Pre-Tax Income (as defined in the agreement); an additional bonus as follows: \$75,000, if Pre-Tax Income for the year is between 150% and 200% of the prior fiscal year's Pre-Tax Income or (B) \$100,000, if Pre-Tax Income for the year is between 201% and 250% of the prior fiscal year's Pre-Tax Income or (C) \$200,000, if Pre-Tax Income for the year is 251% or greater than the prior fiscal year's Pre-Tax Income, but in no event shall this additional bonus exceed five (5%) percent of Pre-Tax Income for such year; payment of up to \$10,000 in life insurance premiums; options to purchase 4.5 million shares of Worlds Inc. common stock at an exercise price of \$0.01 per share, of which one-third vested on August 30, 2012, one-third vest on August 30, 2013 and the balance vested on August 30, 2014; a death benefit of at least \$2 million dollars; and a payment equal to 2.99 times his base amount (as defined in the agreement) in the event of a Change of Control (as defined in the agreement). The agreement also provides that Mr. Kidrin can be terminated for cause (as defined in the agreement) and that he is subject to restrictive covenants for 12 months after termination.

**Stock Option Plan**

On May 31, 2011, our board of directors adopted the 2011 Stock Award and Incentive Plan which plan was presented to, and approved by, our then sole stockholder, Worlds Inc. That approval notwithstanding, we intend to present the plan to our shareholders for their ratification at our next annual meeting. The plan provides for the issuance of up to nine million options and/or shares of restricted stock of which not more than eight million can be incentive stock options. To date, 5,979,164 options have been issued under the plan.

**Compensation Committee Interlocks and Insider Participation**

All of our officers and directors currently hold the same positions with our former parent, Worlds Inc, although as described elsewhere herein it is the intent that our current non-employee directors will only serve during a transition period not to exceed 24 months. Worlds Inc. does not have a compensation committee and all of its directors perform the function of a compensation committee. Similarly, we too do not have a compensation committee and all of our directors perform the functions of a compensation committee, except that Mr. Kidrin, our president and CEO, does not participate in any deliberations with respect to his compensation and physically removes himself from the presence of the other directors while they deliberate over his compensation and bonuses. Accordingly, Mr. Kidrin, who is both our president and CEO and of Worlds Inc. may be deemed to fall within the parameters of a compensation committee interlock. To address this situation, as described above, Mr. Kidrin recuses himself from all deliberations of the board with respect to his compensation.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

Number of Securities	Number of Securities	Equity Incentive Plan	Option Exercise Price	Option Expiration
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Name	Underlying Unexercised Options (#) Exercisable	Underlying Unexercised Options (#) Unexercisable	Awards: Number of Securities Underlying Unexercised Unearned Options (#)	(\$)	Date
Thom Kidrin	1,500,000	3,000,000	0	\$ 0.01	09-30-17
Christopher Ryan	0	300,000	0	0.025	12-19-17

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth as of March 25, 2013, certain information with respect to the beneficial ownership of Common Stock by (i) each of our Directors and executive officers; (ii) each person known to us who owns beneficially more than 5% of the common stock; and (iii) all Directors and executive officers as a group. The percentage of shares beneficially owned is based on there having been 32,826,828 shares of common stock outstanding as of March 28, 2012.

### OFFICERS, DIRECTORS AND BENEFICIAL OWNERS, AS OF MARCH 25, 2013

Name & Address of Beneficial Owner(1)	Amount & Nature of Beneficial Owner	% of Class(2)
Worlds Inc.	5,936,115(3)	18.0%
Thomas Kidrin	1,930,000(4)	5.9%
Chris Ryan	209,715	0.6%
Robert Fireman	424,999(5)	1.3%
Bernard Stolar	391,666(5)	1.2%
Steven Chrust	2,074,017(6)	6.3%
All directors and executive officers as a group (four persons)	2,956,380(7)	9.0%

(1) Unless stated otherwise, the business address for each person named is c/o Worlds Online Inc., 11 Royal Road, Brookline, MA 02445.

(2) Calculated pursuant to Rule 13d-3(d) (1) of the Securities Exchange Act of 1934. Under Rule 13d-3(d), shares not outstanding which are subject to options, warrants, rights or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by a person, but not deemed outstanding for the purpose of calculating the percentage owned by each other person listed. We believe that each individual or entity named has sole investment and voting power with respect to the shares of common stock indicated as beneficially owned by them (subject to community property laws where applicable) and except where otherwise noted.

(3) Worlds Inc, intends to dispose of its stock in an orderly fashion into the open market or in private sales, in either case in ways designed not to impact the market, but in any event within five years. While it holds any shares it will vote them in proportion to the votes by other stockholders.

(4) Includes 1.5 million currently exercisable stock options. Due to the size of Mr. Kidrin's holdings and his position with the company, the stock certificates representing Mr. Kidrin's shares will carry restrictive legends indicating that all of his shares are subject to restrictions on transferability.

(5) Consists of currently exercisable stock options.

(6) Includes common shares directly and indirectly owned.

(7) Includes 2,479,164 currently exercisable stock options.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

We are not currently subject to the requirements of any stock exchange or inter-dealer quotation system with respect to having a majority of "independent directors" although we believe that we meet that standard inasmuch as Messrs. Stolar, Coleman and Fireman are "independent" and only Mr. Kidrin, by virtue of being our president and CEO, is not independent. Although we are not currently subject to such rule, the independence of our directors meets the definition of such term as contained in NASDAQ Rule 5605(a)(2).

