FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

WORLDS INC

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

For Fiscal Year ended December 31, 1998

Commission File Number 2-31876

WORLDS INC.
(Exact Name of Registrant as Specified in its Charter)

New Jersey	22-1848316
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

15 Union Wharf, Boston, Massachusetts	02109
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including Area Code: (617) 725-8900

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

None

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

Title of Class
Common Stock, par value $.001

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 twelve (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 ninety (90) days.

Yes [X] 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 registrant's best 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.

The aggregate market value of voting stock held by non-affiliates of the Registrant: $8,034,496

The number of shares outstanding of Registrant's Common Stock as of March 19, 1999: 17,919,131

ITEM 1. BUSINESS

BACKGROUND

The Company today is the result of the contemporaneous Mergers on December 3, 1997 of Worlds Inc., a Delaware corporation formed on April 26, 1994 ("Predecessor") with and into Worlds Acquisition Corp., a Delaware corporation formed on April 8, 1997 ("WAC") and of WAC, with and into Academic Computer Systems, Inc., a New Jersey corporation formed on May 20, 1968 ("Academic") which changed its name to Worlds Inc. after the Mergers. Thus, the Company is really Academic Computer Systems, Inc. with a new name carrying on the business previously conducted by Predecessor in conjunction with the new business focus provided by WAC. In a transaction related to the Mergers, an aggregate of $4,415,000 in gross proceeds was raised in a private offering. The purpose of the Mergers was to provide financing and a publicly-held vehicle for the technology of Predecessor to be further developed and marketed. The Merger was accounted for as the acquisition of Predecessor by WAC and a simultaneous merger into the Company with WAC deemed the "Accounting Acquiror" in both transactions.

Statements contained herein which are not historical facts are forward-looking statements. Forward-looking statements involve a number of risks and uncertainties including, but not limited to, general economic conditions, the

Company's ability to complete development and then market its products and competitive factors and other risk factors detailed herein.

OVERVIEW

The Company develops applications for its three-dimensional ("3D")Internet technology for different markets. At present the Company is targeting three different markets for its 3D Internet technology: (1) the Company is in the process of marketing its 3D Internet technology with record companies to produce music-oriented websites; (2), the Company is in the process of marketing its Gamma 3D Internet technology to businesses for corporate intranet applications; and (3) the Company markets Worlds Ultimate 3D Chat, a 3D chat site on the Internet, to consumers on the Internet.

Prior to the Mergers, Predecessor marketed Worlds Chat, developed and marketed 3D toolsets and servers and performed contract development work. However, the Company has changed its focus and while it has introduced a new and improved upgraded version of Worlds Chat and intends to use its Gamma technology as a base vehicle for developing 3D corporate intranet sites, the Company does not anticipate that, over time, they will generate the bulk of the Company's revenues.

The Company's primary objective is to create 3D music web sites and other 3D internet entertainment, and to develop intranet applications for businesses. These applications may be created directly by the Company or the Company may license its technology for creation by third parties or the end user.

The Company's primary focus is upon marketing its 3D Internet technology to record companies to produce music-oriented web sites. The Company intends to produce interactive, 3D, music related web sites and distribute access to these web sites on enhanced compact discs ("CD+") of various recording artists via traditional retail record outlets, working in conjunction with major record companies and/or their related record labels.

With respect to the development of music-oriented web sites, the Company is currently developing the combination of its 3D Internet technology with the extra available capacity on the CD to create an interactive experience for the CD purchaser. By utilizing the Company's technology distributed on a CD+ (a standard CD with its excess memory carrying a "bonus" as an enhancement), a consumer using the CD ROM drive of the consumer's computer with Internet access or services provider could enter into the interactive 3D world or site of the recording artist, be able to interact with other fans utilizing voice or text chat via the PC, visit the artist's merchandise shops, visit secret rooms of the artist, see and hear advance videos and record clips of the artist, and enter special VIP areas that would offer free concert tickets, among other things. The Company intends to enter into revenue sharing with recording labels and artists, from selling VIP on-line subscriber memberships, advertising and database sales. In addition, the Company anticipates the possibility of additional revenues from the sale of merchandise of the artist on the site.

PREDECESSOR'S HISTORY

Predecessor was formed with the intention of selling or licensing its 3D servers, 3D browsers, and 3D toolsets to aid programmers in the creation of unique 3D user experiences on the Internet that would be sold or offered as turnkey solutions, such as custom production of 3D environments on the Internet. Predecessor expected that it would host newly created 3D environments on its own servers and charge license fees to the owners of such 3D environments. This market did not develop as rapidly as Predecessor had anticipated. Until meaningful 3D Internet license fees could be developed using Predecessor's technology, Predecessor entered the custom production business to showcase its 3D Internet technology, hiring as many as 60 full- time artists and independent contractors, integrators, and producers to help create 3D virtual Internet environments for companies such as, among others, Steven Spielberg's Starbright Foundation, IBM, Visa International, MGM, Disney, and Tandem Computers Inc. ("Tandem").

By January 1997, after almost all of Predecessor's funds had been depleted, including approximately $17 million in equity financing, Pearson Inc. and Tandem loaned Predecessor $1.5 million to continue Predecessor's operations until such time as new capital could be invested in Predecessor or Predecessor could be acquired.

Recognizing the extent of its poor and rapidly deteriorating financial condition, in early 1997, Predecessor began substantial layoffs to reduce costs.

In March 1997, Predecessor's Board of Directors decided to retain an outside crisis management organization as Predecessor's general manager, which, after Board approval, determined to proceed with the Merger Agreement.

From inception in April 1994 through 1997, Predecessor's operations were limited and consisted primarily of start-up activities, including recruiting personnel, raising capital, custom production work and research and development. In the third quarter of 1996, Predecessor launched its first commercial user-oriented 3D chat site, Worlds Chat 1.0 and began selling the client interface software through direct sales channels. These sales were very nominal. In October of 1996, Predecessor introduced its first commercial toolset for developing 3D multi-user applications. From inception through the date of the Mergers, Predecessor generated revenues of only approximately $6 million and had an accumulated deficit of approximately $21 million.

While the Company has successfully completed development and market testing of Worlds Platinum (also known as "Gamma," the Company's newest 3D toolset, as further described below) and its 3D Internet music sites, the Company will not generate any meaningful revenues until after it attracts and retains a significant number of subscribers. The Company anticipates that it will continue to incur significant losses until, at the earliest, the Company generates sufficient revenues to offset the substantial up-front expenditures and operating costs associated with developing and commercializing its proposed products. There can be no assurance that the Company will be able to attract and retain a sufficient number of subscribers to generate meaningful revenues or achieve profitable operations or that its products and services will prove to be commercially viable.

THE MARKET

Currently, the World Wide Web is almost entirely two dimensional ("2D"), in part, because the high speed data transmission technology required to receive detailed 3D images is not yet available to the average Internet user. However, much of the data required for interactive 3D images is template or dynamic toolkit data that is reasonably constant and can be distributed to a user off-line on a CD, allowing the transmission of data on-line through the Internet to provide the updatable, interactive, variable portion of the user's 3D experience.

The CD+ appears to be an optimal medium to distribute the Company's 3D data. The traditional audio CD sold at record stores has excess storage capacity. Since the audio CD is the same medium as the CD that runs on the CD ROM drive of a personal computer ("PC"), the CD+ can be used to run computer programs on the user's PC. Many recently manufactured PCs also have sound production capability that allows the user to play the audio portion on the CD+ on the PC.

By utilizing the Company's technology distributed on a CD+, a consumer could enter into the interactive 3D world or site of the recording artist, be able to interact with other fans utilizing voice or text chat via the PC, visit the artist's merchandise shops, visit secret rooms of the artist, see and hear advance videos and record clips of the artist, and enter special VIP areas that would give away free concert tickets, among other things. The Company believes these services could generate revenues from consumer subscriptions, merchandise purchases, and advertising. While a number of recording artists have released CD+s for use exclusively on PCs, to the best of the Company's knowledge, no record company or artist has yet released a CD+, with a high level of interactive entertainment and on-line extension capability.

MARKET ENTRY STRATEGY

The Company plans to enter the market in two phases. First, the Company plans to develop proprietary 3D music sites in conjunction with record companies, record labels, and recording artists designed to generate revenues from advertising, merchandise sales and VIP Tier Level subscription sales. Second, the Company plans to seek strategic alliances with computer manufacturers, and telecommunication, video game and merchandise sale companies through contracts, joint ventures, business combinations and/or technology licensing structured to generate fee and royalty revenue.

In order for the Company to develop sales, it is imperative that relationships be developed between the Company and record companies, record labels (which are either owned and/or distributed by the record companies or independently owned), and the recording artist or group and their management companies.

In addition to numerous independent record companies, there are five major record companies that operate worldwide: Warner Bros. Music, Sony Music, BMG Entertainment, Universal/Polygram Music Group, and EMI. These companies in the aggregate sold approximately 800 million CD units in the U.S. and 2.5 billion CD units worldwide in 1997. The record companies typically create and finance new labels which might be owned, in whole or in part, by them, manufacture and distribute recorded music for company and/or independently owned labels, and provide marketing and technical assistance to their owned and/or distributed labels. The individual record label's primary responsibility is to sign, develop, and create records by the recording artist or group, which is then turned over to the record company for manufacture and distribution.

While it is best to have the full commitment and support of the record companies, labels and artists in implementing the Company's 3D artist site program on an enhanced CD or CD+, the Company believes that record company support is the most important because with their commitment to a particular effort or format, the record company can give the Company access to labels it either owns and/or distributes and the hundreds of artists that record for these labels. Toward this end, during the second and third quarters of 1997 and prior to and after the Mergers, management had numerous conversations and/or meetings with representatives and/or high level management and/or executives from all of the major record companies. The Company believes it has received a positive response to its concept and online artist's prototype from each of the companies and intends to continue discussions with each of them.

The Company also created BowieWorld for David Bowie's BowieNet, the first artist created ISP (Internet Service Provider) which has been released by UltraStar Internet Services LLP in the US and UK. The Company has also signed an agreement with one of the major record companies to have its technology and content encoded on mutually agreed upon CDs of select recording artists of that company subject to the artist's approval. The Company is also in discussions with a number of other corporate entities about other projects, including all of the major record companies and/or one or more of their related record labels; several of the major search engines; and others with whom World is desirous of entering into a long term relationship or strategic alliance. In September 1998 the Company created and released under contract with Universal/Hyundai a 3D world titled AnimalHouse.com as an internet destination directed towards college students. Under the agreement, a total of 1,000,000 enhanced CD's were to be distributed by Universal/Hyundai.

3D INTERNET ENVIRONMENTS; VIRTUAL REALITY MODELING LANGUAGE ("VRML")

The technology to deliver Internet-based 3D experiences to a user's desktop has only been developed over the past five years. This new technology received a boost from an early standardization effort called Virtual Reality Modeling Language ("VRML") which increased consumer and developer awareness of the medium. The VRML effort evolved into a consortium of approximately 55 companies (including Predecessor), all with competing interests and underlying technologies.

VRML is supposed to deliver rich and dynamic 3D experiences over the Internet, viewable through the most commonly used Web browsers. However, VRML based Internet experiences and the companies developing these tools and technologies have not yet achieved significant market penetration for several reasons. To date, the user's experience with VRML has been unsatisfactory. VRML is slow in rendering images, has a long download time, confusing user interfaces and scene description language that is difficult to manipulate, and because it lacks standards for support of other media within the scene, the user experiences are less dynamic. Adequate VRML performance also requires high-end PCs, precluding effective use by average consumers with less advanced PCs. A new version of VRML, VRML 2.0 was just released at the end of 1997 with enhanced performance characteristics addressing some of VRML's performance problems. If and when VRML appears to be on the verge of overcoming its current limitations, the Company believes that its proprietary technology can be made VRML compliant. The Company believes that the VRML standard will ultimately overcome its limitations but the current problems make a proprietary solution such as the Company's technology attractive for the Company's intended use of 3D Internet technology.

Predecessor spent its last two years attempting to solve VRML's performance and production quality problems and has, in management's opinion, reduced, at least for the intended use of the Company, the barriers to the adoption of 3D multi-user environments on the Internet. Predecessor's technical solutions deliver user experiences that are rendered considerably faster than equivalent VRML browsers. Typical Predecessor environments are highly textured, object and behavior rich with a multi-user component that the Company believes delivers user experiences far more interesting than what many VRML environments provide today.

THE COMPANY'S TECHNOLOGY

The following is a summary of the Company's technologies, which were initially developed by Predecessor. During 1998 the Company directed its efforts toward completing development of its Gamma development tool kit. The Company's development efforts are now focused on adapting World Platinum to produce music-oriented websites.

The Worlds Platinum Development Kit, or Gamma, is the Company's third generation and newest 3D toolset, and was completed in the second half of 1998. The Company believes that Worlds Platinum 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. The Company has successfully utilized the Gamma tool kit in the development of 3D content for David Bowie's 3D on-line environment, BowieWorld, as well as the Company's recently released Worlds Ultimate 3D Chat which has been marketed to the Company's proprietary e-mail list of over 200,000 users that had previously downloaded the Company's free version of Worlds Chat. A major part of the Gamma platform was also utilized in the 3D AnimalHouse project which the Company created for Universal/Hyundai and in the Company's e-commerce site, WorldsStore.com. See "The Company's Products."

