THEGLOBE COM INC
Form 10QSB
November 14, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

OR

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

FOR THE TRANSITION PERIOD FROM ___________ TO _______________

COMMISSION FILE NO. 0-25053

theglobe.com, inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

STATE OF DELAWARE	14-1782422
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

110 EAST BROWARD BOULEVARD, SUITE 1400 FORT LAUDERDALE, FL.	33301
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(954) 769 - 5900

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE

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

Yes [X] No [ ]

The number of shares outstanding of the Registrant's Common Stock, $.001 par value (the "Common Stock"), as of October 27, 2003 was 49,369,793.

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2003 (UNAUDITED)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,277,108
Marketable securities	4,414,796
Accounts receivable, net	924,074
Inventory, net	493,182
Prepaid and other current assets	1,409,590
Total current assets	8,518,750
Intangible assets	508,086
Goodwill	554,315
Property and equipment, net	1,052,819
Other assets	76,204
Total assets	$ 10,710,174
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 1,315,329
Accrued expenses and other current liabilities	521,893
Deferred revenue	174,199
Current portion of long-term debt and notes payable	1,644,117
Total current liabilities	3,655,538
Long-term debt	187,852
Other long-term liabilities	141,077
Total liabilities	3,984,467
Stockholders' equity:	
Common stock	50,019
Preferred stock, at liquidation value	500,000
Additional paid-in capital	237,820,203
Common stock, 699,281 common shares, held in treasury, at cost	(371,458)
Accumulated other comprehensive loss	(49,049)
Accumulated deficit	(231,224,008)
Total stockholders' equity	6,725,707
Total liabilities and stockholders' equity	$ 10,710,174

See accompanying notes to unaudited condensed consolidated financial statements.

theglobe.com, inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
	UNAUDITED	
Net revenue:		
Advertising	$ 660,864	$ 807,066
Electronic commerce and other	775,782	1,452,197
Telephony services	280,816	--
Total net revenue	1,717,462	2,259,263
Operating expenses:		
Cost of products and publications sold	815,916	1,184,889
Data communications, telecom and network operations	527,327	--
Sales and marketing	775,584	774,850
Product development	203,520	138,647
General and administrative	1,637,014	666,685
Depreciation	61,012	21,835
Amortization of intangibles	25,624	--
Total operating expenses	4,045,997	2,786,906
Loss from operations	(2,328,535)	(527,643)
Other income (expense), net:		
Interest income (expense), net	(123,160)	(1,648)
Other income (expense), net	(65,919)	37,245
Other income (expense), net	(189,079)	35,597
Loss before income tax benefit	(2,517,614)	(492,046)
Income tax benefit	--	--
Net loss	$ (2,517,614)	$ (492,046)
Basic and diluted net loss per common share	$ (0.23)	$ (0.02)
Weighted average basic and diluted shares outstanding	44,496,302	31,081,574

See accompanying notes to unaudited condensed consolidated financial statements.

theglobe.com, inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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	200
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(5,95
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	14
Provisions for excess and obsolete inventory	4
Non-cash interest expense	1,62
Reserve against amounts loaned to Internet venture	33
Contributed officer compensation	10
Employee stock compensation	23
Compensation related to non-employee stock options	3
(Gain)/loss on sale of property and equipment	
Gain on sale of Happy Puppy assets	
Non-cash favorable settlements of liabilities	(6
Stock options granted in connection with termination	
Changes in operating assets and liabilities, net of acquisition and dispositions:	
Inventory, net	(17
Accounts receivable, net	47
Prepaid and other current assets	(1,07
Other assets	4
Accounts payable	2
Accrued expenses and other current liabilities	
Deferred revenue	
Net cash used in operating activities	(4,20
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sales(purchases)of marketable securities, net	(4,46
Cash acquired in acquisition of business	6
Amounts loaned to Internet venture	(37
Purchases of property and equipment	(82
Payment of security deposits / escrow	(
Net proceeds from sale of Happy Puppy assets	
Net cash provided by (used in) investing activities	(5,61
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowing on notes payable	1,75
Proceeds from issuance of preferred stock, net	9,14
Proceeds from exercise of common stock options	1
Payments on long-term debt, notes payable and capital lease obligations	(53
Net cash provided by (used in) financing activities	10,36
Net change in cash and cash equivalents	55
Effect of exchange rate changes on cash and cash equivalents	
Cash and cash equivalents at beginning of period	72
Cash and cash equivalents at end of period	$ 1,27

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See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of theglobe.com

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

The Company continues to operate its Computer Games print magazine and the associated website Computer Games Online (www.cgonline.com), as well as the games distribution business of Chips & Bits, Inc. (www.chipsbits.com). Management continues to actively explore a number of strategic alternatives for the Company's online and offline games properties, including continuing to operate the properties, acquisition or development of complementary products, or selling some or all of the properties.

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

During the nine months ended September 30, 2003, the Company issued debt and equity securities with common stock conversion features, for gross proceeds of $10,930,000. As further discussed in Note 5, the Company accounted for the issuance of these securities in accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," which resulted in the recognition of interest expense of $1,459,500 and non-cash preferred dividends totaling $8,120,000 at the respective dates of the securities issuance.

The Company's December 31, 2002 consolidated financial statements have been

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

(b) Principles of Consolidation

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

(c) Unaudited Interim Condensed Consolidated Financial Information

The unaudited interim condensed consolidated financial statements of the Company as of September 30, 2003 and for the three and nine months ended September 30, 2003 and 2002 included herein have been prepared in accordance with the instructions for Form 10-QSB under the Securities Exchange Act of 1934, as amended, and Article 10 of Regulation S-X under the Securities Act of 1933, as amended. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations relating to interim condensed consolidated financial statements.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company at September 30, 2003 and the results of its operations for the three and nine months ended September 30, 2003 and 2002 and its cash flows for the nine months ended September 30, 2003 and 2002.

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

(d) Use of Estimates

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

(e) Cash and Cash Equivalents

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

(f) Marketable Securities

The Company accounts for its investment in debt and equity securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." All such investments are classified as available-for-sale as of September 30, 2003. Available-for-sale securities are stated at market value, which approximates fair value, and unrealized holding gains and losses are excluded from earnings and included as a component of stockholders' equity until realized.

The following is a summary of available-for-sale securities as of September 30, 2003:

	Cost	Gross Unrealized Gain/(Loss)	Fair Value
Preferred Securities..............	$ 3,375,000	$ (50,000)	$ 3,325,000
U.S. Treasury Bills...............	836,977	951	837,928
Mutual Funds......................	251,868	--	251,868
Total.......................	$ 4,463,845	$ (49,049)	$ 4,414,796

During the nine months ended September 30, 2003, the Company had no gross realized gains or losses on sales of available-for-sale securities. The gross unrealized loss of $49,049 as of September 30, 2003, has been included in stockholders' equity as "Accumulated Other Comprehensive Loss" in the accompanying condensed consolidated balance sheet. The Company had no available-for-sale securities as of December 31, 2002.

(g) Comprehensive Loss

Comprehensive loss is comprised of two components: net loss and other comprehensive loss. In accordance with SFAS No. 130, other comprehensive loss in 2003 and 2002 included unrealized gains and losses on marketable securities, as well as foreign currency translation adjustments in 2002. The Company's comprehensive loss was approximately $2.6 million and $0.5 million for the three months ended September 30, 2003 and 2002, respectively and approximately $6.0 million and $2.6 million for the nine months ended September 30, 2003 and 2002, respectively. Accumulated other comprehensive loss at September 30, 2003, was $49,049. The Company had no accumulated other comprehensive loss as of December 31, 2002.

(h) Inventory

Inventories, consisting primarily of products available for sale, are recorded using the average cost method and valued at the lower of cost or market value. The Company's reserve for excess and obsolete inventory as of September 30, 2003 and December 31, 2002 was approximately $90,000 and $100,000, respectively.

(i) Revenue Recognition

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

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

Newsstand sales of the games information magazine are recognized at the on-sale date of the magazine, net of provisions for estimated returns. Subscriptions are recorded as deferred revenue when initially received and recognized as income on a pro rata basis over the subscription term. Revenues from the Company's share of the proceeds from its e-commerce partners' sales are recognized upon notification from its partners of sales attributable to the Company's sites, and to date, have been immaterial.

VoIP telephony services revenue represents fees charged to customers for voice services and is recognized based on minutes of customer usage or as services are provided. The Company records payments received in advance for prepaid services as deferred revenue until the related services are provided.

(j) Concentration of Credit Risk

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, marketable securities and trade accounts receivable. The Company maintains its cash and cash equivalents with various financial institutions and invests its funds among a diverse group of issuers and instruments. The Company performs ongoing credit evaluations of its customers' financial condition and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. Concentration of credit risk is limited due to the Company's large number of customers.

For the three and nine months ended September 30, 2003 and 2002, there were no customers that accounted for over 10% of consolidated net revenue.