Worlds Inc., our former parent and currently a 18% owner of our outstanding common stock has officers and directors which mirror ours, although as described elsewhere herein it is the intent that our current non-employee directors will only serve during a transition period not to exceed 24 months. During 2010 Worlds Inc. entered into the following

transaction with a person who is currently one of our directors, but was not one of directors at the time of such transaction: Robert Fireman, one of our directors, received 100,000 stock options of Worlds Inc. exercisable for 3 years at a price of \$0.05 per share, which was the closing price of Worlds Inc.'s common stock on the date of grant, as compensation for his efforts in assisting Worlds Inc. in negotiating and settling various patent matters with respect to its patent advisors.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

### Fees Billed For Audit and Non-Audit Services

The following table represents the aggregate fees billed for professional audit services rendered to the independent auditor, Bongiovanni & Associates, P.A. ("Bongiovanni"), for our audit of the annual financial statements for the year ended December 31, 2012 and for the period from January 25, 2011 (inception) through December 31, 2011. Bongiovanni was retained as our auditor in May 2011. Audit fees and other fees of auditors are listed as follows:

Year Ended December 31	2012 Bongiovanni	2011 Bongiovanni
Audit Fees (1)	\$ 18,000 (2)	\$ 18,500(3)
Audit-Related Fees (4)	0	0
Tax Fees (5)	0	0
All Other Fees (6)	5,000	0
Total Accounting Fees and Services	\$ 23,000	\$ 18,500

- (1) Audit Fees. These are fees for professional services for the audit of our annual financial statements, and for the review of the financial statements included in our filings on Form 10-Q, and for services that are normally provided in connection with statutory and regulatory filings or engagements.
- (2) The amounts shown for Bongiovanni in 2012 relate to (i) the audit of our annual financial statements for the year ended December 31, 2012, and (ii) the review of the financial statements included in our filings on Form 10-Q for the quarters of 2012.
- (3) The amounts shown for Bongiovanni in 2011 relate to (i) the audit of our annual financial statements for the period ended December 31, 2011, and (ii) the review of the financial statements included in our filings on Form 10-Q for the second and third quarters of 2011.
- (4) Audit-Related Fees. These are fees for the assurance and related services reasonably related to the performance of the audit or the review of our financial statements.
- (5) Tax Fees. These are fees for professional services with respect to tax compliance, tax advice, and tax planning.
- (6) *All Other Fees*. These are fees for permissible work that does not fall within any of the other fee categories, i.e., Audit Fees, Audit-Related Fees, or Tax Fees .

### Pre-Approval Policy For Audit and Non-Audit Services

We do not have a standing audit committee, and the full Board performs all functions of an audit committee, including the pre-approval of all audit and non-audit services before we engage an accountant. All of the services rendered to us by Bongiovanni & Associates, P.A. were pre-approved by our Board of Directors.

We are presently working with our legal counsel to establish formal pre-approval policies and procedures for future engagements of our accountants. The new policies and procedures will be detailed as to the particular service, will require that the Board or an audit committee thereof be informed of each service, and will prohibit the delegation of pre-approval responsibilities to management. It is currently anticipated that our new policy will provide (i) for an annual pre-approval, by the Board or audit committee, of all audit, audit-related and non-audit services proposed to be rendered by the independent auditor for the fiscal year, as specifically described in the auditor's engagement letter, and (ii) that additional engagements of the auditor, which were not approved in the annual pre-approval process, and engagements that are anticipated to exceed previously approved thresholds, will be presented on a case-by-case basis, by the President or Controller, for pre-approval by the Board or audit committee, before management engages the auditors for any such purposes. The new policy and procedures may authorize the Board or audit committee to delegate, to one or more of its members, the authority to pre-approve certain permitted services, *provided that* the estimated fee for any such service does not exceed a specified dollar amount (to be determined). All pre-approvals shall be contingent on a finding, by the Board, audit committee, or delegate, as the case may be, that the provision of the proposed services is compatible with the maintenance of the auditor's independence in the conduct of its auditing functions. In no event

shall any non-audit related service be approved that would result in the independent auditor no longer being considered independent under the applicable rules and regulations of the Securities and Exchange Commission.

**ITEM 15. EXHIBITS.**

**INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Certificate of Incorporation of the Registrant (a)
3.2	By-Laws - Restated as Amended (a)
10.1	Employment Agreement dated as of August 30, 2012 between Worlds Online Inc. and Thomas Kidrin *
10.2	Worlds Online 2011 Stock Option and Restricted Stock Award Plan (a)
10.3	License Agreement between Worlds Inc. and Registrant dated as of May 16, 2011.(b)
10.4	Letter Agreement between Worlds Inc. and Pearson Inc. dated November 20, 2000 (b)
10.5	Letter Agreement between Worlds Inc. and Pearson Inc. dated December 3 20, 2007 (b)
10.6	Web Design and Content Supply Agreement between Worlds.com Inc. and Pearson Education, Inc. dated April 3, 2009 (c)
31.1.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer *
31.2.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Financial Officer *
32.1.	Section 1350 Certifications of Chief Executive Officer *
32.2.	Section 1350 Certifications of Chief Financial Officer *
101.INS* XBRL	Instance Document
101.SCH* XBRL	Taxonomy Extension Schema
101.CAL* XBRL	Taxonomy Extension Calculation Linkbase
101.DEF* XBRL	Taxonomy Extension Definition Linkbase
101.LAB* XBRL	Taxonomy Extension Label Linkbase
101.PRE* XBRL	Taxonomy Extension Presentation Linkbase

(a) Incorporated by reference from Registration Statement on Form 10-12G (File No. 000-54433) filed on June 9, 2011

(b) Incorporated by reference from Registration Statement on Form 10-12G (File No. 000-54433), Amendment No. 2 filed on October 7, 2011

(c) Incorporated by reference from Registration Statement on Form 10-12G (File No. 000-54433), Amendment No. 3 filed on December 6, 2011

\* Filed herewith



## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 28, 2013  
WORLDS ONLINE INC.