The Worlds Platinum Development Kit has substantial elements written in Sun Microsystem's programming language, Java, including the WorldsBrowser Platinum and the WorldsShaper Platinum so the Company expects that it can be made portable across Windows and UNIX Platforms because of Java's platform independence.

- - WorldsShaper Platinum: The WorldsShaper Platinum is an advanced compositing 3D building tool that integrates pre-existing or custom content, such as 3D models created in Kinetix' 3D Studio, textures or images created in Adobe's Photoshop, or .midi or .wave sound files, with foundation world 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 Platinum a tool well-suited for rapid world creation. Additional Application Programming Interfaces for more sophisticated, programmatic control of the spaces will also be included. Initially, the WorldsShaper Platinum will only output in the Company's proprietary file format. If demand and market needs warrant, WorldsShaper Platinum's extensibility might be expanded to include support for ActiveX enabled scripting languages.

- - WorldsServer Platinum: The WorldsServer Platinum is the server software that the Company anticipates will be used to control and operate its future on-line virtual community, Worlds of Worlds, that is currently in development. If the Company is successful in developing this concept, the WorldsServer Platinum is being designed to manage 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. It is currently proposed that the server will come in configurations that support 5, 20, 50, 100, 500, 1,000, and 1,000+ simultaneous users and is hoped to be available with a variety of add-on modules which, among other features, are intended to include, user tracking, encryption, person-to-person and multi-person voice conversations, streaming audio, electronic commerce transactions, and custom avatars. Additionally, the WorldsServer Platinum will include generalization of a "Bot" API to enable the use of Artificial Intelligence inference engines.

- - WorldsBrowser Platinum: The WorldsBrowser Platinum is used to access the 3D environments created with the Worlds Platinum Development Kit. The browser is optimized for speed, delivering 10 - 20 frame rates per second in highly textured virtual 3D worlds. After its initial introduction, the Company may make the browser an ActiveX control for Microsoft's Internet Explorer and a plug-in for the Netscape Navigator.

- - Worlds Platinum Libraries: The Worlds Platinum Libraries are composed of sample worlds, textures, models, avatars, actions, sensors, sounds, motion sequences, and other behaviors. The Worlds Platinum Libraries will be made available as part of the WorldsShaper Platinum and can easily be customized by the user or extended by adding new library elements.

The markets for the Company's products are characterized by rapidly changing technology and evolving industry standards, often resulting in product obsolescence or short product life cycles. Accordingly, the ability of the Company to compete will be dependent on the Company's ability to complete development of Worlds Platinum in a timely manner. There can be no assurance that competitors will not develop technologies or products that render the Company's products obsolete or less marketable or that the Company will be able to successfully enhance its products or develop new products.

THE COMPANY'S PRODUCTS

Worlds Ultimate 3D Chat

The Company owns its own proprietary online 3D Internet chat site known as Worlds Ultimate 3D Chat. Originally launched as Worlds Chat, another proprietary 3D chat site still operated by Worlds, it is an upgraded version using the Company's newest technology. The 3D environment was originally created by Predecessor and launched in 1996 to test its technologies and to learn about user behaviors and preferences in 3D environments. The Company's 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. Avatars can be created by the individual or chosen from pre-defined figures chosen from the Company's library. Users communicate with each other through text chat. The client interface for the Worlds Chat environment was originally distributed through a free download and later was sold on a CD which has a greater selection of avatars, persistent users names, and access to six virtual worlds (over 500 rooms, compared to 100 available in the free demo version).

The Company believes that the user base to the Worlds Ultimate 3D Chat site will develop into a valuable asset. Although the Company has no plans to build advertising or subscription revenues through the original Worlds Chat site, such revenues may be possible in the future as the Company released the updated version of this product in December, 1998 and is attempting to market a customized version of

this product for intranet applications by corporations. Currently, the Company collects a name and an e-mail address from its Worlds Ultimate 3D Chat users and a complete name, address, and credit card information from its direct customers. Worlds Ultimate 3D Chat also contains an e-commerce component, which the Company believes is the first commercial real 3D virtual store online, selling music merchandise of major recording artists including Elto John, David Bowie, Spice Girls, U2, Hanson, John Mellencamp, Shania Twain and others.

In order to rapidly increase the number of potential subscribers of its 3D music sites, the Company will be offering its Worlds Ultimate 3D Chat product as a free download in the future. The objective in this marketing approach is that by reducing the price barrier, the Company may generate new members to its Chat service. These new members may be matriculated to the 3D music sites when launched and to the Company's e-commerce website. The proliferation of Worlds Ultimate 3D Chat may increase corporate brand identity that could translate into valuable consumer data and related advertising potential. The strategy of a free distribution model is comparable to the marketing strategy implemented by Netscape, Hotmail, Geocities and Tripod. The strategic objective is to rapidly establish market segment dominance in order to upsell to a large user base.

The Company believes that there is an opportunity to further exploit the Worlds Ultimate 3D Chat product in modified form. The Company is now exploring the modification of Worlds Ultimate 3D Chat as a corporate intranet chat and information service for corporate clients. The modified application of Worlds Ultimate 3D Chat, if successfully modified and then marketed, could provide the company with an ongoing revenue stream based on the licensing fees for Worlds' server technology, as well as a per employee annual subscription fee.

David Bowie

The company has entered into an agreement with UltraStar Internet Services LLP to create the official 3D David Bowie environment entitled BowieWorld. The development of BowieWorld has been completed and was released in January 1999. As part of the agreement Worlds has received the exclusive rights to create the 3D DavidBowieStore.com which sells selected Bowie merchandise.

Universal/Hyundai - Animal House.com

The company has entered into a contract with Universal Studios in partnership with Hyundai to create a 3D Animal House site which has been encoded on a music CD containing songs from 10 Universal recording artists. As part of the launch of Animal House.com, Universal was to distribute 1,000,000 of the enhanced CD's targeted to college students.

Polygram Merchandising

The company has entered into an agreement with Polygram merchandising to develop and maintain the SuperStarSuperstore.com employing an e-commerce engine to sell music merchandise of major recording artists including Elton John, David Bowie, Hanson, U2, Spice Girls, Shania Twain and others. Worlds has developed the 3D stores for these artists and these are included in Worlds Ultimate 3D Chat. In conjunction with this 3D site, Worlds has launched WorldsStore.com, an HTML ("2D") commerce site that offers the same merchandise as the 3D store sites to consumers who wish to access these artists stores through traditional HTML ("2D") pages on the Internet.

COMPETITION

The markets in which the Company is currently operating and those it intends to enter are characterized by intense competition and an increasing number of new market entrants which have developed or are developing competitive products. The Company 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. The Company believes that competition will be based primarily on ease of use, features (including communications capabilities and content) and price.

In addition, certain companies have developed or may be expected to develop technologies or products in related market segments which could compete with certain technologies or products being developed by the Company. The Company expects that such companies, as well as other companies (including established and newly formed companies), may attempt to develop products directly competitive with Worlds Platinum. Certain of such competitors have substantially greater financial, technical, marketing, distribution personnel and other resources than the Company, permitting such companies to implement extensive marketing campaigns.

Technologically, the market targeted by the Company is sought after by a combination of numerous recent start-ups and well established 3D graphics companies. Each company has a slightly different focus and each claims a different combination of product offerings. The Company's product solution includes three major components: tools for building 3D worlds (known as shapers), servers for distributing those worlds and making those worlds multi-user, and browsers that enable end-users to enter and experience those worlds. Many of the competitors in this market have adopted the VRML and VRML 2.0 scene description language as their file format and have limited their expertise and scope to only one of the above categories.

Many companies now compete with the Company in one way or another and new ones may emerge in the future that might compete with the company. The competition may be through entry into the same markets as the Company, or through technology that either obviates the Company's advantages or lowers the barrier to entry in one of the Company's markets.

Besides technological competition, the Company will be competing with established online music retailers with substantial resources and established user bases. Among the leaders in non-3D online music web sites are Amazon.com and CDNow. Each of these companies, as well as others that are currently selling on-line music related products, including CDs and other merchandise, have financial and management resources significantly in excess of the Company's. These companies have established themselves with consumers as music merchandise and music review destinations; they all sell music-related products and have generated revenues in online sales.

Notwithstanding the foregoing, to the best of the Company's knowledge, no other company is currently offering a product that integrates 3D internet technology with a music industry content application similar to that which the Company is now offering.

EMPLOYEES

The Company currently has nine full time employees, of which four are engaged in product development, one is engaged in financial activities and four are engaged in marketing activities. The Company has also re-established relationships with seven independent contractors (software developers/programmers) who until early 1997 were performing technological development work on its Worlds Platinum platform.

The Company, additional financing permitting, intends to hire up to twelve additional employees, at least two of whom will be in the area of artist/integration production of music sites, and up to three of whom will be in artist relations and/or administration. It is possible that one or more of the people who might be hired for one or more of these positions will be retained as independent consultants.

The Company's employees are not represented by a labor union. The Company believes that its relations with its employees are good.

ITEM 2. PROPERTIES

The Company's facilities are located in approximately 2,500 square feet of leased office space in San Francisco, California and 2,500 square feet of leased office space in Boston, Massachusetts. The lease in San Francisco is on a month by month basis at $4,700 per month and in Boston the lease expires in

September 2000 and provides for an annual rental of approximately $50,000. The Company has only negligible costs relating to environmental compliance laws.

ITEM 3. LEGAL PROCEEDINGS

The Company is not currently involved in any material legal proceedings.

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

Not applicable.

PART II

ITEM 5. MARKET PRICE OF REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock started being quoted on the OTC Bulletin Board on October 20, 1998, under the symbol WLDI. The high and low closing price from the inception of quotation through December 31, 1998 was $2.00 and $.25, respectively.

As of March 19, 1999, there were 596 record holders of the Registrant's common stock.

Since its inception, the Registrant has not paid any dividends on its common stock and has no current intention to do so in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the year ended December 31, 1998 and for the period April 8, 1997 (inception) through December 31, 1997 is derived from the Company's audited financial statements included elsewhere herein. Such data includes the operations of Academic Computer Systems, Inc. and Predecessor from December 4, 1997. The selected statement of operations data for Predecessor and for the year ended December 31, 1996, for the period ended December 3, 1997 is derived from audited financial statements included elsewhere herein.

The following data should be read in conjunction with the financial statements of the Company and Predecessor.

<TABLE>

Statement of Operations Data

	Worlds Inc.		Predecessor	
	Year Ended 12/31/98	From 4/8/97 (inception) to 12/31/97	For the Period Ended 12/3/97	For the Year Ended 12/31/96
<S>	<C>	<C>	<C>	<C>
Net Revenues	$ 29,110	$ 1,420	$80,720	$ 3,784,019
Total Cost and Expenses	$ 3,672,914	$ 6,810,568(b)	$2,885,088	$ 13,871,984
Operating Loss	$ 3,643,804	$ 6,809,148	$ (2,804,368)	$(10,087,965)
Other Income and (Expenses)	$ 822,576(a)	$ (3,099)	$ 134,863	$ 16,011
Net Loss Before Taxes and Extraordinary Item	$ 2,821,228	$ 6,812,247	$ (2,669,505)	$(10,071,954)
Income Taxes	-0-	-0-	$ (5,000)	$ (115,000)
Net Loss Before Extraordinary Item	$ 2,821,228	$ 6,812,247	$ (2,674,505)	$(10,186,954)
Extraordinary Item - Gain on Debt Settlement	$ 172,547	$ 125,776	$ 389,285	-0-
Net Loss	$ 2,648,681	$ 6,686,471	$ (2,285,220)	$(10,186,954)
Loss Per Share - Before Extraordinary Item (Basic and Diluted)	$ (.16)	$ (.73)		
Loss Per Share (Basic and	$ (.15)	$ (.72)		

Diluted)

</TABLE>

Balance Sheet Data

	December 31, 1998
Working Capital	$ 680,879
Total Assets	1,908,012
Total Liabilities	2,887,905
Stockholders' Deficit	$ (979,893)

(a) Includes $810,140 gain resulting from reversal of certain Predecessor liabilities.
(b) Includes $6,135,538 of acquired research and development costs resulting from the merger with Predecessor.

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

Statements contained herein which are not historical facts are forward-looking statements. Forward-looking statements involve a number of risks and uncertainties including, but not limited to, general economic conditions, the Company's ability to complete development and then market its products and competitive factors.

The Company was originally formed on May 20, 1968. Since 1975 the Company has been inactive with no operations and its only income has come from interest, gain on the sale of securities and dividends. Following the Mergers, the Company is engaged in the business and operations formerly conducted by Predecessor. Accordingly, a discussion and analysis of the Company's financial condition and results of its operations would be of limited importance to any reader as it would only cover activities (or lack thereof) which have no meaning in the context of the Company's current operations. Thus, included herein is a discussion and analysis of the financial condition and results of the operations of Predecessor's pre-Mergers operations.

Background

Predecessor was formed in April 1994 to design, develop and commercialize 3D multi-user tools and technologies for the Internet market. From inception through 1997, Predecessor's operations were limited and consisted primarily of start-up activities, including recruiting personnel, raising capital, custom production work, and research and development. In the third quarter of 1996, Predecessor launched its first commercial user-oriented 3D chat site, Worlds Chat 1.0 and began selling the client interface software through direct sales channels. These sales were very nominal. In October of 1996, Predecessor introduced its first commercial toolset for developing 3D multi-user applications. In the first quarter of 1997, after an unsuccessful effort to raise capital, Predecessor became insolvent and released most of its personnel, and management sought to sell Predecessor and/or its technology.