(k) Net loss per share

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

	2003	2002
Options to purchase common stock	9,185,000	5,970,000
Common shares issuable upon conversion of Series F Preferred Stock	16,667,000	--
Common shares issuable upon conversion of		

Convertible Notes	19,444,000	--
Common shares issuable upon conversion of Warrants	23,227,000	4,012,000
Total	68,523,000	9,982,000

Net loss applicable to common stockholders was calculated as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS E SEPTEMBER 3
	2003	2002	2003
Net loss	$ (2,517,614)	$ (492,046)	$ (5,956,732)
Beneficial conversion features of preferred stock and warrants	(7,620,000)	--	(8,120,000)
Net loss applicable to common stockholders	$(10,137,614)	$ (492,046)	$(14,076,732)

Refer to Note 5 for a discussion of the dividends attributable to the beneficial conversion features of the Series F Preferred Stock of $500,000 and the Series G Automatically Converting Preferred Stock and associated warrants of $7,620,000.

(l) Recent Accounting Pronouncements

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

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

after June 15, 2003. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations or financial position.

(2) STOCK OPTIONS

On May 31, 2000, the Company offered to substantially all of its employees, excluding executive officers and the Board of Directors, the right to amend certain outstanding stock options and receive new options with an exercise price equal to the then current fair market value of the stock. Options to purchase a total of approximately 1.1 million shares, approximately 20% of outstanding options on that date, were amended and approximately 856,000 new options were granted at an exercise price of $1.594 per share, which was based on the closing price of the Company's common stock on May 31, 2000. The new options vest at the same rate that they would have vested under previous option plans. The Company is accounting for these re-priced stock options using variable accounting in accordance with FIN No. 44. In addition, as a result of options, which were granted within six months of the cancellations, an additional 244,000 options also require variable accounting in accordance with FIN No. 44. For the three and nine months ended September 30, 2003, approximately $42,000 of compensation expense was recorded in connection with the re-priced stock options. Depending upon movements in the market value of the Company's common stock, this accounting treatment may result in additional non-cash compensation charges in future periods.

A total of 3,417,450 stock options were granted during the nine months ended September 30, 2003, including grants of 131,000 stock options to non-employees. Compensation expense of approximately $35,000 was recognized during the nine months ended September 30, 2003 with respect to non-employee stock options. Approximately $193,000 of compensation expense related to an employee option grant with a below-market exercise price was recorded during the nine months ended September 30, 2003. A total of 202,500 stock options were exercised and 1,500 stock options were cancelled during the nine months ended September 30, 2003.

The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2003: no dividend yield; an expected life of five years; 160% expected volatility and 3.00% risk free interest rate.

In accordance with SFAS No. 123, the Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based awards granted to employees. Had the Company determined compensation cost based on the fair value at the grant date for all of its employee stock options issued under SFAS No. 123, the Company's net loss for the three and nine months ended September 30, 2003 and 2002 would have increased to the pro forma amounts below.

	Three Months	Nine Months
Period ended September 30, 2003, Net loss:		
As reported	$ (2,517,614)	$ (5,956,732)
Pro forma	(2,650,000)	(7,137,000)
Basic and diluted loss per common share:		
As reported	$ (0.23)	$ (0.39)
Pro forma	(0.23)	(0.43)

Period ended September 30, 2002, Net loss:		
As reported	$ (492,046)	$ (2,633,561)
Pro forma	(589,000)	(2,731,000)
Basic and diluted loss per common share:		
As reported	$ (0.02)	$ (0.08)
Pro forma	(0.02)	(0.08)

(3) LITIGATION

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

The lawsuit purports to be a class action filed on behalf of purchasers of the stock of the Company during the period from November 12, 1998 through December 6, 2000. Plaintiffs allege that the underwriter defendants agreed to allocate stock in the Company's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the Prospectus for the Company's initial public offering was false and misleading and in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount.

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

On July 3, 2003, an action was commenced against one of the Company's subsidiaries, Direct Partner Telecom, Inc. ("DPT"). Global Communications Consulting Corp. v. Michelle Nelson, Jason White, VLAN, Inc., Geoffrey Amend, James Magruder, Direct Partner Telecom, Inc., et al. was filed in the Superior Court of New Jersey, Monmouth County, and removed to the United States District Court for the District of New Jersey on September 16, 2003. Plaintiff is the former employer of Michelle Nelson, a consultant of DPT. Plaintiff alleges that while Nelson was its employee, she provided plaintiff's confidential and proprietary trade secret information, to among others, DPT and certain employees, and diverted corporate opportunities from plaintiff to DPT and the

other named defendants. Plaintiff asserts claims against Nelson including breach of fiduciary duty, breach of the duty of loyalty and tortious interference with contract. Plaintiff also asserts claims against Nelson and DPT, among others, for contractual interference, tortious interference with prospective economic advantage and misappropriation of proprietary information and trade secrets. Plaintiff seeks injunctive relief and damages in an unspecified amount, including punitive damages.

The Answer to the Complaint, with counterclaims, was served on October 20, 2003, denying plaintiff's allegations of improper and unlawful conduct in their entirety. Defendants intend to vigorously defend against these claims. Under the court rules, no discovery may be taken until after an initial scheduling conference with the court, anticipated to occur in November 2003. As this matter is in its initial stages, we are unable to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

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

(4) ACQUISITIONS AND DISPOSITION

Acquisition of Direct Partner Telecom, Inc.

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

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

Cash	$ 61
Accounts receivable	155
Fixed assets	196
Non-compete agreement	375
Goodwill	554

Assumed debt to former shareholders	(600)
Other assumed liabilities	(103)
Purchase price	$ 638

As part of the acquisition transaction, the former Chief Executive Officer of DPT agreed to an employment agreement with a one-year term which automatically renews for an additional year. The employment agreement also contains non-compete provisions during the term of the agreement and for a period of three years following termination of the agreement, as specified. The $375,000 value assigned to the non-compete agreement is being amortized on a straight-line basis over 5 years. Annual amortization expense of the non-compete agreement is estimated to be $43,750 in 2003; $75,000 in 2004 through 2007; and $31,250 in 2008. The related accumulated amortization as of September 30, 2003, was $25,000.

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

Period ended September 30, 2003,	Nine Months
Revenue	$ 5,623,000
Net Loss	(6,038,000)
Basic and diluted loss per common share	$ (0.40)

Loan and Purchase Option Agreement

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

amount loaned. As of September 30, 2003, $375,000 has been advanced to this venture. Due to the uncertainty of collectibility of the Loan, as it is to a development stage business, the Company has set up a reserve for all of the Loan except the $40,000 attributable to the acquisition should the Company exercise the Option. The amount of the reserve, $335,000 was included in other expense in the accompanying statement of operations for the nine months ended September 30, 2003.

Acquisition of VoIP Assets

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

Disposition

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

(5) OTHER EVENTS

On July 2, 2003, the Company completed a private offering of 17,360 shares of Series G Automatically Converting Preferred Stock ("Series G Preferred Stock") and warrants to acquire 3,472 shares of Series G Preferred Stock at a purchase price of $500 per share for a total of $8,680,000 in gross proceeds. Each share of Series G Preferred Stock was automatically converted into 1,000 shares of theglobe's Common Stock on July 29, 2003, the effective date of the amendment to the Company's certificate of incorporation increasing its authorized shares of Common Stock from 100,000,000 shares to 200,000,000 shares (the "Capital Amendment"). Similarly, upon the effective date of the Capital Amendment, each warrant to acquire a share of the Series G Preferred Stock was automatically converted into a warrant to acquire 1,000 shares of Common Stock. The warrants are exercisable for a period of 5 years at an initial exercise price of $1.39 per share. A total of 17,360,000 shares of Common Stock were issued pursuant to the Series G Preferred Stock private offering, while, subject to certain adjustment mechanisms, a total of 3,472,000 shares of Common Stock will be issuable upon exercise of the associated warrants.

At the time of issuance of the Series G Preferred Stock, an allocation of proceeds received was made between the preferred shares and the associated warrants. The allocation was made by determining the pro-rata share of the proceeds for each by comparing the fair value of each security issued to the total fair value. The fair value of the warrants was determined using the Black Scholes model. The fair value of the Series G Preferred Stock was determined by measuring the fair value of the common shares on an as converted basis. As a result, $1,365,000 was allocated to the warrants sold. In addition, the value of the preferential conversion was calculated by comparing the fair value of the underlying common shares based on the closing price of our common stock as reflected on the OTCBB on the date of issuance to the "effective" conversion

price. This resulted in a preferential conversion discount related to the preferred shares and the associated warrants, limited to the proceeds from the sale, of $7,315,000 and $305,000, respectively, which has been recorded as a dividend to the preferred stockholders in July 2003, as the preferred shares and associated warrants were immediately convertible into common shares and warrants to acquire common shares.

On May 22, 2003, E&C Capital Partners together with certain affiliates of Michael S. Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of $1,750,000. The Convertible Notes are convertible at anytime into a maximum of approximately 19,444,000 shares of the Company's common stock at a blended rate of $0.09 per share. The Convertible Notes have a one year maturity date, which may be extended at the option of the holders of the Convertible Notes for periods aggregating two years, and are secured by a pledge of substantially all of the assets of the Company. The Convertible Notes bear interest at the rate of ten percent per annum, payable semi-annually. Effective October 3, 2003, the holders of the Convertible Notes waived the right to receive accrued interest payable in shares of the Company's common stock. Additionally, each of the holders of the Convertible Notes has agreed to defer receipt of interest until June 1, 2004.