(Registrant)

By: /s/ Thomas Kidrin  
Name: Thomas Kidrin  
Title: President and Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
<u>/s/ Thomas Kidrin</u> Thomas Kidrin	President, Chief Executive Officer and Director	March 28, 2013
<u>/s/ Christopher J. Ryan</u> Christopher J. Ryan	Vice President - Finance, CFO	March 28, 2013
<u>/s/ Bernard Stolar</u> Bernard Stolar	Director	March 28, 2013
<u>/s/ Robert Fireman</u> Robert Fireman	Director	March 28, 2013

## INDEX TO EXHIBITS

<b>Exhibit No.</b>	<b>Description</b>
3.1	Certificate of Incorporation of the Registrant (a)
3.2	By-Laws - Restated as Amended (a)
10.1	<a href="#">Employment Agreement dated as of August 30, 2012 between Worlds Online Inc. and Thomas Kidrin*</a>
10.2	Worlds Online 2011 Stock Option and Restricted Stock Award Plan (a)
10.3	License Agreement between Worlds Inc. and Registrant dated as of May 16, 2011.(b)
10.4	Letter Agreement between Worlds Inc. and Pearson Inc. dated November 20, 2000 (b)
10.5	Letter Agreement between Worlds Inc. and Pearson Inc. dated December 3 20, 2007 (b)
10.6	Web Design and Content Supply Agreement between Worlds.com Inc. and Pearson Education, Inc. dated April 3, 2009 (c)
31.1.	<a href="#">Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer *</a>
31.2.	<a href="#">Rule 13a-14(a)/15d-14(a) Certifications of Chief Financial Officer *</a>
32.1.	<a href="#">Section 1350 Certifications of Chief Executive Officer *</a>
32.2.	<a href="#">Section 1350 Certifications of Chief Financial Officer *</a>
101.INS* XBRL	Instance Document
101.SCH* XBRL	Taxonomy Extension Schema
101.CAL* XBRL	Taxonomy Extension Calculation Linkbase
101.DEF* XBRL	Taxonomy Extension Definition Linkbase
101.LAB* XBRL	Taxonomy Extension Label Linkbase
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\* Filed herewith

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated as of August 30, 2012 by and between Thomas Kidrin (the "Executive") and Worlds Online Inc., a Delaware corporation (the "Company").

W I T N E S S E T H:

WHEREAS, Executive and the Company desire to enter into an Employment Agreement to provide for Executive's employment by the Company on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises, representations and warranties set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1 . Offices and Duties. The Company hereby employs Executive during the Term (as hereinafter defined) to serve as the Company's President and Chief Executive Officer and to perform such executive and supervisory duties on behalf of the Company as the Company's Board of Directors may from time to time reasonably direct. Executive hereby accepts such employment and agrees that throughout the Term he shall faithfully, diligently and to the best of his ability, in furtherance of the business of the Company, perform the duties assigned to him or incidental to the offices assumed by him pursuant to this Section. Executive shall devote substantially approximately one-half of his business time and attention to the business and affairs of the Company, but Executive shall not be required to devote any minimum amount of time or report or perform his duties hereunder on a fixed or periodic basis, and Executive may engage or participate in such other activities incidental to any other employment, occupation or business venture or enterprise as do not materially interfere with or compromise his ability to perform his duties hereunder. The Company understands that Executive is also providing executive level services for Worlds Inc., a Delaware corporation and former parent of the Company, and the Company acknowledges that the provision of such services is permitted hereunder and shall not be deemed a breach of this Agreement. Executive shall at all times be subject to the direction and control of the Company's Board of Directors, and observe and comply with such rules, regulations, policies and practices as the Company's Board of Directors may from time to time establish.

2 . Term. The employment of Executive hereunder shall commence on the date hereof and end on August 30, 2017, provided, that Executive shall have the right in his sole discretion to extend the term for an additional 12 months ending on August 30, 2018, by notifying the Company in writing of such no later than June 1, 2018, subject in all respects to earlier termination upon the terms and conditions provided elsewhere herein. The term during which Executive is employed hereunder shall be referred to herein as the "Term". As used herein, "Termination Date" means the last day of the Term.

3. Compensation.

(a) As compensation for his services hereunder, the Company shall pay to Executive during the Term:

(i) a base salary at the rate of \$175,000 per annum (the "Base Salary"), such Base Salary to be paid in substantially equal installments no less often than twice monthly;

(ii) the Base Salary shall be increased by 10% on the anniversary each year of the Term over the prior year's Base Salary;

(iii) a car allowance in the amount of \$500 per month, payable monthly;

(iv) a bonus (the "2.5% Bonus") in respect of each Bonus Period (as hereinafter defined), payable within ninety (90) days after the end of such Bonus Period, in an amount equal to two and one-half percent (2.5%) of Pre-Tax Income (as hereinafter defined) for the applicable Bonus Period, provided, however, that the maximum amount of the 2.5% Bonus earned for any Bonus Period shall not exceed 50% of Executive's then Base Salary, and further provided, that the 2.5% Bonus shall only be payable if the Company reports Net Income (as hereinafter defined) for such Bonus Period;

(v) a bonus (the "Additional Bonus") in respect of each Bonus Period, payable within ninety (90) days after the end of such Bonus Period, as follows: (A) \$75,000, if Pre-Tax Income for the Bonus Period is between 150% and 200% of the prior fiscal year's Pre-Tax Income; or (B) \$100,000, if Pre-Tax Income for the Bonus Period is between 201% and 250% of the prior fiscal year's Pre-Tax Income; or (C) \$200,000, if Pre-Tax Income for the Bonus Period is 251% or greater than the prior fiscal year's Pre-Tax Income, provided, however, that the Additional Bonus payable to Executive with respect to any Bonus Period shall not exceed five (5%) percent of Pre-Tax Income for such Bonus Period, and further provided, that the Additional Bonus shall only be payable if the Company reports Net Income for such Bonus Period and the Company's Earnings Per Share (as hereinafter defined) are higher for such Bonus Period than in the year prior to such Bonus Period; and

(vi) such additional incentive or bonus compensation as the Company's Board of Directors may from time to time determine.

(b) For the purposes of paragraph 3(a):

and

(i) "Bonus Period" is a fiscal year of the Company ending during the Term;

(ii) The "Pre-Tax Income," "Net Income," and "Earnings Per Share" in any Bonus Period is the Company's income before provision for income taxes as reported in its audited financial statements for such Bonus Period.

The determination of the Pre-Tax Income and the 2.5% Bonus and Additional Bonus for any Bonus Period shall be determined by the Company's then Chief Financial Officer (or other senior most accounting official if no one holds a position with that title) in accordance with the Company's audited financial statements as prepared by the Company's independent auditor, which shall be conclusive and binding upon the Company and Executive.