Predecessor did not generate significant revenues. While the Company has completed development and market testing of Worlds Platinum and its 3D Internet music sites, the Company will not generate significant revenues, if ever, until after it successfully attracts and retains a significant number of subscribers and/or advertisers. The Company anticipates that it will continue to incur significant losses until, at the earliest, the Company generates sufficient revenues to offset the substantial up-front expenditures and operating costs associated with developing and commercializing its proposed products. There can be no assurance that the Company will be able to attract and retain a sufficient number of subscribers and/or advertisers to generate significant revenues or achieve profitable operations or that its products and services will prove to be commercially viable.

Predecessor (and now the Company), classified its expenses into three broad groups: (i) research and development; (ii) cost of revenues; and (iii) selling, general and administration. Revenues consisted primarily of production service activities and sales of technology licenses.

Software development costs (consisting primarily of salaries and related expenses) incurred prior to establishing technological feasibility are expensed in accordance with Financial Accounting Standards Board (FASB) Statement No. 86. In accordance with FASB 86, the Company will capitalize software development costs at such time as the technological feasibility of the product has been established. The Company began to capitalize its software in the 4th quarter with the commercial release of three products, Animal House, BowieWorld and Worlds Ultimate 3D Chat. $160,000 has been allocated toward capitalization.

Plan of Operation

In December 1998, Worlds Ultimate 3D Chat (WU3D) was released, as a successor to Worlds Chat Gold. The product has been primarily marketed via the company's web site, Worlds.com and the Company's e-commerce site, WorldsStore.com. WU3D is built on the Company's Gamma platform and incorporates e-commerce, voice to voice chat, articulated, customizable avatars and video and audio streaming.

The Company has completed work on Worlds Platinum, the latest version of the Company's 3D internet software, to adapt it for distribution and use on CD+ media. The Company is in discussions with several major record labels and companies for them to distribute Worlds Platinum, along with music related web site access. The Company's strategy of distributing its products on CD+ is wholly dependent upon obtaining distribution agreements with record labels or companies. To date, the Company has three agreements.

During the fourth quarter, the Company successfully completed the development of the Gamma development tool kit and commercially released three products utilizing the Company's 3D Internet technology. The first product to be released was AnimalHouse.com, a 3D environment created by the Company for Universal/Hyundai targeting the college market. Worlds 3D technology was encoded on an enhanced CD with audio tracks of 10 Universal musical artists and distributed to college students through a variety of Universal distribution outlets. The agreement entered into by the Company with Universal called for the manufacture and distribution by Universal of up to 1,000,000 CD's. The second product to be released was for David Bowie's BowieNet, the first artist created ISP (Internet Service Provider). The product created by Worlds is named BowieWorlds and has been released in the US as well as the UK by UltraStar Internet Services LLP, the owners of Bowie Net. The third product to be released was Worlds Ultimate 3D Chat which has been primarily marketed via the Company's web site, Worlds.com and the Company's e-commerce site, WorldsStore.com. WU3D is built on the Company's Gamma platform and incorporates e-commerce, voice to voice chat, articulated, customizable avatars and video and audio streaming. The Company also reached an agreement with UltraStar Internet Services LLP, owners of BowieNet, to have WU3D released as a bonus to BowieNet members.

The Company has been actively pursuing strategic alliances with a number of companies that can provide exposure and distribution of the Company's products and technology. The Company has recently entered into two confidential agreements with two major companies in the internet arena. The first is with Excite, the number 3 portal site on the internet, which calls for the Company to provide select e-commerce content to Excite. The second agreement is with Road Runner Broadband Service Company, owned by Time Warner, Media One and Microsoft. The agreement calls for the Company to develop and operate a custom 3D site on the Road Runner Service. The site will be targeted to music consumers and will provide for a download of the Company's software at a high bandwidth, which is the essential technology offered by Road Runner. As part of the agreement the Company can offer Road Runner users access to the Company's other 3D products as well as the Company's e-commerce site. The agreement is a showcase to the Company's technology and a strategic alliance for its distribution.

The Company's present cash resources are insufficient to meet all of its requirements over the next twelve months. However, by limiting the scope of its business plan and cutting back on its development, the Company can stretch its current cash resources for at least the next twelve months. The Company currently has nine full-time employees and is working with seven independent software contractors who were former employees of the Company. The Company does not anticipate hiring additional employees or purchasing additional plant or equipment other than that needed on a day-to-day basis until product sales increase significantly and/or additional financing is obtained.

Results of Operations of the Company

Fiscal Year Ended December 31, 1998 Compared With Period from April 8, 1997 through December 31, 1997.

The Company's primary activities during 1998 were signing three contracts to produce content for music related web sites, completing a small financing and attempting a merger for additional financing, completing development of Worlds Platinum, releasing a new version of Worlds Chat and developing and operating a web site for the sale of music related merchandise. The Company's primary activities during the period from April 8, 1997 through December 31, 1997 were the formation of WAC, negotiating and consummating the Mergers, attending to post-Merger administrative and legal matters, the completion of a private placement, and the negotiation and compromise of debts of Predecessor.

Revenues were nominal at $29,110 during 1998 as compared to $1,420 in 1997 due to almost total lack of sales directly attributable to the fact that its WorldsStore.com web site was not operational until November.

Selling, general and administrative expenses were $2,650,703 during 1998 as compared to $675,030 in 1997 for this period and consisted largely of overhead, expenses relating to development of its web site and content for the contracts within the music industry, professional fees and other expenses incurred in connection with the Mergers and the attempted merger with Unity First Acquisition Corp., representing an increase of $1,975,673.

An expense of $6,135,538 was incurred during 1997 for the acquisition of research and development from Predecessor, being the sum of the negative net worth of Predecessor, plus the value of the 1,999,996 shares of the Company's common stock given in exchange for all the outstanding stock of Predecessor at the time of the Mergers. The Company invested $992,932 during 1998 in research and development as it completed development of its Gamma technology.

The Company had net interest income during 1998 of $12,436 as compared to net interest expense of $3,099 in 1997, primarily attributable to more earned on the funds raised in the Company's financings than accumulated on Predecessor's notes payable.

The Company also realized an extraordinary gain of $172,547 during 1998 as compared to $125,776 during 1997, by settling debts of the Company at less than face value.

As a result of the above, plus a recorded gain of $810,140 resulting from the reversal of certain items previously recorded as liabilities of Predecessor, the Company's net loss for 1998 (including the extraordinary gain on debt settlement of $172,547) was $2,648,681 as compared to a net loss of $6,686,471 during 1997.

Liquidity and Capital Resources of the Company

Net cash used by the Company's operating activities during 1998 was $3,333,035. At December 31, 1998, the Company had a working capital of $680,879 and cash and cash equivalents in the amount of $1,581,764.

On December 3, 1997, Predecessor merged with and into WAC. Contemporaneously, WAC, closed the first round of a private placement of its common stock (the "Private Offering") raising gross proceeds of $3.8 million (of which it netted approximately $3,000,000) and WAC merged with and into the Company, then called Academic Computer Systems, Inc. ("Academic"), an inactive corporation with approximately $560,000 of net assets, primarily cash. Thereafter, Academic changed its name to Worlds Inc. The merger of Predecessor into WAC and the subsequent merger of WAC with and into Academic are sometimes hereinafter collectively referred to herein as the "Mergers."

Prior to the Mergers, the Company had 910,000 shares outstanding. Effective December 31, 1997, the Company closed on an additional $585,000 of gross proceeds from the Private Offering, of which it netted $529,000, and issued an additional 585,000 shares of Common Stock and on January 2, 1998 received an additional $30,000, of which it netted $26,500, and issued an additional 30,000 shares. In June 1998, the Company closed on a secondary offering of $1,832,000 gross proceeds, of which it netted $1,715,800 by selling 1,832,000 shares at $1.00 per share.

The Company's capital requirements relating to the commercialization of Worlds Platinum and development of web site access and content for the music industry have been and will continue to be significant. The Company is dependent on the proceeds of future financings in order to continue in business and develop and commercialize its proposed products.

The Company anticipates, based on currently proposed business plans and assumptions relating to its operations (including the timetable of, and costs associated with, product development and commercialization), that it has only a portion of the funds necessary to permit the Company to complete product development and commercialization. Satisfactory completion of product development and commercialization will require capital resources substantially greater than those currently available to the Company. However, by limiting the scope of its business plan and cutting back on its development budget, the Company can stretch its current cash resources for at least the next twelve months. The Company is continuing to explore financing opportunities. In addition, as a result of the Mergers by operation of law, the Company assumed Predecessor's then liabilities of approximately $4.6 million. Although the Company is in the process of negotiating the amount and timing of payment of some of its liabilities, there is no assurance that such negotiations will be successful. At December 31, 1998, the Company's total liabilities are approximately $2.9 million.

There can be no assurance that the Company will be able to raise any proceeds from an offering of its securities or otherwise obtain the substantial additional capital necessary to permit the Company to attract and retain a sufficient number of subscribers or that any assumptions relating to its business plans will prove to be accurate. While the Company hopes to raise additional financing, the Company has no current arrangements with respect to, or sources of, additional financing and there can be no assurance that any such financing, particularly the significant amounts of financing that would be required, will be available to the Company on commercially reasonable terms, or at all. Any inability to obtain additional financing will have a material adverse effect on the Company, including possibly requiring the Company to significantly curtail or cease operations. Based upon its current projections, the Company believes it currently has sufficient funds to operate for at least the next twelve months.

Results of Operations of Predecessor

Year Ended December 31, 1996 Compared with the Eleven Months Ended December 3, 1997.

In the first quarter of 1997 Predecessor was insolvent and had failed to raise any additional capital. In January and February the majority of Predecessor's personnel were released and most of its management team resigned. Normal operations of Predecessor ceased and significant wind down costs were incurred. In March, the board of directors appointed Regent Pacific, a firm with experience in crisis management, as acting general manager of Predecessor. The Seattle network operations center and Active Worlds, an earlier generation of Predecessor's technology, were both sold, resulting in net proceeds of $260,100.

Revenue decreased by $3,703,299 to $80,720 for the eleven months ended December 3, 1997 from $3,784,019 for the fiscal year ended December 31, 1996. The decrease was caused primarily by the lack of any production revenue during the period. The nominal revenue for the period was derived from Worlds Chat CD sales and web site hosting at the Company's Seattle operations.

Costs of revenue decreased by $5,982,128 to $32,304 for the eleven months ended December 3, 1997 from $6,014,432 for the fiscal year ended December 31, 1996. The decrease was directly attributable to the lack of operations during the period.

Research and development costs decreased by $1,993,827 to $452,897 for the eleven months ended December 3, 1997 from $2,446,724 for the fiscal year ended December 31, 1996. This was a result of a significant reduction in research and development effort and personnel.

Selling, general and administrative expenses decreased by $2,501,741 to $2,399,887 for the eleven months ended December 3, 1997 from $4,901,628 for the fiscal year ended December 31, 1996. This decrease was due to reduction in personnel as Predecessor ceased normal operations.

Predecessor's interest expense increased by $122,900 to $139,650 for the eleven months ended December 3, 1997 from $16,750 for the fiscal year ended December 31, 1996. This was attributable primarily to interest on $1,685,000 in loans received by Predecessor.

In 1997, Predecessor recognized an extraordinary gain of $389,285 upon the partial forgiveness of debt owed in connection with technology purchases.

As a result of the foregoing, Predecessor incurred a net loss of $2,285,220, inclusive of the $389,285 extraordinary gain, for the eleven months ended December 3, 1997, compared to $10,186,954 for the fiscal year ended December 31, 1996.

Effect of Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." ("SFAS No. 133"), which requires companies to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. The Company does not presently enter into any transactions involving derivative financial instruments and, accordingly, does not anticipate the new standard will have any effect on its financial statements.

Year 2000 disclosure

The Company itself is Year 2000 compliant and does not anticipate any internal problems. In the event any internal problems should arise, the Company has many expert computer technicians on its payroll and believes that it will be able to satisfactorily address any such problems. However, the Company is dependent on the integrity of the Internet being maintained for it to derive income from the sale of merchandise on its own e-commerce site and through links to the products it created. The Company has employed a redundancy system as a safeguard to protect the viability of its site by having its site hosted by two of the larger Internet Service Providers. Thus, in the event one of its hosts should fail, the Company could continue uninterrupted on the other ISP. The Company has been advised that its hosts are addressing the Year 2000 issue and hope to be compliant. The Company uses Wells Fargo to process its e-mail transactions. Wells Fargo processes a significant portion of all Internet e-commerce transactions and if it fails due to year 2000 problems the Company will be impacted, but not likely more than many other e-commerce vendors. In summary, the Company is totally dependent upon 3rd parties for hosting and processing its e-commerce activities and while the Company cannot control the actions of these 3rd parties, the Company believes that given its redundant safeguard, the availability of other hosts and processors to switch to in the event the Company's current hosts and/or processor crashes and the fact that the Company only sees nominal revenue from its e-commerce at this time, the Company does not believe that its profitability or operations will be materially affected by the Year 2000 problem.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements are included herein commencing on page F-1. The Company is not required to provide supplementary financial information.