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

An allocation of the proceeds received from the issuance of the Convertible Notes was made between the debt instruments and the Warrant by determining the pro-rata share of the proceeds for each by comparing the fair value of each security issued to the total fair value. The fair value of the Warrant was determined using the Black Scholes model. The fair value of the Convertible Notes was determined by measuring the fair value of the common shares on an "as-converted" basis. As a result, $290,500 was allocated to the Warrant and recorded as a discount on the debt issued and additional paid in capital. The value of the beneficial conversion feature of the Convertible Notes was calculated by comparing the fair value of the underlying common shares of the Convertible Notes on the date of issuance based on the closing price of our common stock as reflected on the OTCBB to the "effective" conversion price. This resulted in a preferential conversion discount, limited to the previously discounted value of the Convertible Notes, of $1,459,500, which was recorded as interest expense in the accompanying unaudited condensed consolidated statements of operations as the Convertible Notes were immediately convertible into common shares.

On November 14, 2002, E&C Capital Partners entered into a non-binding letter of intent with theglobe.com to provide $500,000 of new financing via the purchase of shares of a new Series F Preferred Stock of theglobe.com. On March 28, 2003, the parties signed a Preferred Stock Purchase Agreement and other related documentation pertaining to the investment and closed on the investment (the "Preferred Stock Investment"). Pursuant to the Preferred Stock Purchase

Agreement, E&C Capital Partners received 333,333 shares of Series F Preferred Stock convertible into shares of the Company's Common Stock at a price of $0.03 per share. The conversion price is subject to adjustment upon the occurrence of certain events, including downward adjustment on a weighted-average basis in the event the Company should issue securities at a purchase price below $0.03 per share. If fully converted, and without regard to the anti-dilutive adjustment mechanisms applicable to the Series F Preferred Stock, an aggregate of approximately 16,667,000 shares of Common Stock could be issued. The Series F Preferred Stock has a liquidation preference of $1.50 per share (and thereafter participates with the holders of Common Stock on an "as-converted" basis), will pay a dividend at the rate of 8% per annum and entitles the holder to vote on an "as-converted" basis with the holders of Common Stock. In addition, as part of the $500,000 investment, E&C Capital Partners received warrants to purchase approximately 3,333,000 shares of theglobe.com Common Stock at an exercise price of $0.125 per share. The warrant is exercisable at any time on or before March 28, 2013. E&C Capital Partners is entitled to certain demand registration rights in connection with its investment.

The proceeds attributable to the issuance of the Series F Preferred Stock and the related warrants were allocated to each security in the same manner as described in the discussion of the Series G Preferred Stock. As a result, $83,000 was allocated to the warrants sold. In addition, the value of the preferential conversion was calculated by comparing the fair value of the underlying common shares on the date of issuance based on the closing price of our common stock as reflected on the OTCBB to the "effective" conversion price. This resulted in a preferential conversion discount, limited to the proceeds from the sale, of $417,000. The sum of the two discounts, $500,000, has been recorded as a dividend to the preferred stockholders in March 2003, as the preferred shares were immediately convertible into common shares.

As a result of the issuance of the Series F Preferred Stock, the Series G Automatically Converting Preferred Stock, the Convertible Notes and the associated warrants at their respective conversion and exercise prices, certain anti-dilution provisions applicable to previously outstanding warrants to acquire approximately 4,103,000 shares of theglobe.com common stock were triggered. Like many types of warrants commonly issued, these outstanding warrants to acquire shares of the Company's common stock include weighted average anti-dilution provisions which result in a lowering of the exercise price, and an increase in the number of warrants to acquire shares of the Company's common stock anytime shares of common stock are issued (or options or other securities exercisable or convertible into common stock) for a price per share less than the then exercise price of the warrants. As a result of the Preferred Stock Investment and the issuance of the Series G Preferred Stock and the Convertible Notes, the exercise price was lowered from approximately $1.39 to $0.66 per share on these warrants and the number of shares issuable upon exercise was proportionally increased from approximately 4,103,000 shares to 6,836,000 shares. As of September 30, 2003, approximately 95% of such warrants were beneficially owned by Michael S. Egan.

(6) SEGMENTS AND GEOGRAPHIC INFORMATION

The Company applies the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", which establishes annual and interim reporting standards for operating segments of a company. SFAS No. 131 requires disclosures of selected segment-related financial information about products, major customers and geographic areas. Effective with the May 2003 acquisition of DPT, the Company is now organized in two operating segments for purposes of making operating decisions and assessing performance: the computer games division and the VoIP telephony services division. The computer games division consists of the operations of the Company's Computer Games print magazine and the associated website Computer Games Online (www.cgonline.com) and the operations of Chips & Bits, Inc., its games distribution business. The VoIP

telephony services division is principally involved in the sale of telecommunications services over the internet to consumers and other telecommunications service providers.

The chief operating decision maker evaluates performance, makes operating decisions and allocates resources based on financial data of each segment. Where appropriate, the Company charges specific costs to each segment where they can be identified. Certain items are maintained at the Company's corporate headquarters ("Corporate") and are not presently allocated to the segments. Corporate expenses primarily include personnel costs related to executives and certain support staff and professional fees. Corporate assets principally consist of cash, cash

equivalents and marketable securities. There are no intersegment sales. The accounting policies of the segments are the same as those for the Company as a whole.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS E SEPTEMBER 3	
	2003	2002	2003	
REVENUE:				
Computer games and other...........	$ 1,436,646	$ 2,259,263	$ 4,353,892	$
VoIP telephony services	280,816	--	477,720	
	$ 1,717,462	$ 2,259,263	$ 4,831,612	$
INCOME (LOSS) FROM OPERATIONS:				
Computer games and other...........	$ 100,407	$ 15,974	$ (2,229)	$
VoIP telephony services	(1,167,425)	--	(1,552,838)	
Corporate expenses.................	(1,261,517)	(543,617)	(2,510,979)	(
Non-recurring charges..............	--	--	--	
Loss from operations	(2,328,535)	(527,643)	(4,066,046)	(
Other income (expense), net	(189,079)	35,597	(1,890,686)	
Consolidated loss before income tax benefit	$(2,517,614)	$ (492,046)	$ (5,956,732)	$(
DEPRECIATION AND AMORTIZATION:				
Computer games and other...........	$ 10,828	$ 21,835	$ 55,037	$
VoIP telephony services	72,412	--	85,930	
Corporate expenses.................	3,396	--	4,637	
	$ 86,636	$ 21,835	$ 145,604	$

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
IDENTIFIABLE ASSETS:		
Computer games and other...........	$ 1,899,858	$ 2,602,831
VoIP telephony services	3,516,211	164,960
Corporate assets...................	5,294,105	279,194
	$10,710,174	$ 3,046,985

The Company's historical revenues have been earned primarily from customers in the United States. VoIP telephony services net revenue was primarily attributable to the sale of telephony services outside of the United States. Telephony services revenue derived from Thailand represented approximately 15% and 9% of consolidated net revenue for the three and nine months ended September 30, 2003, respectively.

(7) COMMITMENTS

As of September 30, 2003, the Company had approximately $781,000 in outstanding standby letters of credit used to support inventory purchases.

On August 1, 2003, the Company entered into employment agreements with its Chairman and Chief Executive Officer, President and Chief Financial Officer. The three agreements, which are for a period of one year and automatically extend for one day each day until either party notifies the other not to further extend the employment period, provide for annual base salaries totaling $650,000 and annual bonuses based on pre-tax operating income, as defined, for an annual minimum of $100,000 in total. The agreements also provide for severance benefits under certain circumstances, as defined, which in the case of the Chairman and Chief Executive Officer and the President, include lump-sum payments equal to ten times the sum of the executive's base salary and the highest annual bonus earned by the executive, and in the case of the Chief Financial Officer, include lump-sum payments equal to two times the sum of the executive's base salary and the highest annual bonus earned by the executive. In addition, these severance benefits also require the Company to maintain insurance benefits for a period of up to ten years, in the case of the Chairman and Chief Executive Officer and the President, and up to two years, in the case of the Chief Financial Officer, substantially equivalent to the insurance benefits existing upon termination.

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

FORWARD LOOKING STATEMENTS

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

following discussion should be read together in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes thereto and the audited consolidated financial statements and notes to those statements contained in the Annual Report on Form 10-K for the year ended December 31, 2002.

OVERVIEW OR PLAN OF OPERATION

As of September 30, 2003, the Company was involved in two business segments: computer games properties and Voice over Internet Protocol ("VoIP") telephony services. The games division includes: our print publication Computer Games Magazine; our Computer Games Online website (www.cgonline.com), which is the online counterpart to Computer Games Magazine; and our Chips & Bits, Inc. (www.chipsbits.com) games distribution company. Each of our games properties specializes in the games business by delivering games information and selling games in the United States and abroad. Management of the Company continues to actively explore a number of strategic alternatives for its online and offline games properties, including continuing to operate the properties, acquisition or development of complementary products, or selling some or all of the games properties. Our newly created VoIP telephony services division includes Direct Partner Telecom, Inc. ("DPT"), an international licensed telecommunications carrier engaged in the purchase and resale of telecommunications services over the Internet, and our new retail VoIP service offering, voiceglo. DPT was acquired on May 28, 2003, in exchange for 1,375,000 shares of the Company's common stock and the issuance of warrants to acquire 500,000 shares of the Company's common stock.