(c) The Company shall provide major medical, hospitalization and dental insurance for the benefit of Executive and his family consistent with benefits made available to other of the Company's senior executives and if no such benefits are then available or paid to other executives, then in the amount of, and providing coverage for, no lesser benefits than Executive has prior to the date hereof, and the Company shall pay all premiums and any other costs or expenses incurred to maintain such policies in effect during the Term.

(d) In addition to his Base Salary and other compensation provided herein, Executive shall be entitled to participate, to the extent he is eligible under the terms and conditions thereof, in any stock, stock option or other equity participation plan and any profit-sharing, pension, retirement, insurance, medical service or other employee benefit plan generally available to the executive officers of the Company, and to receive any other benefits or perquisites generally available to the executive officers of the Company pursuant to any employment policy or practice, which may be in effect from time to time during the Term. The above notwithstanding, the Company shall use its commercially reasonable efforts to obtain for the benefit of Executive a life insurance policy with a death benefit of at least \$2 million payable to a beneficiary of Executive's choice, provided, however, that the Company shall not be obligated to spend more than \$10,000 annually on the premiums for such policy. Except as otherwise expressly provided herein, the Company shall be under no obligation hereunder to institute or to continue any such employee benefit plan or employment policy or practice.

(e) No provision hereof is intended, or shall be deemed, to impair or limit Executive's eligibility to receive, or any right he may now or at any time hereafter have to receive, hold or dispose of any common stock, par value \$.001 per share, of the Company (the "Common Stock") or other securities of the Company or to receive, hold or exercise any options, warrants or other rights to acquire any Common Stock or other securities of the Company.

(f) During the Term, Executive shall not be entitled to additional compensation for serving in any office of the Company (or any subsidiary thereof) to which he is elected or appointed.

4. Stock Options.

(a) By its approval of this Agreement, the Company's Board of Directors has approved the issuance to Executive of an option to acquire 4,500,000 shares of the Company's Common Stock, under and pursuant to the provisions of the Worlds Online Inc. 2012 Stock Option Plan, as adopted by the Company's Board of Directors and as approved by the Company's Shareholders (the "Plan") and on the terms set forth in the Stock Option Agreement annexed to this Agreement as Exhibit A (the "Option Agreement"), which provides *inter alia* that such option shall vest as set forth below, and be exercisable at the exercise price of \$0.010 per share (which is the closing market price of the Company's Common Stock on the last trading date prior to the date hereof) at any time during the five (5) year period following the date hereof (subject to earlier termination as provided under the Plan):

- (i) the option to acquire 1,500,000 shares shall vest immediately;
- (ii) the option to acquire 1,500,000 shares shall vest on August 30, 2013; and
- (iii) the option to acquire 1,500,000 shares shall vest on August 30, 2014.

(b) The option being granted hereby is subject in all respects to the terms and provisions of the Plan and the Option Agreement, including, without limitation, the termination provisions contained in the Plan, and in the event of any conflict between the terms of this Agreement and the Plan or the Option Agreement, the Plan or the Option Agreement shall control. The option granted hereby is also subject to the approval of the Plan by the Company's shareholders. It is the intention of the parties hereto that, to the extent possible, the options granted herein shall be "incentive stock options" as such term is defined in the Internal Revenue Code of 1986 and any of the terms of the options shall be modified, as minimally as necessary, to maintain their status as incentive stock options.

(c) Executive shall receive such other option, restrictive stock awards or other security-based compensation as the Board of Directors shall approve.

5. Expense Allowance. The Company shall pay directly, or advance funds to Executive or reimburse Executive for, all expenses reasonably incurred by him in connection with the performance of his duties as an employee or consultant hereunder, upon the submission to the Company of itemized expense reports, receipts or vouchers in accordance with its then customary policies and practices.

6. Location: Office. Except for routine travel and temporary accommodation reasonably required to perform his services hereunder, Executive shall not be required to perform his services hereunder at any location other than the principal executive office of the Company, which office shall be located throughout the Term at its location on the date hereof, or, if relocated, at a location within a distance of 30 miles from its location on the date hereof, or at such other office or site to which Executive may, in his sole discretion, consent; nor shall he be required to relocate his principal residence to, or otherwise to reside at, any location specified by the Company. The Company shall provide Executive with suitable office space, furnishings and equipment, secretarial and clerical services and such other facilities and office support as Executive may reasonably request.

7. Vacation. Executive shall be entitled to four (4) weeks paid vacation during each year of his full time employment hereunder, such vacation to be taken at such time or times as shall be agreed upon by Executive and the Company. Vacation time shall be cumulative from year to year, except that Executive shall not be entitled to take more than six weeks vacation during any consecutive 12-month period during the Term. Accrued but unused vacation time shall be paid in cash on the Termination Date, except that in the event of a Termination pursuant to Section 12, the amount of accrued vacation time to be paid on the Termination Date shall be limited to six weeks and in the event of a Termination pursuant to Section 13, the amount of vacation time to be paid on the Termination Date shall be limited to four weeks.

8. Key-Man Insurance. The Company shall have the right from time to time to purchase, increase, modify or terminate insurance policies on the life of Executive for the benefit of the Company in such amounts as the Company may determine in its sole discretion. In connection therewith, Executive shall, at such time or times and at such place or places as the Company may reasonably direct, submit himself to such physical examinations and execute and deliver such documents as the Company may deem necessary or appropriate.

9. Trade Secrets.

(a) Executive shall hold in a fiduciary capacity for the benefit of the Company all confidential or proprietary information relating to or concerned with the Company or its Affiliates (as defined below) or its products or services, prospective products or services, operations, business and affairs ("Confidential Information"), and he shall not, at any time hereafter, use or disclose any Confidential Information to any person other than to the Company or its designees or except as may otherwise be required in connection with the business and affairs of the Company, and in furtherance of the foregoing Executive agrees that:

(i) Executive will receive, maintain and hold Confidential Information in strict confidence and will use the same level of care in safeguarding it that he uses with his own confidential material of a similar nature;

(ii) Executive will take all such steps as may be reasonably necessary to prevent the disclosure of Confidential Information; and

(iii) Executive will not utilize Confidential Information for his personal benefit without first having obtained the Company's consent to such utilization.