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

On January 31, 1998 the Company dismissed Lipner, Gordon & Co. LLP as its independent accountants ("LG&C"). This action had been approved by the Company's Board of Directors. During the past three years LG&C did not issue a report on the Company's financial statements that either contained an adverse opinion or a disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope or accounting principles.

During the period of its engagement there were no disagreements between the Company and LG&C on any matter of accounting principles or practices, financial statement disclosure, or audit scope and procedure, which disagreement, if not resolved to the satisfaction of LG&C, would have caused them to make reference to the subject matter of the disagreement in connection with its opinion.

On January 31, 1998 the Board of Directors of the Company appointed BDO Seidman, LLP ("BDO") as its independent accountants. Prior to such engagement, BDO was the independent auditor of Worlds Inc. and Worlds Acquisition Corp., two Delaware corporations which merged into the Company. BDO provided written reports of these two corporations which was included in offering materials for a private financing continued by the Company after the Mergers. BDO was also consulted regarding the filing obligations of the Company pursuant to the change in its fiscal year. Finally, BDO was consulted regarding the nature of the financial statements required to be included by the Company in its filing of a Registration Statement on Form SB-2, in which BDO also provided written reports regarding the two merged corporations.

Other than as disclosed above, the Company did not consult with BDO regarding the application of accounting principles to a specified transaction, or the type of audit opinion that may be rendered with respect to the Company's financial statements.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS, EXECUTIVE OFFICERS AND CONSULTANT

The directors and executive officers of the Company are as follows:

Name	Age	Position
Michael J. Scharf	56	Chairman of the Board
Thomas Kidrin	46	President, Chief Executive Officer, Secretary, Treasurer and Director
Kenneth A. Locker	50	Director

MICHAEL J. SCHARF has been Chairman of the Board since December 3, 1997. Prior to the Mergers, Mr. Scharf was Chairman and Secretary of Worlds Acquisition Corp. ("WAC") since June 4, 1997, and a Director since inception. Since 1993 he as been Chairman and President of Niagara Corporation, a company engaged in the manufacturing and distribution of steel bars. From 1983 until 1989, Mr. Scharf was Chairman and Chief Executive Officer of Edgcomb Corporation, the largest independent distributor of steel in the United States. Mr. Scharf received an A.B. degree from Princeton University and an M. B. A. from Harvard Business School. From 1989 (when Edgcomb was sold) until 1993 (when Niagara was founded) Mr. Scharf managed his personal investments.

THOMAS KIDRIN has been President, Chief Executive Officer, Secretary and Treasurer since December 3, 1997. Prior to the Mergers, Mr. Kidrin was President of WAC since its inception, Treasurer since June 4, 1997 and a Director since inception. From 1991 to 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, (TM) the largest private network on college campuses in the United States.

KENNETH A. LOCKER has been a Director since December 3, 1997 and prior to the Mergers was a Director of WAC since June 4, 1997. Since 1996 he has been Executive Producer for MGM Interactive where he is responsible for creating and implementing the MGM Interactive online business strategy. From 1994 to 1996, Mr. Locker was a founder and Vice President of Predecessor. From 1993 to 1994, Mr. Locker was Senior Program Consultant for Ziff Davis Communications. From 1990 to 1993, Mr. Locker was Executive Vice President and Head of Production for RHI Entertainment which at the time was 50% owned by New Line Cinema. Mr. Locker is also on the Board of Directors of Softbank Forums, Inc., a division of Softbank Corp.

STEVEN A. GREENBERG was a founder of WAC and was substantially involved in the implementation of the early and current stages of its business. It is anticipated that Mr. Greenberg will remain involved in the Company as a consultant. From 1991 until the present, Mr. Greenberg has been a financial consultant and private investor. In June 1994, Mr. Greenberg settled a civil proceeding instituted against him by the SEC. Mr. Greenberg, without admitting or denying the allegations of the SEC complaint, consented to an injunction against future violations of the insider trading provisions of the federal securities laws and paid a civil penalty. The action had absolutely no relationship to Mr. Greenberg's affiliation with the Company and the Company does not anticipate incurring any costs or liability in connection with the matter. The Company's Board of Directors is aware of the SEC's civil lawsuit and Mr. Greenberg's settlement thereof and understands that several factors come into play in settling a pending legal action, not the least of which is the curtailment of ongoing litigation costs.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's By-Laws includes certain provisions permitted pursuant to the New Jersey Business Corporation Act ("NJBCA"), whereby officers and directors of the Company are to be indemnified against certain liabilities. These provisions of the By-Laws have no effect on any director's liability under Federal securities laws or the availability of equitable remedies, such as injunction or recession, for breach of fiduciary duty. The Company believes that these provisions will facilitate the Company's ability to continue to attract and retain qualified individuals to serve as directors and officers of the Company.

At present, there is no pending litigation or proceeding involving any director, officer, employee or agent of the Company where indemnification might be required or permitted. The Company is not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

COMPENSATION OF DIRECTORS

Non-employee directors of the Company, excluding Mr. Scharf, will be reimbursed for reasonable travel and lodging expenses incurred in attending meetings of the Board of Directors and any committee on which they may serve, as well as $2,000 per Board meeting. Total Board related expenses, including travel, lodging, and director's fees, is approximately$40,000 per year.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF EXECUTIVE OFFICERS

Prior to the Mergers, the Company had not paid any compensation to its executive officers or directors during the prior three years. From December 3, 1997 (effective date of the Mergers) through December 31, 1997, the Company paid $21,903 in compensation to its President and Chief Executive Officer and $175,000 during 1998. The Company intends to enter into an employment agreement with its President, Thomas Kidrin, that will expire December 2000. The agreement, among other things, will provide for base compensation payable to Mr. Kidrin of $175,000 in the first year, and bonuses to be determined. The agreement will also provide for employment on a full-time basis and contain a provision that Mr. Kidrin will not compete or engage in a business competitive with the Company for a period of one year after termination.

1997 STOCK OPTION PLAN

The Board of Directors and stockholders of the Company have adopted a Stock Option Plan (the "Option Plan") as an incentive for, and to encourage share ownership by, the Company's officers, directors and other key employees and/or consultants and potential management of possible future acquired companies. The Option Plan provides that options to purchase a maximum of 1,000,000 shares of Common Stock (subject to adjustment in certain circumstances) may be granted under the Option Plan. The Option Plan also allows for the granting of stock appreciation rights ("SARs") in tandem with, or independently of, stock options. Any SARs granted will not be counted against the 1,000,000 limit.

The purpose of the Option Plan is to make options (both "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code"), and non-qualified options) and "stock appreciation rights" (with non-qualified options only, if in tandem) available to officers, directors and other key employees and/or consultants of the Company in order to give such individuals a greater personal interest in the success of the Company and, in the case of employees, an added incentive to continue and advance in their employment.

The Option Plan is currently administered by the majority vote of a Committee (the "Committee") appointed by the Board of Directors and comprised of at least two "independent" members of the Board, or alternatively, by the entire Board, who are not eligible to receive options, other than pursuant to a formula, it being intended that such plan shall qualify under Rule 16b-3 as promulgated pursuant to the Securities Exchange Act of 1934, as amended. With specified limitations, the Committee may amend the terms of the Option Plan.

The Committee will designate those persons to receive grants under the Option Plan and determine the number of options and/or SARs, as the case may be, to be granted and the price payable for the shares of Common Stock thereunder. The price payable for the shares of Common Stock under each option will be fixed by the Committee at the time of the grant, but, for incentive stock options, must be not less than 100% (110% if the person granted such option owns more than 10% of the outstanding shares of Common Stock) of the fair market value of Common Stock at the time the option is granted. The Committee will also determine the term and vesting schedule of all options and SARs granted, provided that no option may be exercisable later than ten years after the date of grant (or five years in the case of a 10% stockholder). The Committee may also institute divesting schedules. All options are payable in cash or check, by delivery of a secured personal interest bearing note, or by delivery of shares of Common Stock equal in value to the cost of the options.

There are currently 105,000 stock options outstanding at an exercise price of $.50 and 60,000 to one of the Company's outside directors exercisable at $.60 that were granted in 1997, and 629,000 options at an exercise price of $1.00 including 40,000 to one of the Company's outside directors, that were granted during 1998. All outstanding options vest in equal amounts over a three year period.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater-than-ten-percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. During fiscal 1998, Mr. Locker, an outside director, did not file a Form 4 reflecting the receipt of 40,000 stock options.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 19, 1999, information regarding the beneficial ownership of the Company's Common Stock based upon the most recent information available to the Company for (i) each person known by the Company to own beneficially more than five (5%) percent of its outstanding Common Stock, (ii) each of its officers and directors, and (iii) all of its officers and directors as a group. Each stockholder's address is c/o the Company, 15 Union Wharf, Boston, MA 02109.

Shares Owned Beneficially and of Record

Name	No. of Shares	% of Total
Michael J. Scharf (1)	1,900,000	10.60%
Thomas Kidrin (2)	1,600,000	8.93%
Kenneth A. Locker (3)	20,000(4)	*
Steven A. Greenberg	4,500,000	25.11%
All Officers and Directors as a Group (3 persons)	3,500,000	19.53%

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* less than 1/10 of 1%

(1) Chairman.
(2) President, Chief Executive Officer, Secretary, Treasurer and a Director.
(3) Director.
(4) Consists of currently exercisable stock options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company intends to enter into a month-to-month consulting agreement with Steven A. Greenberg, a founder of WAC. The agreement will provide for monthly compensation of $15,000 plus reimbursement of reasonable expenses actually incurred. In addition to providing consulting services, Mr. Greenberg will also make his offices and support staff available to Company employees. During 1997, Mr. Greenberg loaned $77,000 to WAC of which $73,000 was repaid as of December 31, 1998. Also, during 1998, Mr. Greenberg received $180,000 in consulting fees.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements are listed in the Index to Financial Statements on page F-1 and are filed as part of this annual report.

2. Not Applicable.

3. Exhibits

27 - Financial Data Schedule.

(b) Reports on Form 8-K

None.

Worlds Inc. (a development stage enterprise)
Financial Statements
Period from April 8, 1997 (Inception) to December 31, 1997
and Year Ended December 31, 1998

Worlds Inc. (a development stage enterprise)
Financial Statements
Period from April 8, 1997 (Inception) to December 31, 1997
and Year Ended December 31, 1998

Worlds Inc. (a development stage enterprise)

Period from April 8, 1997 (Inception) to December 31, 1997
and Year Ended December 31, 1998

Worlds Inc.
(a development stage enterprise)

Contents

Report of Independent Certified Public Accountants

Worlds Inc.
Boston, Massachusetts

We have audited the accompanying balance sheets of Worlds Inc. (the "Company") (a development stage enterprise) as of December 31, 1997 and 1998, and the related statements of operations, stockholders' deficit and cash flows for the period from April 8, 1997 (inception) to December 31, 1997 and for the year ended December 31, 1998. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Inc. at December 31, 1997 and 1998 and the results of its operations and its cash flows for the period from April 8, 1997 (inception) to December 31, 1997 and for the year ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 1, the accompanying financial statements have been prepared assuming Worlds Inc. will continue as a going concern. The Company is in the development stage, has a stockholders' deficit, has had minimal revenues from operations and will require substantial additional funds for development and marketing of its products. These matters raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

BDO Seidman, LLP

New York, New York

March 26, 1999

Worlds Inc.
(a development stage enterprise)

Balance Sheets

<TABLE>

December 31,	1997	1998
Assets		
Current:		
Cash and cash equivalents	$ 3,541,829	$ 1,581,764
Prepaid expenses and other current assets	74,713	53,486
Inventory	-	58,516
Total current assets	3,616,542	1,693,766
Property, equipment and software development, net of accumulated depreciation and amortization (Note 5)	209,452	214,246
	$ 3,825,994	$ 1,908,012
Liabilities and Stockholders' Deficit		
Current:		
Accounts payable (Note 11)	$ 568,707	$ 319,906
Accrued expenses (Note 11)	592,250	446,333
Advanced customer billings (Note 11)	436,140	-
Current maturities of notes payable (Note 6)	269,333	246,648
Total current liabilities	1,866,430	1,012,887
Long-term portion, notes payable (Note 6)	1,968,333	1,875,018
Total liabilities	3,834,763	2,887,905
Commitments (Note 7)		
Stockholders' deficit (Notes 2, 3 and 8):		
Common stock, $.001 par value - shares authorized 30,000,000; issued 16,119,996 and 18,031,996	16,120	18,032
Additional paid-in capital	6,661,582	8,401,970
Deficit accumulated during the development stage	(6,686,471)	(9,335,152)
	(8,769)	(915,150)
Treasury stock, at cost, 113,465 shares (Note 2)	-	(64,743)
Total stockholders' deficit	(8,769)	(979,893)
	$ 3,825,994	$ 1,908,012

</TABLE>

See accompanying summary of accounting policies
and notes to financial statements.