As of September 30, 2003, our revenues were derived principally from the sale of print advertisements under short-term contracts in our games information magazine Computer Games; through the sale of video games and related products through our games distribution business Chips & Bits, Inc.; through the sale of our games information magazine through newsstands and subscriptions; and from the sale or resale of VoIP telephony services.

On July 2, 2003, theglobe.com, inc. completed a private offering of a newly created series of preferred stock known as the "Series G Automatically Converting Preferred Stock" ("Series G Preferred Stock") for an aggregate purchase price of approximately $8.7 million. In accordance with the terms of such Preferred Stock, the Series G Preferred shares converted into common stock at $0.50 per share (or an aggregate of approximately 17.4 million shares) upon the filing of an amendment to the Company's certificate of incorporation to increase its authorized shares of Common Stock from 100,000,000 shares to 200,000,000 shares. Such an amendment was filed on July 29, 2003. Investors also received warrants to acquire approximately 3.5 million shares of common stock. The warrants are exercisable for a period of five years at an exercise price of $1.39 per common share. The purpose of the Private Offering was to raise funds for use primarily in the Company's planned voiceglo business, including the deployment of networks, website development, marketing, and limited capital infrastructure expenditures and working capital. Proceeds may also be used in connection with theglobe's other existing or future business operations. Pursuant to the terms of the Private Offering the Company is contractually obligated, subject to certain limitations, to register the securities upon demand anytime commencing one year after the sale of the securities.

On May 22, 2003, E&C Capital Partners, a privately held investment holding company owned by our Chairman and Chief Executive Officer, Michael S. Egan, and our President, Edward A. Cespedes, together with certain affiliates of Michael S. Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of $1,750,000. The Convertible Notes are convertible at anytime into a maximum of approximately 19,444,000 shares of the Company's common stock at a blended rate of $0.09 per share. The Convertible

Notes have a one year maturity, which may be extended at the option of the holders of the Convertible Notes for periods aggregating two years, and are secured by a pledge of substantially all of the assets of the Company. The Convertible Notes bear interest at the rate of ten percent per annum, payable semi-annually. Effective October 3, 2003, the holders of the Convertible Notes waived the right to receive accrued interest payable in shares of the Company's common stock. Additionally, each of the holders of the Convertible Notes has agreed to defer receipt of interest until June 1, 2004.

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

On March 28, 2003, E&C Capital Partners signed a Preferred Stock Purchase Agreement to provide new financing in the amount of $500,000 through the purchase of a new series of preferred securities (the "Preferred Stock Investment"). Pursuant to the Preferred Stock Purchase Agreement, E&C Capital Partners received 333,333 shares of Series F Preferred Stock convertible into shares of the Company's Common Stock at a price of $0.03 per share. The conversion price is subject to adjustment upon the occurrence of certain events, including downward adjustment on a weighted-average basis in the event the Company should issue securities at a purchase price below $0.03 per share. If fully converted, and without regard to the anti-dilutive adjustment mechanisms applicable to the Series F Preferred Stock, an aggregate of approximately 16,667,000 shares of Common Stock could be issued. The Series F Preferred Stock has a liquidation preference of $1.50 per share, will pay a dividend at the rate of 8% per annum and entitles the holder to vote on an "as-converted" basis with the holders of Common Stock. In addition, as part of the $500,000 investment, E&C Capital Partners received warrants to purchase approximately 3,333,000 shares of theglobe.com Common Stock at an exercise price of $0.125 per share. The exercise price of the warrants, together with the number of shares for which the warrants are exercisable is subject to adjustment upon the occurrence of certain events. The warrants are exercisable at any time on or before March 28, 2013. E&C Capital Partners is entitled to certain demand registration rights in connection with the Convertible Note and Preferred Stock Investments.

On February 25, 2003, the Company entered into a Loan and Purchase Option Agreement with a development stage Internet related business venture pursuant to which it agreed to fund, in the form of a loan, at the discretion of the Company, the venture's operating expenses and obtained the option to acquire all of the outstanding capital stock of the venture in exchange for, when and if exercised, $40,000 in cash and the issuance of an aggregate of 2,000,000 unregistered restricted shares of theglobe.com's common stock. As of September 30, 2003, $375,000 has been advanced to this venture. Due to the uncertainty of collectibility of this investment, as it is to a development stage business, we have set up a reserve for all of the investment except the $40,000 attributable to the acquisition should we exercise our option.

On November 14, 2002, we acquired certain VoIP assets. Our plans regarding these VoIP assets are described below. We issued 1,750,000 warrants to acquire shares

of our Common Stock in conjunction with the closing of this acquisition. The Company also issued 425,000 warrants to acquire shares of Common Stock as part of an earn-out arrangement. These warrants are held in escrow by the Company and will only be released upon attainment of certain performance targets.

As a result of the issuance of the Series F Preferred Stock, the Series G Automatically Converting Preferred Stock, the Convertible Notes and the associated warrants at their respective conversion and exercise prices, certain anti-dilution provisions applicable to previously outstanding warrants to acquire approximately 4,103,000 shares of theglobe.com common stock were triggered. As a result, the exercise price of the warrants was lowered from approximately $1.39 to $0.66 per share and the number of shares issuable upon exercise was proportionally increased from approximately 4,103,000 shares to 6,836,000 shares. As of September 30, 2003, approximately 95% of such warrants were beneficially owned by Michael S. Egan.

Our VoIP Business

During the third quarter of 2003, theglobe.com entered the telecommunications business with the limited launch of its "voiceglo" brand phone system based upon "Voice over the Internet Protocol" or "VoIP." The Company's longer term objective is to become a leading provider of feature-rich, voice communications products and services delivered over the Internet. The Company's acquisition of VoIP assets in November 2002 and its acquisition of DPT in May 2003 have enabled the Company to establish the foundation for its VoIP telephone business. At present, the Company offers various products using the "voiceglo" brand name. The products are intended to allow consumers and business enterprises to communicate using VoIP for significantly reduced pricing compared to traditional telephony networks. We offer traditional telephony features with our VoIP services, such as voicemail, caller id, call forwarding, and call waiting. Unlike traditional phone service networks, our voiceglo products allow subscribers to use their numbers remotely. In addition, we are presently developing other incremental services which are not currently supported by the public switched telephone network (such as voice to email services).

Our voiceglo service is intended to be a full-featured, full-service alternative to the public switched telephone network (PSTN) available to homes and enterprises with either broadband or dial-up (56K minimum) Internet access. Subscribers are able to use voiceglo service similar to how they would use their traditional telephone service. Calls made and received by subscribers are carried over their Internet connections and interconnect with the PSTN using voiceglo's call signaling technology. The Company has applied for patent protection for this technology, however, we cannot predict whether a patent will be issued for this technology. Subscribers are issued traditional phone numbers, or alternatively, subscribers may "port" or transfer their existing phone numbers to the voiceglo service. The Company's remote local number service allows subscribers to choose phone numbers from any area codes serviced by voiceglo, allowing customers to keep phone numbers "for life," even if they move. It will also allow them a local presence in areas where they do not reside.

The voiceglo service is designed to be easy to use and mobile. As part of entering into a monthly service contract, we offer at no-charge to subscribers a USB handset (a simple phone that plugs into a personal computer's USB port) which can only be operated using the voiceglo service. Additionally, the service can be used with a personal computer's microphone and speakers, with any wi-fi enabled device equipped with a speaker and microphone, or with traditional phones with use of an adapter developed by the Company. Our subscribers are able to log into their service from any Internet connection in the world to make calls to their local area code and receive calls made to their voiceglo phone numbers.

All calls to and between voiceglo subscribers are free because they are delivered over the Internet. Calls placed by voiceglo subscribers to the public switched telephone network in the United States and Canada are either at a competitive low per minute rate or are "free" depending upon the voiceglo product offering selected by the subscriber. International calling is also priced at competitive rates.

Our VoIP products are subject to continuing development by the Company and management continues to evaluate its business plans for these proposed services. As discussed further in the "Liquidity and Capital Resources" section below, we expect to utilize substantial capital in fully launching and expanding our VoIP operations and expect we may need to raise additional capital to fully exploit our business plans for these services and meet ongoing operational needs. In addition, there are a number of significant risks to entry into, and the conduct of business in, this market, including current and proposed governmental regulation, potential taxation of services and many of the risks detailed below under "Risk Factors."

RESULTS OF OPERATIONS

Three Months Ended September 30, 2003 Compared to the Three Months Ended September 30, 2002

NET REVENUE. Net revenue totaled $1.7 million for the third quarter of 2003 as compared to $2.3 million in the same quarter of the prior year. The $0.5 million decline in total net revenue was primarily attributable to decreases in advertising, electronic commerce and other net revenue, partially offset by net revenue generated by our VoIP telephony services division.

Advertising revenue from the sale of print advertisements in our games magazine was $0.7 million, or 38%, of total net revenue for the three months ended September 30, 2003 versus $0.8 million, or 36%, of total net revenue for the three months ended September 30, 2002. Barter advertising revenue represented approximately 2% and 1% of total net revenue for the third quarter of 2003 and 2002, respectively.