"Affiliate" of a Person means another Person directly or indirectly controlling, controlled by, or under common control with, such Person; for this purpose, "control" of a Person means the power (whether or not exercised) to direct the policies, operations or activities of such Person by virtue of the ownership of, or right to vote or direct the manner of voting of, securities of such Person, or pursuant to agreement or law or otherwise. The term "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, governmental authority, or any group of the foregoing acting in concert.

(b) The commitments set forth in paragraph 9(a) shall not extend to any portion of Confidential Information:

(i) that is generally available to the public;

(ii) that was not acquired, directly or indirectly and/or in any manner, from the Company and which Executive lawfully had in his possession prior to the date of this Agreement; or

(iii) that, hereafter, through no act or omission on the part of the Executive, becomes information generally available to the public.

(c) At any time upon written request by the Company (i) the Confidential Information, including any copies, shall be returned to the Company, and (ii) all documents, drawings, specifications, computer software, and any other material whatsoever in the possession of the Executive that relates to such Confidential Information, including all copies and/or any other form of reproduction and/or description thereof made by Executive shall, at the Company's option, be returned to the Company or destroyed.

(d) In the event that Executive becomes legally compelled (by deposition interrogatory, request of documents, subpoena, civil investigative demand or similar process) to disclose any of the Confidential Information, the Executive shall provide the Company with prompt prior written notice of such requirement so that it (or its designees) may seek a protective order or other appropriate remedy and/or waive compliance with the terms of this Agreement. In the event that such protective order or other remedy is not obtained, or the Company waives compliance with the provisions hereof, the Executive agrees to furnish only such portion of the Confidential Information which is legally required to be furnished.

10. Intellectual Property. Any idea, invention, design, process, system, procedure, improvement, development or discovery conceived, developed, created or made by Executive, alone or with others, during the Term and applicable to the business of the Company, whether or not patentable or registrable, shall become the sole and exclusive property of the Company. Executive shall disclose the same promptly and completely to the Company and shall, during the Term or thereafter, (i) execute all documents requested by the Company for vesting in the Company the entire right, title and interest in and to the same, (ii) execute all documents requested by the Company for filing and procuring such applications for patents, trademarks, service marks or copyrights as the Company, in its sole discretion, may desire to prosecute, and (iii) give the Company all assistance it may reasonably require, including the giving of testimony in any Proceeding (as defined below), in order to obtain, maintain and protect the Company's right therein and thereto.

A "Proceeding" is any suit, action, arbitration, audit, investigation or other proceeding before or by any court, magistrate, arbitration panel or other tribunal, or any governmental agency, authority or instrumentality of competent jurisdiction.

11. No Competition.

(a) During the Restricted Period (as defined below), Executive shall not, directly or

(i) own, control, manage, operate, participate or invest in, or otherwise be connected with, in any manner, any business activity, venture or enterprise which is engaged in any business in the United States in which the Company (or any subsidiary thereof) is currently engaged or is engaged at the time of termination of Executive's employment hereunder, or

(ii) for himself or on behalf of any other person, employ or engage any person who at the time shall have been within the preceding 12-month period an employee of the Company (or such subsidiary) or contact any supplier, customer or employee of the Company (or such subsidiary) for the purpose of soliciting or diverting any supplier, customer or employee from the Company (or such subsidiary).

(b) The provisions of paragraph 11(a) notwithstanding, Executive may (i) invest his funds in securities of an issuer if the securities of such issuer are listed for trading on a registered securities exchange or actively traded in an over-the-counter market and Executive's holdings therein represent less than 5% of the total number of shares or principal amount of the securities of such issuer outstanding and (ii) work as an executive and be a director of Worlds Online Inc.

(c) Executive acknowledges that the provisions of this Section, and the period of time, geographic area and scope and type of restrictions on his activities set forth herein, are reasonable and necessary for the protection of the Company.

(d) "Restricted Period" shall mean the period commencing on the date hereof and ending August 30, 2018; provided, however, that if Executive has exercised his option to extend the Term to August 30, 2018 in accordance with Section 2 hereof, the Restricted Period shall end August 30, 2019.



(e) The Company acknowledges that the services Executive provides to Worlds Inc. are not competitive with the Company and not subject to the restrictions contained in this Section 11.

12. Termination Upon Disability. In the event that the Board of Directors determines that the Executive is unable to perform his duties hereunder by reason of any disability or incapacity (due to any physical or mental injury, illness or defect) for an aggregate of 180 days in any consecutive 12-month period, the Company shall have the right to terminate Executive's employment hereunder within 30 days after the 180th day of his disability or incapacity by giving Executive notice to such effect at least 10 days prior to the date of termination set forth in such notice, and on such date such employment shall terminate. The Board of Directors' determination shall be made after due inquiry, on the basis of convincing evidence presented in at least two medical opinions rendered by reputable physicians with experience in diagnosing and treating the condition described in the opinion.

13. Termination for Cause.

(a) In addition to any other rights or remedies provided by law or in this Agreement, the Company may terminate Executive's employment under this Agreement if:

(i) Executive is convicted of, or enters a plea of guilty or *110/0 contendere* (which plea is not withdrawn prior to its approval by the court) to, a felony offense or the commission of a fraud against, or embezzlement or misappropriation of funds or other assets of, the Company (or any subsidiary thereof) and either Executive fails to perfect an appeal of such conviction prior to the expiration of the maximum period of time within which, under applicable law or rules of court, such appeal may be perfected or, if Executive does perfect such an appeal, his conviction of such as offense is sustained on appeal; or

(ii) the Company's Board of Directors determines, after due inquiry, based on convincing evidence, that Executive has:

- (A) violated, or caused the Company (or any subsidiary thereof) or any officer, employee or other agent thereof, or any other person to violate, any material law, regulation or ordinance or any material rule, regulation, policy or practice established by the Company's Board of Directors;
- (B) willfully, or because of gross or persistent negligence, (x) failed properly to perform his duties hereunder or (y) acted in a manner detrimental to, or adverse to the interests of, the Company; or
- (C) violated, or failed to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by Executive hereunder; and that, in the case of any violation or failure referred to in clause (A), (B) or (C) of this paragraph (ii) of Section 13(a), such violation or failure has caused, or is reasonably likely to cause, the Company to suffer or incur a substantial casualty, loss, penalty, expense or other liability or cost.