Worlds Inc.
(a development stage enterprise)

Statements of Operations

<TABLE>

	Period from April 8, 1997 (inception) to December 31, 1997(a)	Year ended December 31, 1998	Cumulative, period from April 8, 1997 (inception) to December 31, 1998(a)
Net revenues	$ 1,420	$ 29,110	$ 30,530

Costs and expenses:			
Cost of revenues	-	(29,279)	(29,279)
Selling, general and administrative	(675,030)	(2,650,703)	(3,325,733)
Research and development	-	(992,932)	(992,932)
Acquired research and development (Note 1)	(6,135,538)	-	(6,135,538)
Operating loss	(6,809,148)	(3,643,804)	(10,452,952)
Other income (expenses):			
Gain resulting from reversal of certain predecessor liabilities (Note 11)	-	810,140	810,140
Interest income	13,593	124,006	137,599
Interest expense	(16,692)	(111,570)	(128,262)
Loss before extraordinary item	(6,812,247)	(2,821,228)	(9,633,475)
Extraordinary item - gain on debt settlement (Note 10)	125,776	172,547	298,323
Net loss	$(6,686,471)	$(2,648,681)	$ (9,335,152)
Loss per share (basic and diluted) (Note 12):			
Loss before extraordinary item	$ (.73)	$ (.16)	
Extraordinary item	.01	.01	
Net loss per share (basic and diluted)	$ (.72)	$ (.15)	
Weighted average common shares outstanding:			
Basic and diluted	9,336,569	17,170,288	

</TABLE>

(a) Includes the results of Predecessor and Academic which were merged into the Company on December 3, 1997.

See accompanying summary of accounting policies and notes to financial statements.

Worlds Inc.
(a development stage enterprise)

Statements of Stockholders' Deficit
(Note 8)

Period from April 8, 1997 (inception) to December 31, 1998

<TABLE>

<S>	Common stock Shares <C>	Amount <C>	Additional paid-in capital <C>	Deficit accumulated during the development stage <C>	Treasury stock <C>	Total stockholders' deficit <C>
Issuance of common stock to founding stockholders	8,400,000	$ 8,400	$ 195,600	$	$ -	$ 204,000
Sale of shares in private offering memorandum and shares issued to placement agent, net (Note 3)	4,810,000	4,810	3,689,866	-	-	3,694,676
Issuance of shares to Academic Computer Systems, Inc. (Note 2)	910,000	910	557,116	-	-	558,026
Issuance of shares pursuant to merger with predecessor (Note 2)	1,999,996	2,000	1,998,000	-	-	2,000,000
Capital contribution resulting from forgiveness of debt to shareholders of predecessor (Note 6)	-	-	221,000	-	-	221,000
Net loss for the period April 8 to December 31, 1997	-	-	-	(6,686,471)	-	(6,686,471)

Balance, December 31, 1997	16,119,996	16,120	6,661,582	(6,686,471)	-	(8,769)
Sale of shares in private offering memorandum (January 1998) (Note 3)	30,000	30	26,470	-	-	26,500
Sale of shares in public offering of common stock, net (June 1998) (Note 3)	1,832,000	1,832	1,713,968	-	-	1,715,800
Conversion of 113,465 shares to certain stockholders (June 1998) (Note 2)	-	-	-	-	(64,743)	(64,743)
Conversion of employee stock options into shares (October 1998) (Note 8)	50,000	50	(50)	-	-	-
Net loss for the year ended December 31, 1998	-	-	-	(2,648,681)	-	(2,648,681)
Balance, December 31, 1998	18,031,996	$18,032	$8,401,970	$(9,335,152)	$(64,743)	$ (979,893)

</TABLE>

See accompanying summary of accounting policies and notes to financial statements.

Worlds Inc.
(a development stage enterprise)

Statements of Cash Flows
(Note 13)

<TABLE>

<S>	Period from April 8, 1997 (inception) to December 31, 1997 <C>	Year ended December 31, 1998 <C>	Cumulative, period from April 8, 1997 (inception) to December 31, 1998 <C>
Cash flows from operating activities:			
Net loss	$(6,686,471)	$(2,648,681)	$(9,335,152)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on disposal of fixed assets	-	54,041	54,041
Depreciation and amortization	16,323	129,752	146,075
Gain resulting from reversal of certain predecessor liabilities	-	(810,140)	(810,140)
Gain on debt settlement	(125,776)	(172,547)	(298,323)
Acquired research and development	6,135,538	-	6,135,538
Allowance for doubtful accounts	(538)	538	-
Changes in operating assets and liabilities, net of effects from merger with Predecessor and Academic:			
Inventory	-	(58,516)	(58,516)
Prepaid expenses and other assets	93,716	20,689	114,405
Accounts payable and accrued expenses	214,361	151,829	366,190
Total adjustments	6,333,624	(684,354)	5,649,270
Net cash used in operating activities	(352,847)	(3,333,035)	(3,685,882)
Cash flows from investing activities:			
Acquisition of property and equipment	-	(28,587)	(28,587)
Additions to software development costs	-	(160,000)	(160,000)
Net cash used in investing activities	-	(188,587)	(188,587)
Cash flows from financing activities:			
Proceeds from sale of common stock to founding stockholders	204,000	-	204,000
Proceeds from sale of common stock in private offering memorandum	3,694,676	26,500	3,721,176
Proceeds from sale of common stock in public offering	-	1,715,800	1,715,800

Payment of conversion price of shares to certain stockholders	-	(64,743)	(64,743)
Payments on note payable	(4,000)	(116,000)	(120,000)
Net cash provided by financing activities	3,894,676	1,561,557	5,456,233
Net increase (decrease) in cash and cash equivalents	3,541,829	(1,960,065)	1,581,764
Cash and cash equivalents, beginning of period	-	3,541,829	-
Cash and cash equivalents, end of period	$ 3,541,829	$ 1,581,764	$ 1,581,764

</TABLE>

See accompanying summary of accounting policies and notes to financial statements.

Worlds Inc.
(a development stage enterprise)

Summary of Accounting Policies

Definitions

The Company is the resulting entity of two contemporaneous mergers (the "Mergers") of Worlds Inc., a Delaware corporation ("Predecessor"), with and into Worlds Acquisition Corp., a Delaware corporation ("WAC"), and WAC with and into Academic Computer Systems, Inc., a New Jersey corporation ("Academic"), which changed its name to Worlds Inc. (see Note 2). While Academic was the legal entity that survived the Mergers, WAC was the accounting acquiror in both Mergers. The Company's fiscal year-end is December 31.

The term the "Company," as used herein, refers to the consolidated entity resulting from the two contemporaneous Mergers, as well the pre-merger Predecessor, WAC and Academic; however, Predecessor, WAC and Academic are hereinafter sometimes referred to separately as the context requires.

Nature of Business

WAC was incorporated on April 8, 1997 to design, develop and market three-dimensional ("3D") music oriented Internet sites on the World Wide Web. These web sites are anticipated to utilize 3D technologies developed by Predecessor.

Basis of Presentation

The financial statements include the results of Predecessor and Academic from December 3, 1997, the date of the Mergers (the "Merger Date").

The financial statements have been prepared in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises," which requires development stage enterprises to employ the same accounting principles as operating companies.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and short-term Instruments debt, approximated fair value as of December 31, 1998 because of the relatively short maturity of the instruments. The carrying value of long-term debt, including the current portion, approximates fair value as of December 31, 1998, based upon estimates for similar debt issues.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from two to five years.

Revenue Recognition

Revenue from technology development and licensing contracts is recognized upon the attainment of contractual milestones (approximating the percentage-of-completion method). Cash received in advance of revenues earned is recorded as deferred revenue.

Inventory

Inventory consists of merchandise held for resale and is valued at the lower of cost or market or a first-in, first-out (FIFO) basis.

Software Development Costs

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed", software development costs incurred by the Company subsequent to establishing technological feasibility of the resulting product or enhancement and until the product is available for general release to customers are capitalized and carried at the lower of unamortized cost or net realizable value. Net realizable value is determined based on estimates of future revenues to be derived from the sale of the software product reduced by the costs of completion and disposing of the product. During the fourth quarter of 1998 technological feasibility of the company's software was established. In this regard $160,000 was capitalized and included in property, equipment and software development as of December 31, 1998. Amortization of the costs capitalized will commence in 1999 and will be based on current and anticipated future revenues for each product or enhancement with an annual minimum equal to straight-line amortization over the remaining estimated economic life of the product or enhancement.

Research and Development Costs

Research and development costs are expensed as incurred.

Income Taxes

The Company uses the liability method of accounting for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income tax assets and liabilities are recognized based on the temporary differences between the financial statement and income tax bases of assets, liabilities and carryforwards using enacted tax rates. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Loss Per Share

In 1997, the FASB's SFAS No. 128, "Earnings per Share," replaced the calculation of primary and fully diluted earnings (loss) per share with basic and diluted earnings (loss) per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. The loss per share amounts have been presented to conform to SFAS No. 128 requirements. The common stock equivalents which would arise from the exercise of stock options and warrants are excluded from calculation of diluted loss per share since their effect is anti-dilutive. Therefore, the amounts reported for basic and diluted loss per share are the same.

Stock-Based Compensation

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). SFAS No. 123 encourages entities to adopt the fair value method in place of the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), for all arrangements under which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of its stock. The Company has not adopted the fair value method encouraged by SFAS No. 123 and will continue to account for such transactions in accordance with APB No. 25.

Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Adoption of the standard has had no effect on financial statement disclosures since there were no items of comprehensive income during the periods presented.

1. Going Concern

As discussed in Note 3, the Company completed a private placement raising gross proceeds of $4,415,000, consummated a merger agreement with a development stage enterprise, Predecessor, and completed a public offering in June 1998 raising gross proceeds of $1,832,000. Predecessor had not generated significant revenues from operations and had an accumulated deficit from inception to the Merger Date of $21,236,139 and a capital deficit of $4,135,538. The acquisition of Predecessor by the Company was accounted for as a purchase. Accordingly, $6,135,538, the portion of the purchase allocable to in-process research and development projects that had not reached technological feasibility and had no probable alternative future uses, was expensed by the Company at the date of merger.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is in the development stage and has had minimal revenues from operations since the series of merger transactions. The Company anticipates that it currently has only a portion of the funds necessary to complete product development and commercialization. There can be no assurance that the Company will be able to obtain the substantial additional capital resources necessary to pursue 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 have a material adverse effect on the Company, including possibly requiring the Company to significantly curtail 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.

2. The Mergers

On December 3, 1997, Predecessor was merged with and into WAC in a series of related transactions which included a simultaneous capital transaction between the Company and Academic (the "Mergers") and a private offering of WAC's securities (the "Private Placement"). In both the merger with Predecessor and the capital transaction with Academic, WAC was the acquiror for accounting purposes.

The acquisition of Predecessor was accounted for as a purchase whereby all of the common and preferred stock of Predecessor were exchanged for 1,999,996 shares of WAC. The shares issued to Predecessor common and preferred shareholders were valued at $1.00 per share which represented the share value in the private placement that occurred during this time period (see Note 3); a purchase price of approximately $2,000,000. The exchange ratio was determined after extensive negotiation between management of Predecessor and WAC. Predecessor was a development stage company, had not generated significant revenues from operations and had an accumulated deficit from inception to December 3, 1997 of $21,236,139 and a capital deficit of $4,135,538. The assets acquired of Predecessor (cash, prepaid expenses, property and equipment) were recorded at fair market value which approximated book value at December 3, 1997, and, as discussed in Note 1 above, since technological feasibility of the various Predecessor technologies acquired had not been established, the excess purchase price over Predecessor's capital deficit of $6,135,538 was expensed as acquired research and development.

Academic was an inactive company with no operations. The value assigned to the 910,000 shares in the capital transaction with Academic on December 3, 1997 represented Academic's net tangible assets (primarily cash) of $558,026. During June 1998, 113,465 shares of common stock were converted at $0.57 per share ($64,743) as a result of certain stockholders dissenting with respect to the Academic/WAC capital transaction of December 3, 1997. Such reacquired shares have been classified as treasury stock in the accompanying balance sheets.

While no trading market existed for the securities of Academic, the Company's common stock is traded on the

Bulletin Board.

3. Private Placement and Public Offering

The Private Placement called for WAC to offer for sale a maximum of 50 units (57-1/2 with the over-allotment), each consisting of 120,000 shares of WAC's common stock (the "Units") at a price of $120,000 per Unit. In connection with the Private Placement, the placement agent was to receive one warrant to purchase one share of WAC's common stock at $1 per share for every $40 of gross proceeds from the sale of the Units. On November 21, 1997, WAC sold 31.67 Units with gross proceeds of $3,800,000 (3,800,000 shares) (the "Initial Private Placement Closing") and the placement agent was issued 425,000 shares of common stock. On December 31, 1997, the Company sold 4.88 Units with gross proceeds of $585,000 (585,000 shares). On January 2, 1998 a further 30,000 shares were issued with gross proceeds of $30,000. Cumulative net proceeds, after commissions and expenses of the offering, aggregated $3,721,176.

WAC agreed to include the shares of common stock underlying the Units sold in the Private Placement (the "Private Placement Shares") in a registration statement to be filed with the Securities and Exchange Commission (the "SEC"). Such registration statement was declared effective on May 1, 1998. During June 1998, WAC sold 1,832,000 shares in a public offering of its stock and received gross proceeds of $1,832,000. Net proceeds, after commissions of this offering, aggregated $1,715,800.