Electronic commerce and other net revenue is principally comprised of sales of video games and related products through Chips & Bits, Inc. and sales of the Company's Computer Games magazine through newsstands and subscriptions. Sales through the online store accounted for $0.3 million, or 20%, of total net revenue for the third quarter of 2003 as compared to $0.7 million, or 29%, of total net revenue for the same period of 2002. The $0.4 million decrease was primarily the result of advances in and releases of console and online games, which traditionally have less sales loyalty to our online store, coupled with the continued decline in the number of major PC game releases, on which our online store relies for the majority of sales. Net revenue attributable to the sale of our games information magazine was $0.4 million, or 25%, of total net revenue for the third quarter of 2003 as compared to $0.8 million, or 35%, of total net revenue for the third quarter of 2002. The decline in net revenue from the sale of our games magazine as compared to the third quarter of 2002 was primarily the result of a decrease in the circulation base of our games magazine and a $0.2 million write-down of newsstand receivables.

Net revenue from telephony services totaled $0.3 million for the three months ended September 30, 2003. As part of the Company's strategy to enter the VoIP business, the Company acquired DPT on May 28, 2003, an international licensed

telecommunications carrier engaged in the purchase and resale of telecommunications services over the Internet. Telephony services net revenue is derived principally from the charges to customers for international call completion and is dependent on the volume of minutes utilized. Revenue attributable to the launch of the Company's voiceglo products represented less than 5% of total telephony services net revenue during the third quarter of 2003. To date, the Company has focused its efforts on continuing to develop its voiceglo product line, including features which are available with traditional phone service and continuing to formulate its marketing strategy and distribution network for such products. Thus, the Company has limited its sales and marketing efforts in anticipation of a "national" launch of its voiceglo products in the fourth quarter of 2003.

COST OF PRODUCTS AND PUBLICATIONS SOLD. Cost of products and publications sold related to our games division consists primarily of Internet connection charges, personnel costs, depreciation and maintenance costs of website equipment, printing costs of our games magazine and the costs of merchandise sold and shipping fees in connection with our online store. Cost of products and publications sold by our games division totaled $0.7 million and $1.2 million in the third quarter of 2003 and 2002, respectively. Gross margin of the Company's games division approximated 48% for both the three months ended September 30, 2003 and 2002. The remaining $0.1 million of cost of products sold for the 2003 third quarter consisted primarily of customer equipment costs related to the sale of the Company's voiceglo service launched during mid-August 2003.

DATA COMMUNICATIONS, TELECOM AND NETWORK OPERATIONS. This expense category relates to the Company's entry into the VoIP business in 2003 and includes termination and circuit costs related to the Company's wholesale telephony services business marketed by DPT and the Company's retail telephony services business marketed under the voiceglo brand name. Personnel and consulting costs incurred in support of the Company's Internet telecommunications network are also included in this expense category.

SALES AND MARKETING. Sales and marketing expenses consist primarily of salaries and related expenses of sales and marketing personnel, commissions, advertising and marketing costs, public relations expenses, promotional activities and barter expenses. Sales and marketing expenses were $0.8 million in both the third quarters of 2003 and 2002, respectively. A decline of $0.4 million in sales and marketing expenses incurred by the Company's games division was entirely offset by $0.4 million of sales and marketing expenses of the VoIP telephony services division. Sales and marketing expenses of the games division represented approximately 28% and 34% of total net revenue attributable to the games division's operations for the third quarter of 2003 and 2002, respectively. Costs incurred in establishing an independent sales force and staffing internally were the principal components of sales and marketing expenses of the VoIP telephony services operations during the third quarter of 2003.

PRODUCT DEVELOPMENT. Product development expenses include salaries and related personnel costs; expenses incurred in connection with website development, testing and upgrades; editorial and content costs; and costs incurred in the development of our VoIP product, voiceglo. Product development expenses were $0.2 million in the third quarter of 2003 compared to $0.1 million in the same quarter of the prior year. The increase was attributable to personnel costs and consulting expenses related to the development of our VoIP telephony products and services.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of salaries and related personnel costs for general corporate functions including finance, human resources and facilities, outside legal and professional fees, directors and officers insurance, bad debt expenses and general corporate overhead costs. General and administrative expenses were $1.6 million for the three months ended September 30, 2003, as compared to $0.7 million for the same quarter of 2002. Increases in headcount and the resulting personnel expenses, as well as other general and administrative expenses directly attributable to the Company's new line of business, VoIP telephony services, were the principal factors contributing to the $1.0 million increase in total general and administrative expenses.

INTEREST INCOME (EXPENSE), NET. Third quarter 2003 net interest expense of $0.1 million was principally attributable to the amortization of the discount related to the $1,750,000 Convertible Notes issued in May 2003 and the related interest accruals.

OTHER INCOME (EXPENSE), NET. Other expense for the three months ended September 30, 2003, principally represents additional reserves against amounts loaned to a development stage Internet venture by the Company.

INCOME TAXES. No tax benefit was recorded for the three months ended September 30, 2003. Due to the uncertainty surrounding the timing or realization of the benefits of our net operating loss carryforwards in future periods, we have recorded a 100% valuation allowance against our otherwise recognizable deferred tax assets. At December 31, 2002, the Company had net operating loss carryforwards available for U.S. and foreign tax purposes of approximately $134 million. These carryforwards expire through 2022. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Due to the change in our ownership interests in the third quarter of 1997 and May 1999, as defined in the Internal Revenue Code of 1986, as amended, future utilization of our net operating loss carryforwards prior to the change of ownership will be subject to certain limitations or annual restrictions. Additionally, any future ownership change could further limit or eliminate the ability to use these carryforwards.

Nine Months Ended September 30, 2003 Compared to the Nine Months Ended September 30, 2002

NET REVENUE. Net revenue totaled $4.8 million for the nine months ended September 30, 2003 compared to $7.2 million for the nine months ended September 30, 2002. The $2.4 million decrease in net revenue in comparison to the first nine months of 2002 was principally the result of declines of $1.3 million in sales of games products by Chips and Bits, Inc., $1.2 million in sales of the computer games magazine and $0.4 million in print advertisements, partially offset by the $0.5 million in telephony services net revenue. In mid-2002, the Company made a strategic decision to place less reliance on agency contracts to obtain subscribers. The result was a lower circulation base for our games magazine with a lower cost structure. As advertising rates are directly related to the circulation base of the magazine, this has resulted in lower advertising revenue. Revenue from barter transactions represented approximately 2% of total net revenue in the first nine months of 2003 as compared to approximately 1% of total net revenue in the same period of the prior year.

COST OF PRODUCTS AND PUBLICATIONS SOLD. Cost of products and publications sold was $2.4 million and $4.4 million for the nine months ended September 30, 2003 and 2002, respectively. The $2.0 million decrease in cost of products and publications sold as compared to the same period in 2002 was directly attributable to the lower level of revenue generated from the sale of computer games, from the sale of print advertisements in the computer games magazine and from subscription and newsstand sales of the computer games magazine in the

first nine months of 2003, partially offset by $0.1 million in product costs attributable to the sale of VoIP telephony services. Gross margins of the Company's games division were 48% and 41% for the first nine months of 2003 and 2002, respectively. The increase in gross margins of the Company's games division was primarily the result of a shift in the mix of net revenues to print advertising which represented 35% of total net revenue for the first nine months of 2003 versus 29% for the same period of the prior year.

DATA COMMUNICATIONS, TELECOM AND NETWORK OPERATIONS. As stated in the comparison of the three months ended September 30, 2003 compared to the three months ended September 30, 2002, the $0.7 million in data communications, telecom and network operations expenses include termination and circuit costs related to the Company's entry into the wholesale telephony services business and the retail VoIP telephony services business, marketed under the voiceglo brand name, as well as personnel and consulting costs incurred in support of the Company's Internet telecommunications network. The Company began its VoIP operations in 2003.

SALES AND MARKETING. Sales and marketing expenses totaled $2.0 million for the first nine months of 2003, a decline of $0.9 million, or 31%, from the $2.9 million reported for the first nine months of 2002. The 40% reduction in net revenue generated by the Company's games division in the first nine months of 2003 as compared to the same period of the prior year, and the corresponding decreases in commissions expense and agency subscription expense, were the principal factors contributing to the decrease in sales and marketing expenses. Partially offsetting the decreases in sales and marketing expenses of the games division were $0.5 million in costs incurred by the Company's telephony services operations in staffing an independent sales force and internal support staff.

PRODUCT DEVELOPMENT. Product development expenses totaled $0.6 million for the nine months ended September 30, 2003 as compared to $0.5 million for the same period of the prior year. A $0.1 million decline in website, editorial, content and other development costs incurred by the Company's games division was more than offset by the $0.2 million in consulting and personnel costs related to the development of our VoIP telephony products and services.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses of $3.1 million for the first nine months of 2003 increased $0.6 million from the $2.5 million reported for the same period of 2002. Increases in headcount and the resulting personnel expenses, as well as other general and administrative expenses directly attributable to the Company's VoIP telephony services division were principally responsible for the increase in this expense category as compared to the first nine months of 2002.

INTEREST INCOME (EXPENSE), NET. Non-cash interest expense of $1.5 million was recorded in the 2003 second quarter related to the beneficial conversion feature of the $1,750,000 in Convertible Notes issued on May 22, 2003. The expense resulted as the Convertible Notes were convertible into our common stock at a price below the fair market value of our common stock (for accounting purposes), based on the closing price of our common stock as reflected on the OTCBB on the issuance date of the notes. In addition, the warrant to acquire 3,888,889 shares of our common stock issued to one of the note holders was exercisable at a price below the fair market value of our common stock (for accounting purposes), based on the closing price of our common stock as reflected on the OTCBB on the date of issuance. The value assigned to the warrant was recorded as a discount to the face value of the Convertible Notes and is being amortized to interest expense over the term of the Convertible Notes. Discount amortization of approximately

$0.1 million was included in interest expense, net, during the first nine months of 2003.