(b) The Company may effect such termination for cause by giving Executive notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least thirty (30) days prior to the date of termination set forth therein; *provided, however*, that Executive may avoid such termination if Executive, prior to the date of termination set forth in such notice, explains to the reasonable satisfaction of the Company's Board of Directors why the facts relied upon by the Company in terminating Executive's employment do not constitute a For Cause Event (as defined below) or that Executive has ceased any such claimed violation and/or cured any such failure to perform within such 30 day period.

(c) In making any determination pursuant to Section 13(a) as to the occurrence of any act or event described in clauses (A) to (C) of paragraph (ii) thereof (each, a "For Cause Event"), each of the following shall constitute convincing evidence of such occurrence:

(i) if Executive is made a party to, or target of, any Proceeding arising under or relating to any For Cause Event, Executive's failure to defend against such Proceeding or to answer any complaint filed against him therein, or to deny any claim, charge, averment, or allegation thereof asserting or based upon the occurrence of a For Cause Event;

(ii) any judgment, award, order, decree or other adjudication or ruling in any such Proceeding finding or based upon the occurrence of a For Cause Event; or

(iii) any settlement or compromise of, or consent decree issued in, any such Proceeding in which Executive expressly admits the occurrence of a For Cause Event;

*provided* that none of the foregoing shall be dispositive or create an irrebuttable presumption of the occurrence of such For Cause Event; and *provided further* that the Company's Board of Directors may rely on any other factor or event as convincing evidence of the occurrence of a For Cause Event.

(d) In determining and assessing the detrimental effect of any For Cause Event on the Company and whether such For Cause Event warrants termination of Executive's employment hereunder, the Company's Board of Directors shall take the following factors, to the extent applicable and material, into account:

(i) whether the Company's Board of Directors directed or authorized Executive to take, or to omit to take, any action involved in such For Cause Event, or approved, consented to or acquiesced in his taking or omitting to take such action;

(ii) any award of damages, penalty or other sanction, remedy or relief granted or imposed in any Proceeding based upon or relating to such For Cause Event, and whether such sanction, remedy or relief is sufficient to recompense the Company or any other injured person, or to prevent or to deter the recurrence of such For Cause Event;

(iii) whether any lesser sanction would be appropriate and effective; and

(iv) any adverse effect that the loss of Executive's services would have, or be reasonably likely to have, upon the Company.

14. Termination by Executive for Good Reason. In addition to any other rights or remedies provided by law or in this Agreement, Executive may terminate his employment hereunder:

(i) if (A) the Company violates, or fails to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by it hereunder or (B) as a result of any action or failure to act by the Company, there is a material change in the nature or scope of the duties, obligations, rights or powers of Executive's employment, by giving the Company notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least thirty (30) days prior to the date of termination set forth therein; *provided however* that the Company may avoid such termination if it, prior to the date of termination set forth in such notice, cures or explains to the reasonable satisfaction of Executive the factual basis for termination set forth therein; or

(ii) if a Change of Control (as hereinafter defined) occurs while Executive is a full-time employee of the Company, by giving the Company notice to such effect within ninety (90) days after the occurrence of such Change of Control, setting forth the event or circumstance constituting such Change of Control, such termination to be effective upon the date of termination, not more than thirty (30) days after the date of such notice, set forth therein or, if no such date is set forth therein, immediately upon delivery of such notice to the Company.

15. Voluntary Termination. In addition to any other rights or remedies provided by law or in this Agreement, from and after the date hereof, Executive may terminate his employment hereunder by giving the Company written notice to such effect at least ninety (90) days prior to the date of termination set forth therein.

16. Compensation and Benefits upon Termination.

(a) Upon termination of Executive's employment hereunder, he shall be entitled to receive, in any case, any Base Salary pursuant to Section 3(a)(i) accrued but unpaid to the Termination Date. Any amount payable to Executive under this subparagraph shall be paid promptly, and in any event within thirty (30) days after the Termination Date.

(b) If Executive's employment is terminated as a result of a "For Cause Event" pursuant to Section 13, except for the payment of any amount required to be made by Section 16(a), from and after the Termination Date, the Company shall have no further obligation to Executive hereunder, including without limitation any obligation pursuant to Section 17.

(c) If the Executive's employment is terminated (i) by him pursuant to Section 14(i); or (ii) by the Company other than as a result of a "For Cause Event" pursuant to Section 13; he shall be entitled to receive an amount equal to the full value of any Base Salary still remaining until the end of the Term plus an amount equal to three times the Base Salary at the time of termination, unless such payment would trigger the excise tax under Section 4999 of the Code in which case the aggregate payments hereunder shall be reduced to the maximum amount which would not trigger such tax. Notwithstanding the foregoing, if the Executive's employment is terminated by the Company after a Change of Control has occurred for any reason other than as a result of a "For Cause Event" pursuant to Section 13, he shall be entitled to receive, upon the terms and subject to the conditions set forth in Section 17, the Parachute Amount (as hereinafter defined in Section 17). Any amount payable to Executive under this subparagraph shall be paid promptly, and in any event within thirty (30) days after the Termination Date.

(d) If the Executive's employment terminates as a result of a Change of Control pursuant to Section 14(ii), he shall be entitled to receive, upon the terms and subject to the conditions set forth in Section 17, the Parachute Amount. Any amount payable to Executive under this subparagraph shall be paid promptly, and in any event within thirty (30) days after the Termination Date.

(e) If the Executive's employment is terminated by him pursuant to Section 14(i) or 14(ii) of this Agreement, or by the Company other than as a result of a "For Cause Event" pursuant to Section 13, the Company shall for the two (2) year period following the Termination Date maintain and pay for Executive and his family, or reimburse Executive, for the cost of medical, dental, and hospitalization benefits comparable to such benefits maintained by the Company during the twelve (12) months prior to the Termination Date. If the Executive voluntarily terminates his employment pursuant to Section 15 of this Agreement such benefits shall be maintained for one (1) year following such termination.