4. Agreement and Plan of Merger

On June 25, 1998, the Company entered into an agreement and plan of merger and reorganization (the "Agreement") with Unity First Acquisition Corp., a Delaware corporation ("Unity"), whereby Unity would acquire all of the outstanding shares of the Company in exchange for shares of its own common stock. The acquisition called for each share of the Company's stock being converted into .357 shares of Unity's common stock. At that point, the Company would "reverse-merge" into Unity which would then change its name to "Worlds Inc." The Agreement was, among other conditions, subject to approval by both Unity and the Company's stockholders.

On October 29, 1998, the Company's stockholders voted in favor of the Agreement, however, Unity did not obtain the super majority of 80% required by Unity's Charter, thereby canceling the proposed plan of merger and reorganization.

5. Property, Equipment and Software Development

A summary of property, equipment and software development at December 31, Software Development 1997 and 1998 is as follows:

December 31,	1997	1998
Computers, software and equipment	$650,557	$426,796
Software development costs	--	160,000
Total	650,557	586,796
Less: Accumulated depreciation and amortization	441,105	372,550
	$209,452	$214,246

6. Notes Payable

Long-term debt at December 31, 1997 and 1998 consists of the following:

<TABLE>

	December 31, 1997	1998
<S>	<C>	<C>
Convertible promissory notes payable - stockholders, maturing December 3, 2000, plus interest at 7.5% compounded annually. The notes are convertible into shares of the Company's common stock as follows: from December 4, 1998 to December 3, 1999 at $5.00 per share and after December 4, 1999 at $5.625 per share. (Stockholders granted forgiveness of accrued interest of $106,000 on this debt which had previously been assumed as an accrued expense in the merger - see (a) below).	$1,685,000	$1,685,000
Note payable - technology obligation (noninterest bearing), payable in monthly installments of $3,333 until November 2001	186,666	186,666
Note payable - stockholder, payable in monthly installments of $6,944 until December 2000, plus interest at 8%. (Stockholder granted forgiveness of $115,000 which had previously been assumed as an account payable in the merger - see (a) below).	250,000	250,000
Note payable - investment banker, payable in monthly installments of $2,000 until September 1998, with a final payment of $100,000, plus interest at 8%.	116,000	-
	2,237,666	2,121,666
Less: Current maturities	269,333	246,648
Long-term portion	$1,968,333	$1,875,018

</TABLE>

(a) As a result of the mergers discussed in Note 2, the Company was granted forgiveness of debt by certain stockholders of Predecessor. Such forgiveness, aggregating $221,000, was accounted for as a contribution of capital to the Company for the period ended December 31, 1997.

Approximate maturities of long-term debt over the next four years are as follows:

Year ended December 31,	
1999	$ 246,648
2000	1,808,340
2001	39,996
2002	26,682

7. Commitments (a) During September 1997, the Company commenced leasing of office space in Boston under a noncancellable operating lease expiring in September 2000. Minimum rentals under this lease are approximately as follows:

Year ending December 31,	
1999	$50,000
2000	34,400
Total minimum payments	$84,400

Rent expense for the period ended December 31, 1997 and the year ended December 31, 1998 was approximately $21,000 and $112,000, respectively.

(b) The Company anticipates entering into an employment agreement with its president that calls for minimum annual compensation of $175,000. Bonuses will be determined at the discretion of the Board of Directors. The agreement is anticipated to expire in December 2000.

8. Stockholders' Deficit

Common Stock Split

On September 15, 1997, the Company's Board of Directors approved a two-for-one split of the common stock. The additional shares resulting from the stock split were distributed on September 15, 1997 to all stockholders of record at the close of business on September 15, 1997. The balance sheets as of December 31, 1997 and 1998 and the statement of stockholders' equity for the period from April 8, 1997 to December 31, 1998 reflect the retroactive recording of the stock split as if it had occurred on April 8, 1997. Further, all references in the financial statements to average number of shares outstanding and related prices, per share amounts and stock option data have been restated for all periods to reflect the stock split.

Stock Option Plan

During September 1997, the Board of Directors and stockholders of the Company adopted a stock option plan (the "Option Plan") as an incentive for, and to encourage share ownership by, the Company's officers, directors and other key employees and/or consultants and potential management of possible future acquired companies. The Option Plan provides that options to purchase a maximum of 1,000,000 shares of common stock (subject to adjustment in certain circumstances) may be granted under the Option Plan. The Option Plan also allows for the granting of stock appreciation rights ("SAR's") in tandem with, or independent of, stock options. Any SAR's granted will not be counted against the 1,000,000 limit.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for the Option Plan. Under APB Opinion No. 25, no compensation cost was recognized because the exercise price of Worlds' employee stock options equaled the market price of the underlying stock on the date of grant.

FASB Statement No. 123, "Accounting for Stock-Based Compensation", requires the Company to provide pro forma information regarding net loss as if compensation cost for the Company's stock option plans had been determined in accordance with the fair value based method prescribed in FASB Statement No. 123. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997 and 1998, no dividend yield; expected volatility of 30% in 1997 and 46.1% in 1998; risk-free interest rate of 5.6% in 1997 and 4.3% in 1998; and expected life of 10 years.

Under the accounting provisions of FASB Statement No. 123, the Company's net loss and net loss per share would have been adjusted to the pro forma amounts indicated below:

	Period from inception to December 31, 1997	Year ended December 31, 1998
Net loss:		
As reported	$ (6,686,471)	$ (2,648,681)
Pro forma	(6,751,856)	(2,654,185)
Net loss per share (basic and diluted):		
As reported	$ (.72)	$ (.15)
Pro forma	(.72)	(.15)

A summary of the status of the Company's stock option plan as of December 31, 1997 and 1998, and changes during the years ending on those dates, is presented below:

December 31, 1997		December 31, 1998	
	Weighted		Weighted

	Shares	average exercise price	Shares	average exercise price
Outstanding at beginning of year	-	$ -	165,000	$ .50
Granted	165,000	.50	664,000	1.00
Exercised	-	-	-	-
Cancelled	-	-	(35,000)	(1.00)
Outstanding at end of year	165,000	$.50	794,000	$ .90
Options exercisable at year-end	13,750	$.50	153,805	$ .78
Weighted average fair value of options granted during the year		$ -		$ -

The following table summarizes information about stock options outstanding at December 31, 1998.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of oustanding at December 31, 1998	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 1998	Weighted average exercise price
$.50 to $1.00	794,000	9.1	$.90	153,805	$.78

9. Income Taxes

The use of the Predecessor's net operating loss ("NOL") is subject to annual limits due to the ownership change for the Mergers. In general, an ownership change occurs if, during any three-year test period, the aggregate of all increases in percentage ownership by stockholders is more than 50%. Upon completion of the Mergers discussed in Note 2, such an ownership change occurred.

At December 31, 1998, after accounting for the estimated limitation of the Predecessor's NOL carryforward (approximately $100,000 per year over 15 years), the Company has a NOL aggregating approximately $6 million to be used to offset future Federal income taxes. A deferred income tax asset for the Company's NOL has been completely offset by a valuation allowance due to the uncertainty of its realization.

10. Extraordinary Item

Extraordinary Item During December 1997, the Company negotiated settlement of certain trade payables assumed in the Merger with Predecessor. Such payables which amounted to $193,501 were reduced to $67,725 resulting in a gain on debt forgiveness of $125,776. During 1998, additional trade payables amounting to $172,547 were forgiven resulting in a total gain on debt forgiveness since inception of $298,323.

11. Gain Resulting from Reversal of Certain Predecessor Liabilities

During December 1998, management determined that certain predecessor Reversal of Certain liabilities assumed at the date of the Merger with Predecessor were no longer

Predecessor Liabilities owed. During the fourth quarter of 1998, accounts payable ($220,000), accrued expenses ($154,000) and advanced customer billings ($436,140), which aggregated $810,140, were reversed and accounted for as other income in the accompanying statement of operations for the year ended December 31, 1998.

Worlds Inc.
(a development stage enterprise)

Notes to Financial Statements

The following table sets forth the computation of basic and diluted loss per share:

<TABLE>

<S>	Period from April 8, 1997 (inception) to December 31, 1997 <C>	Year ended December 31, 1998 <C>
Numerator:		
Loss before extraordinary item	$(6,812,247)	$ (2,821,228)
Extraordinary item	125,776	172,547
Net loss, numerator for basic loss per share	(6,686,471)	(2,648,681)
Effect of dilutive securities:		
Convertible debt	--	--
Net loss, numerator for diluted loss per share	$(6,686,471)	$ (2,648,681)
Denominator:		
Denominator for basic loss per share - weighted average common shares	9,336,569	17,170,288
Effect of dilutive securities:		
Convertible debt	--	--
Stock options and warrants	33,343	79,724
Dilutive potential common shares	33,343	79,724
Denominator for diluted loss per share - adjusted weighted average common shares and assumed conversions	9,369,912	17,250,012
Basic loss per share	$ (.72)	$ (.15)
Diluted loss per share - as calculated	$ (.71)	$ (.15)
Diluted loss per share - as disclosed due to anti-dilutive effect of stock options	$ (.72)	$ (.15)

</TABLE>

Worlds Inc.
(a development stage enterprise)

Notes to Financial Statements

For additional disclosure regarding stock options, warrants and convertible debt, see Notes 8, 3 and 6, respectively.

Options to purchase 50,000 shares of common stock at $5 per share were outstanding during 1997 and 1998 but were not included in the computation of diluted loss per share because the option exercise price was greater than the fair value of common shares and, therefore, the effect would be anti-dilutive.

13. Supplemental Cash Flow Information

Interest paid was approximately $1,600 and $1,000 for the period ended Information December 31, 1997 and the year ended December 31, 1998, respectively.

Noncash investing and financing activities during the period ended December 31, 1997 and year ended December 31, 1998 included the following:

(a) As discussed in Note 2, WAC exchanged all of the outstanding common and preferred stock of the Predecessor in exchange for 1,999,996 shares of WAC. Also, Academic exchanged all of their outstanding common and preferred stock for 910,000 shares of WAC and WAC was merged into Academic.

(b) The Company recognized a gain of $221,000 from forgiveness of debt to shareholders of Predecessor that was recorded as a capital contribution (see Note 6).

(c) The Company converted accounts payable of $250,000 into a note payable (see Note 6).

Worlds Inc. - Predecessor (a development stage enterprise)
Financial Statements
Period Ended December 3, 1997,
Year Ended December 31, 1996 and
Period from April 26, 1994 (Inception) to December 3, 1997

Worlds Inc. - Predecessor (a development stage enterprise)
Financial Statements
Period Ended December 3, 1997,
Year Ended December 31, 1996 and
Period from April 26, 1994 (Inception) to December 3, 1997

Worlds Inc. - Predecessor
(a devlepment stage enterprise)

Contents

Worlds Inc. ("Predecessor") is considered a predecessor company and the information disclosed herein is as of and prior to the date of merger with Worlds Inc. (formerly Worlds Acquisition Corp.) ("WAC") on December 3, 1997.

Report of Independent Certified Public Accountants

The Board of Directors
and Stockholders of
Worlds Inc. - Predecessor

We have audited the accompanying balance sheet of Worlds Inc. - Predecessor (a development stage enterprise) (the "Predecessor") as of December 3, 1997, and the related statements of operations, stockholders' deficit and cash flows for the period ended December 3, 1997, the year ended December 31, 1996 and the period from April 26, 1994 (inception) to December 3, 1997. These financial statements are the responsibility of the Predecessor's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Inc. - Predecessor as of December 3, 1997, and the results of its operations and its cash flows for the period ended December 3, 1997, the year ended December 31, 1996 and the period from April 26, 1994 (inception) to December 3, 1997, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Predecessor will continue as a going concern. As discussed in the summary of accounting policies, the Predecessor is in the development stage and has suffered recurring losses from operations, has a working capital deficit, and has a stockholders' deficit since inception that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1 (Development Stage Risks) and Note 10 (Merger) to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

BDO Seidman, LLP

San Francisco, California

March 25, 1998

Worlds Inc. - Predecessor
(a development stage enterprise)

Balance Sheet

<TABLE>

December 3, 1997(a)	
<S>	<C>
Assets	
Current:	
Cash and cash equivalents	$ 56,345
Prepaid expenses and other current assets	167,891
Total current assets	224,236
Property and equipment, net (Note 2)	225,775
	$ 450,011
Liabilities and Stockholders' Deficit	
Current liabilities:	
Accounts payable	$ 1,082,236

Accrued expenses (Note 9)	669,109
Advanced customer billings	436,140
Advance from Worlds Inc. (formerly Worlds Acquisition Corp.) (Note 10)	561,397
Current maturities of notes payable (Note 3)	70,000
Total current liabilities	2,818,882
Long-term portion, notes payable (Note 3)	1,766,667
Total liabilities	4,585,549
Commitments and contingencies (Notes 1, 4, 9 and 10) Stockholders' deficit (Note 5):	
Preferred stock, $.0001 par value; designated as Series A; 2,000,000 shares authorized, 1,801,533 shares issued and outstanding	180
Preferred stock, $.0001 par value; designated as Series B; 2,300,000 shares authorized, 1,022,726 shares issued and outstanding	102
Common stock, $.0001 par value; 15,000,000 shares authorized; 5,535,646 shares issued and outstanding	553
Deferred compensation related to stock options	(5,337)
Additional paid-in capital	17,105,103
Deficit accumulated during development stage	(21,236,139)
Total stockholders' deficit	(4,135,538)
	$ 450,011

</TABLE>

(a) Date of merger with Worlds Inc. (formerly Worlds Acquisition Corp.)