OTHER INCOME (EXPENSE), NET. Other expense, net of $0.3 million was reported for the first nine months of 2003 as compared to other income, net of $0.4 million for the same period of the prior year. Other expense in 2003 includes reserves against the amounts loaned by the Company to a development stage Internet related business venture totaling $0.3 million. Other income in 2002 included $0.3 million in favorable vendor settlements, as well as the $0.1 million gain on the sale of Happy Puppy assets.

INCOME TAXES. As was the case in the third quarter of 2003, no tax benefit was recorded for the first nine months of 2003 as we recorded a 100% valuation allowance against our otherwise recognizable deferred tax assets due to the uncertainty surrounding the timing or ultimate realization of the benefits of our net operating loss carryforwards in future periods.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ITEMS. As of September 30, 2003, we had approximately $1.3 million in cash and cash equivalents as compared to $0.7 million as of December 31, 2002. Net cash used in operating activities was $4.2 million and $2.0 million, for the nine months ended September 30, 2003 and 2002, respectively. The period-to-period increase in net cash used in operating activities resulted primarily from an increase in our net operating losses, partially offset by the favorable impact of non-cash interest expense recorded in the first nine months of 2003 as a result of the beneficial conversion feature of the $1.75 million in Convertible Notes and associated warrants issued in May 2003, as well as other non-cash charges and gains recorded in 2003 and 2002.

Net cash of $5.6 million was used in investing activities during the first nine months of 2003. During the third quarter of 2003, the Company invested a net of $4.5 million in marketable securities as a result of the proceeds received in connection with the issuance of the Series G Preferred Stock discussed previously. The Company incurred $0.8 million in capital expenditures during the first nine months of 2003, primarily within the VoIP telephony services division. Additionally, in February 2003, the Company committed to fund operating expenses of a development stage Internet venture at the Company's discretion in the form of a loan. As of September 30, 2003, approximately $0.4 million has been advanced to the venture. Partially offsetting these uses of funds in the first nine months of 2003 was the $0.1 million in net cash acquired upon the May 2003 acquisition of DPT. The purchase price of DPT consisted of the issuance of 1,375,000 shares of the Company's common stock and the issuance of warrants to acquire 500,000 shares of the Company's common stock. An additional 2,750,000 warrants may be issued if certain performance or other criteria are satisfied. Net cash provided by investing activities during the first nine months of 2002 was $0.2 million principally resulting from the sale of the assets of the Happy Puppy website.

Net cash provided by financing activities was $10.4 million for the first nine months of 2003. As discussed below and in the Notes to the condensed consolidated financial statements, the Company issued $0.5 million in Series F Convertible Preferred Stock in March 2003 and $1.75 million of Convertible Notes in May 2003, and approximately $8.6 million, net of offering costs, of Series G Preferred Stock and associated warrants in July 2003. Immediately after the May 2003 closing of the DPT acquisition, the Company paid $0.5 million in cash to the former shareholders of DPT in repayment of certain loans which they extended to DPT.

CAPITAL TRANSACTIONS. On July 2, 2003, theglobe.com, inc. completed a private offering of Series G Preferred Stock for an aggregate purchase price of approximately $8.7 million. In accordance with the terms of such Preferred

stock, the Series G Preferred shares converted into common stock at $.50 per share (or an aggregate of approximately 17.4 million shares) upon the filing of an amendment to the Company's certificate of incorporation to increase its authorized shares of Common Stock from 100,000,000 shares to 200,000,000 shares. Such an amendment was filed on July 29, 2003. Investors also received warrants to acquire approximately 3.5 million shares of common stock. The warrants are exercisable for a period of five years at an exercise price of $1.39 per common share. The exercise price of the warrants, together with the number of warrants issuable upon exercise, are subject to adjustment upon the occurrence of certain events. The purpose of the Series G Preferred Stock offering was to raise funds for use primarily in the Company's VoIP telephony services business, including the deployment of networks, website development, marketing, and limited capital infrastructure expenditures and working capital. Proceeds may also be used in connection with theglobe's other existing or future business operations. Pursuant to the terms of the Series G Offering the Company is contractually obligated, subject to certain limitations, to register the securities upon demand anytime commencing one year after the sale of the securities.

On May 22, 2003, E&C Capital Partners together with certain affiliates of Michael S. Egan, entered into a Note Purchase Agreement with the Company pursuant to which they acquired $1,750,000 of Convertible Notes. The Convertible Notes are convertible at anytime into a maximum of approximately 19,444,000 shares of the Company's common stock at a blended rate of $0.09 per share. The Convertible Notes have a one year maturity, which may be extended at the option of the holders of the Convertible Notes for periods aggregating two years, and

are secured by a pledge of substantially all of the assets of the Company. The Convertible Notes bear interest at the rate of ten percent per annum, payable semi-annually. Effective October 3, 2003, the holders of the Convertible Notes waived the option of receiving accrued interest payable in shares of the Company's common stock. Additionally, each of the holders of the Convertible Notes has agreed to defer receipt of interest until June 1, 2004.

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

On March 28, 2003, E&C Capital Partners signed a Preferred Stock Purchase Agreement and other related documentation pertaining to a $500,000 investment via the purchase of shares of a new Series F Preferred Stock of theglobe.com and closed on the investment. Pursuant to the Preferred Stock Purchase Agreement, E&C Capital Partners received 333,333 shares of Series F Preferred Stock convertible into shares of the Company's Common Stock at a price of $0.03 per share. The conversion price is subject to adjustment upon the occurrence of certain events, including downward adjustment on a weighted-average basis in the event the Company should issue securities at a purchase price below $0.03 per share. If fully converted, and without regard to the anti-dilutive adjustment mechanisms applicable to the Series F Preferred Stock, an aggregate of approximately 16.7 million shares of Common Stock could be issued. The Series F Preferred Stock has a liquidation preference of $1.50 per share, will pay a dividend at the rate of 8% per annum and entitles the holder to vote on an "as-converted" basis with the holders of Common Stock. In addition, as part of

the $500,000 investment, E&C Capital Partners received warrants to purchase approximately 3.3 million shares of theglobe.com Common Stock at an exercise price of $0.125 per share. The warrants are exercisable at any time on or before March 28, 2013 and both the warrants' exercise price and number are subject to adjustment. E&C Capital Partners is entitled to certain demand registration rights in connection with its investment in the Convertible Notes and the Series F Preferred Stock.

As a result of the preferential conversion features of the Series G Preferred Stock and the Series F Preferred Stock, a total of $8,120,000 in non-cash dividends to preferred shareholders were recognized during the nine months ended September 30, 2003.

FUTURE CAPITAL NEEDS. As of September 30, 2003, our sources of liquidity consisted of $1.3 million of cash and cash equivalents and $4.4 million of marketable securities. The Company has limited operating capital and no current access to credit facilities. We have incurred substantial losses since our inception and we expect that we will continue to incur net losses for the foreseeable future. In order to meet our projected ongoing operational needs, including fully launching and expanding our VoIP operations, we believe we will require additional working capital. Our working capital requirements depend on numerous factors, including market acceptance of our services, the capital required to maintain our websites and properties, the resources we devote to marketing and selling our services, our entry into and development of new business lines, including our "voiceglo" telephony services, and our brand promotions and other factors.

We expect that we may need to raise additional capital in order to successfully implement our planned business model. We will seek to raise additional funds through asset sales, bank borrowings, equity or debt financing, strategic relationships or other arrangements. Our ability to raise capital is limited, particularly with respect to bank borrowings or other traditional institutional lenders, and any financing that could be obtained would probably dilute existing shareholders significantly. We cannot assure you that any financing obtained will be available on reasonable terms, or at all, when and if required. Our failure to raise additional capital when needed would have a material adverse effect on our business, results of operations and financial condition.

In addition, we received a report from our independent accountants, relating to our December 31, 2002 audited financial statements containing an explanatory paragraph stating that our recurring losses from operations since inception and requirement for additional financing raise substantial doubt about our ability to continue as a going concern. Management and the Board of Directors continue to explore a number of strategic alternatives and are also continuing to identify and implement internal actions to improve the Company's liquidity and financial performance. These alternatives may include selling assets, which in any such case could result in significant changes in our business plan, or entering into additional new or different lines of business, such as our new VoIP telephony business.

The shares of our Common Stock were delisted from the NASDAQ national market in April 2001 and are now traded in the over-the-counter market on what is commonly referred to as the electronic bulletin board or OTCBB. The trading volume of our shares has dramatically declined since the delisting. In addition, we are now subject to a Rule promulgated by the Securities and Exchange Commission that, if we fail to meet criteria set forth in such Rule, various practice requirements are imposed on broker-dealers who sell securities governed by the Rule to persons other than established customers and accredited investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transactions prior to sale. Consequently, the Rule may have a materially adverse effect on the ability of broker-dealers to sell the

securities, which may materially affect the ability of shareholders to sell the securities in the secondary market. Consequently, it has also made it more difficult for us to raise additional capital, although the Company has had some success in offering its securities as consideration for the acquisition of various business opportunities or assets. We will also incur additional costs under state blue sky laws if we sell equity due to our delisting.