(f) Executive shall have no obligation hereunder to seek or to accept any other employment after the Termination Date or otherwise to mitigate the payments required to be made by this Section. No compensation or other amount received or receivable by Executive on account of any employment or engagement after the Termination Date shall be offset against or deducted from any payment required to be made by this Section 16 or Section 17.

(g) In the event the Company terminates Executive other than as a result of a "For Cause Event" pursuant to Section 13, or if the Executive's employment is terminated by him pursuant to Section 14(i) or 14(ii) of this Agreement, Executive shall receive as his sole and exclusive remedy and damages the payments he would otherwise be entitled to receive under the applicable provisions of this Section 16 (and, if applicable, the other benefits provided under clause (h) of this Section 16).

(h) In the event of Executive's death or if the Company terminates Executive for disability pursuant to Section 12, the Company shall pay, in the case of Executive's death, Executive's estate an amount equal to his then current Base Salary and in the event of termination for disability, an amount equal to two times his then current Base Salary. Any amount payable to Executive (or his estate) under this subparagraph shall be paid promptly, and in any event within thirty (30) days after the date Executive dies or is terminated for disability, as the case may be.

17. Change of Control.

- (a) For the purposes of this Section 17:
- (i) The "Act" is the Securities Exchange Act of 1934, as amended.
  - (ii) A "person" includes a "group" within the meaning of Section 13(d)(3) of
  - (iii) "Control" is used herein as defined in Rule 12b-2 under the Act.
  - (iv) "Beneficially owns" and "acquisition" are used herein as defined in Rules 13d-3 and 13d-5, respectively, under the Act.
  - (v) "Non-Affiliated Person" means any person, other than Executive, an employee stock ownership trust of the Company (or any trustee thereof for the benefit of such trust), or any person controlled by Executive, the Company or such a trust.
  - (vi) "Voting Securities" includes Common Stock and any other securities of the Company that ordinarily entitle the holders thereof to vote, together with the holders of Common Stock or as a separate class, with respect to matters submitted to a vote of the holders of Common Stock, but securities of the Company as to which the consent of the holders thereof is required by applicable law or the terms of such securities only with respect to certain specified transactions or other matters, or the holders of which are entitled to vote only upon the occurrence of certain specified events (such as default in the payment of a mandatory dividend on preferred stock or a scheduled installment of principal or interest of any debt security), shall not be Voting Securities.
  - (vii) "Right" means any option, warrant or other right to acquire any Voting Security (other than such a right of conversion or exchange included in a Voting Security).
  - (viii) The "Code" is the Internal Revenue Code of 1986, as amended.
  - (ix) "Base amount," "present value" and "parachute payment" are used herein as defined in Section 280G of the Code.
- (b) A "Change of Control" occurs when:
- (i) a Non-Affiliated Person acquires control of the Company;
  - (ii) upon an acquisition of Voting Securities or Rights by a Non-Affiliated Person from persons other than the Executive (or persons controlled by the Executive) or any change in the number or voting power of outstanding Voting Securities, such Non-Affiliated Person beneficially owns Voting Securities or Rights entitling such person to cast a number of votes (determined in accordance with Section 17(g)) equal to or greater than 25% of the sum of (A) the number of votes that may be cast by all other holders of outstanding Voting Securities and (B) the number of votes that may be cast by such Non-Affiliated Person (determined in accordance with Section 17(g)); or
  - (iii) upon any change in the membership of the Company's Board of Directors, a majority of the directors are persons who are not nominated or appointed by the Company's Board of Directors as constituted prior to such change.
- (c) The "Parachute Amount" to which Executive shall be entitled pursuant to Sections 16(c) and (d) shall equal 2.99 multiplied by the Executive's base amount.
- (d) It is intended that the present value of any payments or benefits to Executive, whether hereunder or otherwise, that are includible in the computation of the Parachute Amount shall not exceed 2.99 times the Executive's base amount. Accordingly, if Executive receives any payment or benefit from the Company prior to payment of the Parachute Amount which, when added to the Parachute Amount, would subject any of the payments or benefits to Executive to the excise tax imposed by Section 4999 of the Code, the Parachute Amount shall be reduced by the least amount necessary to avoid such tax. The Company shall have no obligation hereunder to make any payment or provide any benefit to Executive after the payment of the Parachute Amount which would subject any of such payments or benefits to the excise tax imposed by Section 4999 of the Code.
- (e) Any other provision hereof notwithstanding, Executive may (but only to the extent not prohibited by the United States securities laws, as then amended), prior to his receipt of the Parachute Amount pursuant to Section 17(d), waive the payment thereof, or, after his receipt of the Parachute Amount thereunder, treat some or all of such amount as a loan from the Company which Executive shall repay to the Company within 180 days after the receipt thereof, together with interest thereon at the rate provided in Section 7872 of the Code, in either case, by giving the Company notice to such effect.



(f) Any determination of the Executive's base amount, the Parachute Amount, any liability for excise tax under Section 4999 of the Code or other matter required to be made pursuant to this Section 17, shall be made by the Company's regularly -engaged independent certified public accountants, whose determination shall be conclusive and binding upon the Company and Executive; *provided* that such accountants shall give to Executive, on or before the date on which payment of the Parachute Amount or any later payment or benefit would be made, a notice setting forth in reasonable detail such determination and the basis therefor, and stating expressly that Executive is entitled to rely thereon.

(g) The number of votes that may be cast by holders of Voting Securities or Rights upon the issuance or grant thereof shall be deemed to be the largest number of votes that may be cast by the holders of such securities or the holders of any other Voting Securities into which such Voting Securities or Rights are convertible or for which they are exchangeable or exercisable, determined as though such Voting Securities or Rights were immediately convertible, exchangeable or exercisable and without regard to any anti-dilution or other adjustments provided for therein.