See accompanying summary of accounting policies and notes to financial statements.

Worlds Inc. - Predecessor
(a development stage enterprise)

Statements of Operations

<TABLE>

<S>	Year ended December 31, 1996 <C>	Period ended December 3, 1997(a) <C>	Period from April 26, 1994 (inception) to December 3, 1997(a) <C>
Net revenues (Note 6)	$ 3,784,019	$ 80,720	$ 6,026,691
Costs and expenses:			
Cost of revenues	6,014,432	32,304	11,279,348
Research and development	2,446,724	452,897	5,388,340
Selling, general and administrative	4,901,628	2,399,887	10,602,749
Lawsuit settlements (Note 9)	509,200	-	509,200
Total costs and expenses	13,871,984	2,885,088	27,779,637
Operating loss	(10,087,965)	(2,804,368)	(21,752,946)
Other income and (expenses):			
Interest income	115,956	10,343	237,629
Interest expense	(16,750)	(139,650)	(171,082)
Gain (loss) on disposal of property and equipment	(83,195)	4,070	(79,125)
Income from sale of technology (Note 7)	-	260,100	260,100
Loss before income taxes and extraordinary item	(10,071,954)	(2,669,505)	(21,505,424)
Income taxes (Note 8)	(115,000)	(5,000)	(120,000)
Loss before extraordinary item	(10,186,954)	(2,674,505)	(21,625,424)
Extraordinary item - gain on debt settlement (Note 3)	-	389,285	389,285
Net loss	$(10,186,954)	$(2,285,220)	$(21,236,139)

</TABLE>

(a) Date of merger with Worlds Inc. (formerly Worlds Acquisition Corp.)

See accompanying summary of accounting policies
and notes to financial statements.

Worlds Inc. - Predecessor
(a development stage enterprise)

Statements of Stockholders'Deficit

<TABLE>

	Common stock		Preferred stock Series A		Preferred stock Series B		Deferred compen-sation on stock options	Additional paid-in capital	Accumulated deficit	Total stockholders' deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 1996	5,274,260	$527	1,801,533	$180	-	$ -	$(45,647)	$ 8,385,184	$ (8,763,965)	$ (423,721)
Issuance of common stock	261,386	26	-	-	-	-	-	112,795	-	112,821
Issuance of Series B preferred stock at $8.80 per share, net of issuance costs of $381,000	-	-	-	-	1,022,726	102	-	8,618,887	-	8,618,989
Compensation related to stock options	-	-	-	-	-	-	24,202	(9,394)	-	14,808
Net loss for the year	-	-	-	-	-	-	-	-	(10,186,954)	(10,186,954)
Balance, December 31, 1996	5,535,646	553	1,801,533	180	1,022,726	102	(21,445)	17,107,472	(18,950,919)	(1,864,057)
Compensation related to stock options	-	-		-	-	-	16,108	(2,369)	-	13,739
Net loss for the period ended December 3, 1997	-	-		-	-	-	-	-	(2,285,220)	(2,285,220)
Balance, December 3, 1997	5,535,646	$553	1,801,533	$180	1,022,726	$102	$ (5,337)	$17,105,103	$(21,236,139)	$(4,135,538)

</TABLE>

See accompanying summary of accounting policies
and notes to financial statements.

Worlds Inc. - Predecessor
(a development stage enterprise)

Statements of Cash Flows

<TABLE>

	Year ended December 31, 1996	Period ended December 3, 1997(a)	Period from April 26, 1994 (inception) to December 3, 1997(a)
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	$(10,186,954)	$(2,285,220)	$(21,236,139)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	344,345	213,434	721,097

(Gain) loss on disposal of property and equipment	83,195	(4,070)	79,125
Gain on debt settlement	-	(389,284)	(389,284)
Compensation related to stock options	14,808	13,739	761,453
Compensation related to common stock issuance	58,525	-	58,525
Licensed technology expense	-	-	750,000
Changes in operating assets and liabilities:			
Trade receivables	342,294	489,050	-
Prepaid expenses and other assets	266,057	(42,575)	(167,891)
Accounts payable and accrued liabilities	226,212	(2,755)	1,856,619
Advanced customer billings and deferred revenue	(396,667)	-	436,140
Net cash used in operating activities	(9,248,185)	(2,007,681)	(17,130,355)
Cash flows used in investing activities:			
Acquisition of property and equipment	(476,966)	(2,063)	(999,302)
Cash flows from financing activities:			
Proceeds from issuance of common stock	54,296	-	116,857
Proceeds from issuance of preferred stock, net of issuance costs	8,618,989	-	16,163,766
Advance from Worlds Inc. (formerly Worlds Acquisition Corp.)	-	561,397	561,397
Payments on capital lease	(56,724)	-	(116,018)
Payments on note payable	(110,000)	(40,000)	(190,000)
Proceeds from note payable	1,000,000	650,000	1,650,000
Net cash provided by financing activities	9,506,561	1,171,397	18,186,002
Net increase (decrease) in cash and cash equivalents	(218,590)	(838,347)	56,345
Cash and cash equivalents, beginning of period	1,113,282	894,692	-
Cash and cash equivalents, end of period	$ 894,692	$ 56,345	$ 56,345
Supplemental disclosures of cash flow information:			
Interest paid	$ 9,234	$ -	$ 23,916
Income taxes paid	5,064	556	5,620

</TABLE>

Disclosures of noncash financing and investing activities:
In 1997, as part of the restructuring of operations, the Predecessor disposed of property and equipment with a net book value of $252,180, which included $138,439 of equipment under capital leases. The related capital lease obligations, totaling $123,013, were assumed by the lessor and a party which acquired certain assets used in the Predecessor's prior Seattle operations. The agreement with this party also resulted in a reduction of trade payables totaling $87,226.

(a) Date of merger with Worlds Inc. (formerly Worlds Acquisition Corp.)

See accompanying summary of accounting policies and notes to financial statements.

Worlds Inc. - Predecessor
(a development stage enterprise)

Summary of Accounting Policies

Nature of Business

Worlds Inc. (the "Predecessor") was incorporated under the laws of Delaware on April 26, 1994. The Predecessor was formed to develop and commercialize 3D multi-user tools and technologies for the Internet market. The Predecessor is in the development stage and, as such, has not generated significant revenues from operations.

Basis of Presentation

The accompanying financial statements have been prepared assuming that the Predecessor will continue as a going concern. The Predecessor is in the development stage (see Note 1) and has suffered recurring losses from operations since its inception that raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. As more fully described in Note 10, on December 3, 1997, the Predecessor consummated a merger agreement with Worlds Inc. (formerly Worlds Acquisition Corp.) ("WAC"), a company which had completed a private placement offering of securities.

The financial statements have been prepared in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises," which requires development stage enterprises to employ the same accounting principles as operating companies.

Restructuring of Operations

Due to recurring losses, insufficient revenue, a working capital deficit and a net stockholders' deficit, the Predecessor's management made significant reductions in operations in February 1997 that are reflected in the Predecessor's financial statements for the period ended December 3, 1997. In March 1997, the Predecessor engaged an outside management firm to assist with the downsizing of operations which has included a major reduction in employees and a consolidation of all operations to one location in San Francisco. The Predecessor decided in December 1996 to close its Seattle operations resulting in a $110,000 charge to operations for the year ended December 31, 1996.

Summary of Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Maintenance and repairs are expensed as incurred and improvements are capitalized.

Revenue Recognition

Revenue from technology development and licensing contracts is recognized upon the attainment of contractual milestones (approximating the percentage-of-completion method). Cash received in advance of revenues earned is recorded as deferred revenue.

Software Development Costs

Software development costs are charged to expense when incurred until the technological feasibility of the product has been established. After technological feasibility has been established, any additional costs would be capitalizable in accordance with SFAS No. 86. No such costs have been capitalized to date.

Research and Development Costs

Research and development costs are expensed as incurred.

Income Taxes

The Predecessor uses the liability method of accounting for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income tax assets and liabilities are recognized based on the temporary differences between the financial statement and income tax bases of assets, liabilities and carryforwards using enacted tax rates. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Concentration of Credit Risk

The Predecessor derives revenues from corporate customers in a variety of industries. For the year ended December 31, 1996, five customers accounted for 74% of the Predecessor's revenues. For the period ended December 3, 1997, no individual customer accounted for more than 10% of revenues.

New Accounting Standards

Effective January 1, 1996, the Predecessor adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Under this standard, companies are encouraged, but not required, to adopt the fair value method of accounting for employee stock-based transactions. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. Companies are permitted to continue to account for employee stock-based transactions under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," but are required to disclose pro forma net income and earnings per share as if the fair value method has been adopted. The Predecessor has elected to continue to account for stock-based compensation under APB No. 25 (see Note 5).

1. Going Concern

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, the Predecessor, as of December 3, 1997, had incurred recurring losses since inception totaling $21,236,139 had a working capital deficit of $2,368,871 and a stockholders' deficit of $4,135,538. As discussed in Note 10, on December 3, 1997, the Predecessor consummated a merger agreement with WAC, a company which had completed a private placement offering of securities whereby $4,385,000 of gross proceeds was raised.

The Predecessor anticipates, however, that it currently has only a portion of the funds necessary to permit it to complete product development and commercialization. There can be no assurance that the Predecessor will be able to obtain the substantial additional capital resources necessary to permit the Predecessor to pursue its business plan or that any assumptions relating to its business plan will prove to be accurate. WAC is pursuing sources of additional financing and there can be no assurance that any such financing will be available to WAC on commercially reasonable terms, or at all. Any inability to obtain additional financing will have a material adverse effect on the Predecessor and WAC, including possibly requiring the Predecessor or WAC to significantly curtail or cease operations.

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

2. Property and Equipment

A summary of property and equipment as of December 3, 1997 is as follows:

December 3, 1997	
Computers, software and equipment	$650,557
Less: Accumulated depreciation and amortization	424,782
	$225,775

3. Notes Payable

December 3, 1997	
Bridge loan payable to stockholders	$1,650,000
Technology obligation	186,667
	1,836,667
Less: Current portion	70,000
	$1,766,667

On December 13, 1996, the Predecessor received a Bridge Loan totaling $1,000,000 from two preferred stockholders. Additional advances of $650,000 were made under the Bridge Loan during the eleven-month period ended December 3, 1997 ($500,000 in January 1997 and $50,000 in June 1997 were received from the same preferred stockholders; and $100,000 was received in May 1997 from an affiliated person of a stockholder). These advances under the Bridge Loan were granted in return for convertible promissory notes and options at $0.88 per share (Predecessor management's estimate of fair value of common stock as of December 1996) on 500,000 shares of the Predecessor's common stock held by a founder and officer of the Predecessor as of December 31, 1996 (825,000 shares at December 3, 1997). Such options (which had a nominal value at date of issuance) remain exercisable for 36 months, but terminate immediately upon the consummation of an initial public offering of the Predecessor's capital stock or any consolidation or merger by the Predecessor or any sale, conveyance or disposition of all or substantially all of the assets of the Predecessor; such an event occurred on December 3, 1997 when the Predecessor consummated a merger (Note 10). The noteholders had the option to convert the outstanding principal balance and unpaid accrued interest into Predecessor's equity securities at the closing of Predecessor's next round of equity financing, at the price per share of such equity securities. The loan bears interest at a rate of 9% from the date of the advances. Accrued interest is approximately $141,000 at December 3, 1997.

In June 1997, the Predecessor renegotiated the terms of the Bridge Loan to convert it to a three year loan bearing interest at 7.5% and the option to convert into common stock based on the conversion price of $4.375, $5.00 and $5.625 in each of the three years following consummation of the merger of the Predecessor into Worlds Inc. (formerly Worlds Acquisition Corp) (see Note 10). The loan will not be payable until the earlier of maturity or conversion. The holders of the loan will also receive warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price equal to $5.00 per share. There was no conversion benefit associated with the convertible promissory notes at date of issuance nor at the date of renegotiation.

On January 3, 1995, the Predecessor purchased technology for $750,000 under a license agreement with Kinetic Effects, Inc. ("Kinetic") and Simon Fraser University of British Columbia ("SFU"). At December 31, 1996, the Predecessor had an obligation to make monthly payments of $10,000 ($6,667 to SFU and $3,333 to Kinetic) through November 2000. The purchased technology was charged to research and development expense in 1995. This obligation was renegotiated downward in August 1997 to $186,667, with monthly payments to Kinetic of $3,333 over 56 months. Kinetic is an entity affiliated with a prior officer and current shareholder of the Predecessor. In September 1997, the Predecessor renegotiated the terms with SFU. In exchange for the removal of exclusivity rights on the technology, $373,333 of the debt was forgiven and has been included within the extraordinary item of $389,285 in the statement of operations for the period ended December 3, 1997.

Approximate maturities of long-term debt over the next four years are as follows:

1998	$ 70,000
1999	40,000
2000	1,690,000
2001	36,667

4. Lease Commitments

The Predecessor has no lease commitments as of December 3, 1997.

Rent expense for office space, computers and office equipment was approximately $312,000 for the period ended December 3, 1997 and $1,487,000 for the year ended December 31, 1996.