EFFECTS OF INFLATION

Due to relatively low levels of inflation in 2003 and 2002, inflation has not had a significant effect on our results of operations since inception.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Certain of our accounting policies require higher degrees of judgment than others in their application. These include revenue recognition, valuation of customer receivables, impairment of intangible assets, restructuring reserves and income tax recognition of deferred tax items. Our policy and related procedures for revenue recognition, valuation of customer receivables and goodwill and other intangible assets are summarized below.

REVENUE RECOGNITION

The Company's revenues were derived principally from the sale of print advertisements under short-term contracts in our games information magazine Computer Games, through the sale of our games information magazine through newsstands and subscriptions; from the sale of video games and related products through our online store Chips & Bits; and from the sale of VoIP telephony services. There is no certainty that events beyond anyone's control such as economic downturns or significant decreases in the demand for our services and products will not occur and accordingly, cause significant decreases in revenue.

The Company's games division participates in barter transactions. Barter revenues and expenses are recorded at the fair market value of services provided or received, whichever is more readily determinable in the circumstances. Revenue from barter transactions is recognized as income when advertisements or other products are delivered by the Company. Barter expense is recognized when the Company's advertisements are run on other companies' web sites or in their magazines, which typically occurs within one to six months from the period in which the related barter revenue is recognized.

Advertising. Advertising revenues for the games information magazine are recognized at the on-sale date of the magazine.

Electronic Commerce and Other. Sales from the online store are recognized as revenue when the product is shipped to the customer. Freight out costs are included in net sales and have not been significant to date. The Company provides an allowance for merchandise sold through its online store. The

allowance provided to date has not been significant.

Newsstand sales of the games information magazine are recognized at the on-sale date of the magazine, net of provisions for estimated returns. Subscriptions are recorded as deferred revenue when initially received and recognized as income pro ratably over the subscription term. Revenues from the Company's share of the proceeds from its e-commerce partners' sales are recognized upon notification from its partners of sales attributable to the Company's sites.

VoIP Telephony Services. VoIP telephony services revenue represents fees charged to customers for voice services and is recognized based on minutes of customer usage or as services are provided. The Company records payments received in advance for prepaid services as deferred revenue until the related services are provided.

VALUATION OF CUSTOMER RECEIVABLES

Provisions for allowance for doubtful accounts are made based on historical loss experience adjusted for specific credit risks. Measurement of such losses requires consideration of the company's historical loss experience, judgments about customer credit risk, and the need to adjust for current economic conditions.

GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that certain acquired intangible assets in a business combination be recognized as assets separate from goodwill. SFAS No. 142 requires that goodwill and other intangibles with indefinite lives should no longer be amortized, but rather tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value.

We assess the impairment of goodwill and other identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Some factors we consider important which could trigger an impairment review include the following:

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

When we determine that the carrying value of goodwill and other identified intangibles may not be recoverable, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments Hedging Activities." This statement amends and clarifies

accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations or financial position.

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

RISK FACTORS

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

FUTURE ACQUISITIONS, JOINT VENTURES OR STRATEGIC TRANSACTIONS ENTAIL NUMEROUS RISKS AND UNCERTAINTIES. WE INTEND TO ENTER NEW LINES OF BUSINESS.

We have begun to explore entering new business lines, including Voice over Internet Protocol ("VoIP") telephony services. In November 2002, we acquired certain VoIP assets from an entrepreneur in exchange for a total of 2,175,000 warrants to purchase our common stock. On May 28, 2003, we acquired Direct Partner Telecom, Inc. ("DPT"), an international licensed telecommunications carrier engaged in the purchase and resale of telecommunication services over the Internet. The purchase price consisted of 1,375,000 shares of theglobe.com common stock and 500,000 warrants to purchase theglobe.com common stock, together with the ability to earn an additional 2,750,000 warrants. We may also enter into new or different lines of business, as determined by management and our Board of Directors. The acquisitions of VoIP assets and DPT, as well as any future acquisitions or joint ventures could result, and in some instances have resulted, in numerous risks and uncertainties, including:

- potentially dilutive issuances of equity securities, which may be issued at the time of the transaction or in the future if certain performance or other criteria are met or not met, as the case may be. These securities may be freely tradable in the public market or subject to registration rights which could require us to publicly register a large amount of Common Stock, which could have a material adverse effect on our stock price;
- large and immediate write-offs;
- significant write-offs if we determine that the business acquisition does not fit or perform up to expectations;

- the incurrence of debt and contingent liabilities or amortization expenses related to goodwill and other intangible assets;
- difficulties in the assimilation of operations, personnel, technologies, products and information systems of the acquired companies;
- the risks of entering a new or different line of business;
- regulatory and tax risks relating to the new or acquired business;
- the risks of entering geographic and business markets in which we have no or limited prior experience; and
- the risk that the acquired business will not perform as expected.

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

Since our inception, we have incurred net losses in each quarter, except the fourth quarter of 2002 where we had net income of $11,000. We expect that we will continue to incur net losses for the foreseeable future. We had net losses of approximately $2.6 million, $40.6 million, and $103.9 million for the years ended December 31, 2002, 2001 and 2000, respectively. The principal causes of our losses are likely to continue to be:

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

Although we have restructured our businesses, we still expect to continue to incur losses while we explore a number of strategic alternatives for our online and offline games properties, including continuing to operate the properties, acquisition or development of complementary products, selling some or all of the properties or other changes to our business.

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

Our VoIP telephony services business and games properties are substantially dependent upon the continued growth in the general use of the Internet. The VoIP business is also dependent on the growth in the use of the Internet for telephones, personal computers and other devices. Internet and electronic commerce growth may be inhibited for a number of reasons, including:

- inadequate network infrastructure;
- security and authentication concerns;
- ease of access;

- inconsistent quality of service;
- availability of cost-effective, high-speed service; and
- bandwidth availability.

If web usage grows, the Internet infrastructure may not be able to support the demands placed on it by this growth or its performance and reliability may decline. Web sites have experienced interruptions in their service as a result of outages and other delays occurring throughout the Internet network infrastrucstyle="font-size:10.0pt;">name), and

(b) the total number of voting securities owned by the transferors and the transferees (or the beneficial owners), both immediately before

and after the transfer, and

(c) the total number of outstanding voting securities.

As used in this section, control means the power to exercise a controlling influence over the management or policies of the Insured.

Failing to give the required notice shall result in termination of coverage of this bond, effective upon the date of stock transfer for any loss in which any transferee is concerned or implicated.

Such notice is not required to be given in the case of an Insured which is an Investment Company.

SECTION 18. CHANGE OR MODIFICATION

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

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This bond or any instrument amending or effecting same may not be changed or modified orally. No changes in or modification thereof shall be effective unless made by written endorsement issued to form a part hereof over the signature of the Underwriter's Authorized Representative. When a bond covers only one Investment Company no change or modification

which would adversely affect the rights of the Investment Company shall be effective prior to 60 days after written notification has been furnished to the Securities and Exchange Commission, Washington, D.C., by the Insured or by the Underwriter. If more than one Investment Company

is named as the Insured herein, the Underwriter shall give written notice to each Investment Company and to the Securities and Exchange Commission,

Washington, D.C., not less than 60 days prior to the effective date of any change or modification which would adversely affect the rights of such Investment Company.

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

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INSURED

ENDORSEMENT OR RIDER NO.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

The following spaces preceded by an (*) need not be completed if this

endorsement or rider and the Bond or Policy have the same inception date.

ATTACHED TO AND FORMING PART OF BOND OR POLICY NO.

483PB0791

DATE ENDORSEMENT OR RIDER EXECUTED

08/17/07

* EFFECTIVE DATE OF ENDORSEMENT OR RIDER 12:01 A.M. STANDARD TIME AS

SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Named Insured Endorsement

It is agreed that:

1. From and after the time this rider becomes effective the Insured under

the attached bond are:

Clough Global Allocation Fund

Clough Global Equity Fund

Clough Global Opportunities Fund

2. The first named Insured shall act for itself and for each and all of

the Insured for all the purposes of the attached bond.

3. Knowledge possessed or discovery made by any Insured or by any partner

or officer thereof shall for all the purposes of the attached bond constitute knowledge or discovery by all the Insured.

4. If, prior to the termination of the attached bond in its entirety, the

attached bond is terminated as to any Insured, there shall be no liability for any loss sustained by such Insured unless discovered before the time such termination as to such Insured becomes effective.

5. The liability of the Underwriter for loss or losses sustained by any

or all of the Insured shall not exceed the amount for which the Underwriter would be liable had all such loss or losses been sustained by any one of the Insured. Payment by the Underwriter to the first named Insured of loss sustained by any Insured shall fully release the Underwriter on account of such loss.

6. If the first named Insured ceases for any reason to be covered under the attached bond, then the Insured next named shall thereafter be considered as the first named Insured for all the purposes of the attached bond.

Nothing herein contained shall be held to vary, alter, waive, or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By

Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in the event of a loss

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ENDORSEMENT OR RIDER NO.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

The following spaces preceded by an (*) need not be completed if this

endorsement or rider and the Bond or Policy have the same inception date.