18. Other Termination Provisions.

(a) Throughout the 7-year period following the Termination Date, the Company shall indemnify Executive, and hold him harmless from, any loss, damages, liability, obligation or expense that he may suffer or incur in connection with any claim made or Proceeding commenced during such period relating to his service as a director, officer, employee or agent of the Company (or any subsidiary thereof) to the same extent and in same manner as the Company shall be obligated so to indemnify Executive immediately prior to the Termination Date; *provided* that, if during such 7-year period the Company adopts or assumes any indemnification policy or practice with respect to its directors, officers, employees or agents that is more favorable than that in effect on the Termination Date, Executive shall be entitled to such more favorable indemnification.

(b) Throughout the 7-year period following the Termination Date, the Company shall maintain for the benefit of Executive directors' and officers' liability insurance (on a "claims made" basis) providing coverage at least as favorable to Executive (including with respect to limits of liability, exclusions, and deductible and retention amounts) as that in effect on the Termination Date.

19. Limitation of Authority. Except as expressly provided herein, no provision hereof shall be deemed to authorize or empower either party hereto to act on behalf of, obligate or bind the other party hereto.

20. Notices. Any notice or demand required or permitted to be given or made hereunder to or upon either party hereto shall be deemed to have been duly given or made for all purposes if (a) in writing and sent by (i) messenger or an overnight courier service against receipt, or (ii) certified or registered mail, postage paid, return receipt requested, or (b) sent by telegram, telecopy, telex or similar electronic means, *provided* that a written copy thereof is sent on the same day by postage-paid first-class mail, to such party at the following address:

to the Company at:

its then current address of its principal office as stated on the cover page of its most recent public filing under the Act and if such address is then Executive's residence, to the address of the Company's Chief Financial Officer.

with a copy to:

Feder Kaszovitz LLP  
845 Third Avenue, 11th Floor  
New York, New York 10022-6601 Attn: Irving  
Rothstein, Esq.  
Fax: (212) 888-7776

to Executive at:

11 Royal Road Brookline, MA 02445  
Fax: (617) 975-3888

or such other address as either party hereto may at any time, or from time to time, direct by notice given to the other party in accordance with this Section. The date of giving or making of any such notice or demand shall be, in the case of clause (a) (i), the date of the receipt; in the case of clause (a) (ii), five business days after such notice or demand is sent; and, in the case of clause (b), the business day next following the date such notice or demand is sent.

21. Amendment. Except as otherwise provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

22. Waiver. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

23. Governing Law. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the Commonwealth of Massachusetts without regard to principles of choice of law or conflict of laws.

24. Jurisdiction. Each of the parties hereto hereby irrevocably consents and submits to the jurisdiction of the courts of the Commonwealth of Massachusetts and the United States District Court for the District of Massachusetts in connection with any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, waives any objection to venue in the County of Norfolk, Commonwealth of Massachusetts, or such District, and agrees that service of any summons, complaint, notice or other process relating to such proceeding may be effected in the manner provided by clause (a) (ii) of Section 20.

25. Remedies. In the event of any actual or prospective breach or default by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages.

26. Severability. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

27. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

28. Assignment. This Agreement, and each right, interest and obligation hereunder, may not be assigned by either party hereto without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void and without effect, except that this Agreement shall be assigned to, and assumed by, any person with or into which the Company merges or consolidates, or which acquires all or substantially all of its assets, or which otherwise succeeds to and continues the Company's business substantially as an entirety. Except as otherwise expressly provided herein or required by law, Executive shall not have any power of anticipation, assignment or alienation of any payments required to be made to him hereunder, and no other person may acquire any right or interest in any thereof by reason of any purported sale, assignment or other disposition thereof, whether voluntary or involuntary, any claim in a bankruptcy or other insolvency proceeding against Executive, or any other ruling, judgment, order, write or decree.



29. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any person not a party hereto.

30. Titles and Captions. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

3 1 . Grammatical Conventions. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

3 2 . References. The terms "herein," "hereto," "hereof," "hereby," and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

3 3 . No Presumptions. Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Agreement.

3 4 . Entire Agreement. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating thereto, written or oral, if any, which shall terminate immediately upon the commencement of the Term, except that each party thereto shall (a) remain required to perform any act and to satisfy any obligation or condition that such party is required to perform or satisfy thereunder with respect to any event occurring or circumstance existing prior to the commencement of the Term hereof (including without limitation the payment or delivery to Executive of any compensation, reimbursable expense or employee benefit or perquisite to which he may be entitled, but which has not yet been paid to him, on account of his employment under any such prior arrangement) that has not been so performed or satisfied, and (b) retain his or its right under any such prior assignment to assert or to allege any claim or cause of action relating to or based upon, or otherwise to enforce, any provision thereof with respect to any event occurring or circumstance existing during the term thereof.

[Remainder of page blank. Signatures appear on following page.]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the day and year first above written.

**THE COMPANY:**

WORLDS ONLINE INC. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Name: Robert Fireman \_\_\_\_\_

Name: Robert Fireman  
Title: Director (on behalf of the Board)

**EXECUTIVE:**

Thomas Kidrin

## EXHIBIT 31.1 Certifications

I, Thomas Kidrin, certify that:

1. I have reviewed this annual report on Form 10-K of Worlds Online Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2013

/s/ Thomas Kidrin

Thomas Kidrin

Chief Executive Officer

## EXHIBIT 31.2 Certifications

I, Christopher J. Ryan, Principal Accounting and Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Worlds Online Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2013

/s/ Christopher J. Ryan

Christopher J. Ryan

Principal Accounting and Financial Officer



**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Worlds Online Inc. (the "Company") on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Kidrin, Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, our financial condition and result of operations.

WORLDS ONLINE INC.

(Registrant)

Date: March 28, 2013

By: /s/ Thomas Kidrin

Thomas Kidrin

Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Worlds Online Inc. (the "Company") on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Ryan, Principal Accounting and Financial Officer of the Company, certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, our financial condition and result of operations.

WORLDS ONLINE INC.

(Registrant)

Date: March 28, 2013

By: /s/ Christopher J. Ryan

Christopher J. Ryan

Principal Accounting and Financial Officer