5. Stockholders' Deficit

Preferred Stock

Each share of Series A and Series B preferred stock is convertible, at the option of the holder, into fully paid shares of common stock. The conversion rate is based upon the original purchase price, subject to adjustments for stock dividends, stock splits, and capital reorganizations and price based anti-dilution, currently one-to-one.

Each share of Series A and Series B preferred stock automatically converts to common stock upon the affirmative vote of the majority of the outstanding preferred stock or the closing of an underwritten public offering of shares of the Predecessor's common stock resulting in total proceeds of at least $15,000,000. The holders of the preferred stock are entitled to one vote on an "as if converted" basis.

Holders of Series A and Series B preferred stock are entitled to receive dividends, prior and in preference to any declaration or payment of any dividends on common stock, at the rate of $0.39 for Series A and $0.79 for Series B per share per annum. Such dividends are not cumulative, except in the event that the Predecessor does not enter into an initial public offering of at least $15,000,000 in proceeds to the Predecessor on or before May 31, 1998, in which case the dividends are cumulative effective May 31, 1998, and are payable when and if declared by the Predecessor's Board of Directors in cash legally available for distribution, or in stock, if no cash is legally payable. As of December 3, 1997, no dividends have been declared.

In the event of liquidation, consolidation, merger, or winding up of the Predecessor prior to conversion, holders of preferred stock are entitled to receive, in preference to the holders of common stock, an amount equal to their liquidation amount or a pro rata share of the remaining assets, based on their ownership of the Predecessor. As of December 3, 1997, the aggregate liquidation preference was approximately $16,657,000.

A Series A preferred stock investor also has a stock warrant which provides the right to purchase shares of Series A preferred stock sufficient to bring its holdings on a fully diluted basis to 21% of the Predecessor's shares. The warrant expires in the event of a qualified public offering or when the holder of preferred stock no longer chooses to exercise its existing anti-dilution rights. The warrant is exercisable at fair market value at date of exercise. As a result of the merger described in Note 10, such warrants were extinguished and the preferred stock described above (as well as the Predecessor's common stock) was exchanged for 1,999,996 shares of WAC.

Stock Option Plan

Prior to the mergers described in Note 10, the Predecessor had reserved 4,500,000 shares of common stock for issuance under the 1994 Amended and Restated Stock Option Plan (the "Plan"), which authorized the granting of incentive and nonstatutory stock options to employees and consultants of the Predecessor. Under this Plan, the Predecessor's Board of Directors would grant stock options at prices not less than 85% of fair value. The options were all immediately exercisable and were subject to vesting at times and in increments as specified by the Predecessor's Board of Directors. Options generally vested over three years and expired 10 years from date of grant.

The Predecessor applies APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for the Plan. Under APB Opinion No. 25, because the exercise price of the Predecessor's stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation cost is recognized. Compensation or other expense is recorded based on intrinsic value (excess of current price over exercise price on date of grant) for employees, and fair value of the option awards for others.

FASB Statement No. 123, "Accounting for Stock-Based Compensation", requires the Predecessor to provide pro forma information regarding net loss as if compensation cost for the Predecessor's stock option plans had been determined in accordance with the fair value based method prescribed in FASB Statement No. 123. The Predecessor estimates the fair value of each stock option at the grant date by using the minimum value approach with the following weighted-average assumptions used for grants in 1996 and 1997, respectively; no dividend yield for any year; near-zero volatility for both years; risk-free interest rates of 6.6% for both years; and expected lives ranging from 1 month to 3 years.

Under the accounting provisions of FASB Statement No. 123, the Predecessor's net loss would have been adjusted to the pro forma amounts indicated below:

	Year ended December 31,1996	Period ended December 3, 1997
Net loss:		
As reported	$(10,186,952)	$(2,265,776)
Pro forma	(10,242,063)	(2,328,421)

The fair value of options granted in 1996 was $133,245; there were no options granted in 1997.

The following table summarizes the stock option activity:

	Options available for grant	Options outstanding		Weighted average price per share
		Shares	Price per share	
Balance, January 1, 1996	668,245	969,902	$.01-.43	$.379
Options authorized	1,000,000	-	-	-
Options granted	(1,171,000)	1,171,000	.43-.88	.82
Option exercised	-	(261,386)	.20-.88	.43
Options canceled	489,704	(489,704)	.20-.88	.55
Balance, December 31, 1996	986,949	1,389,812	.20-.88	.68
Options granted	-	-	-	-
Option exercised	-	-	-	-
Options canceled	-	-	-	-
Balance, December 31, 1997	986,949	1,389,812	$.20-.88	$ .68

As a result of the mergers described in Note 10, the Plan and all options thereunder were terminated and a new stock option plan, as described in Note 10, was adopted.

Worlds Inc. - Predecessor
(a development stage enterprise)

Notes to Financial Statements

6. Related Party Revenue

For the year ended December 31, 1996, $1,276,780 of revenues from technology development contracts were attributable to three preferred stockholders of Predecessor. There was no related party revenue for the period ended December 3, 1997.

7. Income from Sale of Technology

In March 1997, Predecessor sold certain of its internally developed computer software programs for net proceeds of $260,100.

8. Income Taxes

From its inception, the Predecessor has generated losses for both financial reporting and tax purposes. As of December 3, 1997, the Predecessor's net operating losses for Federal income tax purposes were approximately $19 million, and expire between the years 2009 and 2012. For state income tax purposes, as of December 3, 1997, the Predecessor had net operating loss carryforwards of approximately $14.8 million for the State of California which will expire 2002. As of December 3, 1997, the combined Federal and state tax benefit of the net operating loss carryforwards is approximately $7.3 million and the deferred tax asset relating to accounting differences for depreciation, certain accrued expenses and technology costs was approximately $300,000. This deferred tax asset totaling $7.6 million has been completely offset by a valuation allowance since management cannot determine that it is more likely than not that the deferred tax asset can be realized. The use of such net operating loss carryforwards will be subject to annual limits if the Predecessor has incurred an "ownership change". In general, an ownership change occurs if, during any three-year test period, the aggregate of all increases in percentage ownership by stockholders is more than 50%. Upon completion of the merger discussed in Note 10, such an "ownership change" occurred.

The provision for income taxes for the year ended December 31, 1996 and the period ended December 3, 1997 consists of:

	Year ended December 31,1996	Period ended December 3, 1997
Foreign income taxes withheld (a)	$105,000	$ --
State income taxes - current	10,000	5,000
	$115,000	$5,000

(a) Foreign income taxes withheld relates to two preferred stockholders located in Japan.

The Predecessor has $156,000 in research credits available to reduce future Federal income taxes which expire between the years 2009 and 2011. Due to the merger, this carryforward will be substantially reduced.

9. Contingencies

In 1996, the Predecessor incurred lawsuit settlement expenses totaling $509,200, of which $154,000 is included in accrued liabilities at December 3, 1997. These settlement expenses relate principally to claims by former employees and are exclusive of legal fees included in general and administrative expenses in the accompanying financial statements.

The Predecessor is currently a defendant in two lawsuits filed by a former employee of Predecessor: Fraser v. Knowledge Adventure Worlds, Inc. d/b/a Worlds Inc., et al., San Francisco Superior Court No. 974470 ("State Court Action"); and Fraser v. Worlds Inc., U.S. District Court, Northern District of California No. C97-0277 CW ("Federal Action").

In the State Court Action filed in December 1995, Fraser alleged various contract and tort claims for wrongful termination and sought damages ranging from $500,000 to $2,000,000. Pursuant to mediation in July 1996, the parties reached a tentative settlement. In February 1997, parties again reached a tentative settlement, this time in connection with both the State Court and Federal Actions. Pursuant to terms of the stipulated settlement, Fraser filed a motion for entry of judgment. The Predecessor filed its opposition to this motion and, at a hearing on December 4, 1997, the Court again ruled in favor of the Predecessor and approved the Predecessor's proposed version of the settlement agreement which, among other things, would terminate both the State Court and Federal Actions. On December 18, 1997, Fraser filed a motion for reconsideration and a motion to take discovery. The Court again ruled in favor of the Predecessor and denied Fraser's motions at a hearing on January 22, 1998.

In the Federal Action, filed in January 1997, Fraser asserted claims for damages of $200,000 in connection with the use of "Worlds" name on the World Wide Web. On September 26, 1997, Fraser filed a motion requesting enforcement of his version of the terms of the tentative settlement of February 1997. On October 23, 1997, Fraser also moved for a temporary restraining order and a preliminary injunction. The Predecessor opposed both of Fraser's motions and, on October 31, the Court denied the October 23 motion. On November 7, 1997, the Court also denied Fraser's motion of September 26, and ordered the parties to participate in a settlement conference, scheduled for January 5, 1998. That conference has now been continued to April 13, 1998.

Predecessor management and counsel believe that the maximum additional liability for resolution of these two lawsuits would be approximately $150,000, which amount has been included in accrued expenses at December 3, 1997.

During February 1998, the Predecessor was named as a defendant in a lawsuit filed by a former employee of Predecessor seeking damages of approximately $70,000 (plus interest and fees) relating to termination of an employment contract. The lawsuit is in the pre-discovery phase. Management believes that settlement, if any, would not have a material adverse effect on Predecessor's financial position or results of operations.

10. Merger

On December 3, 1997, the Predecessor was merged with and into Worlds Inc. (formerly Worlds Acquisition Corp.) ("WAC") in a series of related transactions which included the simultaneous merger with and into Academic Computer Systems, Inc., a New Jersey corporation ("Academic") (the "Mergers") and a private offering of WAC's securities (the "Private Placement"). All of the common and preferred stock of the Predecessor were exchanged for 1,999,996 shares of WAC. WAC was incorporated in Delaware on April 8, 1997 to engage in designing, developing and marketing three-dimensional ("3D") music oriented Internet sites on the World Wide Web. These web sites are anticipated to utilize 3D technologies developed by the Predecessor. During the period ended December 3, 1997, WAC advanced the Predecessor $561,397 for working capital. Such advance is noninterest bearing with no fixed repayment terms. Academic was an inactive company with no operations. Academic voluntarily reported under the Securities Exchange Act of 1934 "Exchange Act"). The combined entity that resulted from the Mergers (the "Combined Entity") intends to continue reporting under the Exchange Act. While no trading market existed for the securities of Academic, or currently exists for the securities of the Combined Entity, the Combined Entity intends to cause its common stock to be traded on the Bulletin Board.

As a result of the Mergers, the Combined Entity now has a Stock Option Plan (the "Option Plan") as an incentive for, and to encourage share ownership by, its officers, directors and other key employees and/or consultants and potential management of possible future acquired companies. The Option Plan provides that options to purchase a maximum of 1,000,000 shares of common stock (subject to adjustment in certain circumstances) may be granted under the Option Plan. The Option Plan also allows for the granting of stock appreciation rights ("SARs") in tandem with, or independently of, stock options. Any SARs granted will not be counted against the 1,000,000 limit. WAC granted 165,000 options to a director and employees during 1997.

SIGNATURES

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

WORLDS INC.

By: /s/
Thomas Kidrin
President and CEO

Dated: 30th day of March, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of Registrant and in the capacities indicated.

/s/ Date: March 30, 1999

Thomas Kidrin
President, CEO and Director
(Chief Financial/Accounting Officer)

/s/ Date: March 30, 1999
Michael J. Scharf
Chairman

/s/ Date: March 30, 1999
Kenneth A. Locker
Director

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<TABLE> <S> <C>


<ARTICLE>                          5
<LEGEND>
         The schedule contains summary information  extracted from the financial
statements of Worlds Inc. for the year ended  December 31, 1998 and is qualified
in its entirety by reference to such financial statements.
</LEGEND>
<CIK>                              0000001961
<NAME>                             WORLDS INC.

<S>                                <C>
<PERIOD-TYPE>                            9-MOS
<FISCAL-YEAR-END>                  DEC-31-1998
<PERIOD-START>                     JAN-01-1998
<PERIOD-END>                       DEC-31-1998
<CASH>                               1,581,764
<SECURITIES>                                 0
<RECEIVABLES>                          140,318
<ALLOWANCES>                          (140,318)
<INVENTORY>                             58,516
<CURRENT-ASSETS>                     1,693,766
<PP&E>                                 586,796
<DEPRECIATION>                         372,550
<TOTAL-ASSETS>                       1,908,012
<CURRENT-LIABILITIES>                1,012,887
<BONDS>                                      0
<PREFERRED-MANDATORY>                        0
<PREFERRED>                                  0
<COMMON>                                18,032
<OTHER-SE>                            (997,925)
<TOTAL-LIABILITY-AND-EQUITY>         1,908,012
<SALES>                                 29,110
<TOTAL-REVENUES>                        29,110
<CGS>                                   29,279
<TOTAL-COSTS>                           29,279
<OTHER-EXPENSES>                     3,643,635
<LOSS-PROVISION>                             0
<INTEREST-EXPENSE>                     111,570
<INCOME-PRETAX>                     (2,821,228)
<INCOME-TAX>                                 0
<INCOME-CONTINUING>                 (2,821,228)
<DISCONTINUED>                               0
<EXTRAORDINARY>                        172,547
<CHANGES>                                    0
<NET-INCOME>                        (2,648,681)
<EPS-PRIMARY>                             (.16)
<EPS-DILUTED>                             (.15)
```

</TABLE>