ATTACHED TO AND FORMING PART OF BOND OR POLICY NO.

483PB0791

DATE ENDORSEMENT OR RIDER EXECUTED

08/17/07

* EFFECTIVE DATE OF ENDORSEMENT OR RIDER 12:01 A.M. STANDARD TIME AS

SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Computer Systems

It is agreed that:

1. The attached bond is amended by adding an additional Insuring

Agreement as follows:

INSURING AGREEMENT K COMPUTER SYSTEMS

Loss resulting directly from a fraudulent

(1) entry of data into, or

(2) change of data elements or program within a Computer System listed in

the SCHEDULE below, provided the fraudulent entry or change causes

(a) Property to be transferred, paid or delivered,

(b) an account of the Insured, or of its customer, to be added, deleted,

debited or credited, or

(c) an unauthorized account or a fictitious account to be debited or

credited, and provided further, the fraudulent entry or change is made or caused by an individual acting with the manifest intent to

(i) cause the Insured to sustain a loss, and

(ii) obtain financial benefit for that individual or for other persons

intended by that individual to receive financial benefit.

SCHEDULE

All systems utilized by the Insured

2. As used in this Rider, Computer System means

(a) computers with related peripheral components, including storage

components, wherever located,

(b) systems and applications software,

(c) terminal devices, and

(d) related communication networks

by which data are electronically collected, transmitted, processed,

stored and retrieved.

3. In addition to the exclusions in the attached bond, the following

exclusions are applicable to this Insuring Agreement:

(a) loss resulting directly or indirectly from the theft of confidential

information, material or data; and

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

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(b) loss resulting directly or indirectly from entries or changes made by

an individual authorized to have access to a Computer System who acts in good faith on instructions, unless such instructions are given

to that individual by a software contractor (or by a partner, officer or

employee thereof) authorized by the Insured to design, develop, prepare, supply, service, write or implement programs for the Insured's

Computer System.

4. The following portions of the attached bond are not applicable to this

Rider:

(a) the portion preceding the Insuring Agreements which reads "at any

time but discovered during the Bond Period";

(b) Section 9 NONREDUCTION AND NON-ACCUMULATION OF LIABILITY of the

Conditions and Limitations; and

(c) Section 10 LIMIT OF LIABILITY of the Conditions and Limitations.

5. The coverage afforded by this Rider applies only to loss discovered by

the Insured during the period this Rider is in force.

6. All loss or series of losses involving the fraudulent activity of one

individual, or involving fraudulent activity, in which one individual is implicated, whether or not that individual is specifically identified, shall be treated as one loss. A series of losses involving unidentified individuals but arising from the same method of operation may be deemed by the Underwriter to involve the same individual and in that event shall be treated as one loss.

7. The Limit of Liability for the coverage provided by this Rider shall

be Two million two hundred fifty thousand Dollars ($2,250,000), it being understood, however, that such liability shall be a part of and not in

addition to the Limit of Liability stated in Item 3 of the Declarations

of the attached bond or any amendment thereof.

8. The Underwriter shall be liable hereunder for the amount by which one

loss exceeds the Deductible Amount applicable to the attached bond, but not in excess of the Limit of Liability stated above.

9. If any loss is covered under this Insuring Agreement and any other

Insuring Agreement or Coverage, the maximum amount payable for such loss shall not exceed the largest amount available under any one Insuring

Agreement or Coverage.

10. Coverage under this Rider shall terminate upon termination or

cancellation of the bond to which this Rider is attached. Coverage under this Rider may also be terminated or canceled without canceling the bond as an entirety

(a) 60 days after receipt by the Insured of written notice from the

Underwriter of its desire to terminate or cancel coverage under this Rider, or

(b) immediately upon receipt by the Underwriter of a written request from

the Insured to terminate or cancel coverage under this Rider.

The Underwriter shall refund to the Insured the unearned premium for the

coverage under this Rider. The refund shall be computed at short rates if this Rider be terminated or canceled or reduced by notice from, or at

the instance of, the Insured.

Nothing herein contained shall be held to vary, alter, waive, or extend

any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

ICB012 Ed. 7-04

Page 1 of 1

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INSURED

ENDORSEMENT OR RIDER NO.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

The following spaces preceded by an (*) need not be completed if this

endorsement or rider and the Bond or Policy have the same inception date.

ATTACHED TO AND FORMING PART OF BOND OR POLICY NO.

483PB0791

DATE ENDORSEMENT OR RIDER EXECUTED

08/17/07

* EFFECTIVE DATE OF ENDORSEMENT OR RIDER 12:01 A.M. STANDARD TIME AS

SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Unauthorized Signatures

It is agreed that:

1. The attached bond is amended by inserting an additional Insuring

Agreement as follows:

INSURING AGREEMENT J UNAUTHORIZED SIGNATURE

(A) Loss resulting directly from the Insured having accepted, paid or

cashed any check or withdrawal order, draft, made or drawn on a customer's account which bears the signature or endorsement of one other than a person whose name and signature is on the application on file with the Insured as a signatory on such account.

(B) It shall be a condition precedent to the Insured's right of recovery

under this Rider that the Insured shall have on file signatures of all persons who are authorized signatories on such account.

2. The total liability of the Underwriter under Insuring Agreement J is

limited to the sum of twenty five thousand Dollars ($25,000), it being understood, however, that such liability shall be part of and not in addition to the Limit of Liability stated in Item 3 of the Declarations of the attached bond or amendment thereof.

3. With respect to coverage afforded under this Rider, the Deductible

Amount shall be two thousand five hundred Dollars ($2,500).

Nothing herein contained shall be held to vary, alter, waive, or extend

any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By

Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

ICB013 Ed. 7-04

Page 1 of 2

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ENDORSEMENT OR RIDER NO.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

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ATTACHED TO AND FORMING PART OF BOND OR POLICY NO.

483PB0791

DATE ENDORSEMENT OR RIDER EXECUTED

08/17/07

* EFFECTIVE DATE OF ENDORSEMENT OR RIDER 12:01 A.M. STANDARD TIME AS

SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Telefacsimile Transactions

It is agreed that:

1. The attached Bond is amended by adding an additional Insuring

Agreement as follows:

INSURING AGREEMENT N TELEFACSIMILE TRANSACTIONS

Loss caused by a Telefacsimile Transaction, where the request for such

Telefacsimile Transaction is unauthorized or fraudulent and is made with the manifest intent to deceive; provided, that the entity which receives such request generally maintains and follows during the Bond Period all Designated Fax Procedures with respect to Telefacsimile Transactions. The isolated failure of such entity to maintain and follow a particular Designated Fax Procedure in a particular instance will not preclude coverage under this Insuring Agreement, subject to the exclusions herein and in the Bond.

2. Definitions. The following terms used in this Insuring Agreement shall

have the following meanings:

a. "Telefacsimile System" means a system of transmitting and reproducing

fixed graphic material (as, for example, printing) by means of signals transmitted over telephone lines.

b. "Telefacsimile Transaction" means any Fax Redemption, Fax Election,

Fax Exchange, or Fax Purchase.

c. "Fax Redemption" means any redemption of shares issued by an

Investment Company which is requested through a Telefacsimile System.

d. "Fax Election" means any election concerning dividend options

available to Fund shareholders which is requested through a Telefacsimile System.

e. "Fax Exchange" means any exchange of shares in a registered account of

one Fund into shares in an identically registered account of another Fund in the same complex pursuant to exchange privileges of the two Funds, which exchange is requested through a Telefacsimile System.

f. "Fax Purchase" means any purchase of shares issued by an Investment

Company which is requested through a Telefacsimile System.

g. "Designated Fax Procedures" means the following procedures:

(1) Retention: All Telefacsimile Transaction requests shall be retained

for at least six (6) months. Requests shall be capable of being retrieved and produced in legible form within a reasonable time after retrieval is requested.

(2) Identity Test: The identity of the sender in any request for a

Telefacsimile Transaction shall be tested before executing that Telefacsimile Transaction, either by requiring the sender to include on the face of the request a unique identification number or to include key specific account information. Requests of Dealers must be on company letterhead and be signed by an authorized representative. Transactions by occasional users are to be verified by telephone confirmation.

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(3) Contents: A Telefacsimile Transaction shall not be executed unless

the request for such Telefacsimile Transaction is dated and purports to have been signed by (a) any shareholder or subscriber to shares issued by a Fund, or (b) any financial or banking institution or stockbroker.

(4) Written Confirmation: A written confirmation of each Telefacsimile

Transaction shall be sent to the shareholder(s) to whose account such Telefacsimile Transaction relates, at the record address, by the

end of the Insured's next regular processing cycle, but no later than

five (5) business days following such Telefacsimile Transaction.

i. "Designated" means or refers to a written designation signed by a

shareholder of record of a Fund, either in such shareholder's initial application for the purchase of Fund shares, with or without a Signature

Guarantee, or in another document with a Signature Guarantee.

j. "Signature Guarantee" means a written guarantee of a signature, which

guarantee is made by an Eligible Guarantor Institution as defined in Rule 17Ad-15(a)(2) under the Securities Exchange Act of 1934.

3. Exclusions. It is further understood and agreed that this Insuring

Agreement shall not cover:

a. Any loss covered under Insuring Agreement A, "Fidelity," of this Bond;

and

b. Any loss resulting from:

(1) Any Fax Redemption, where the proceeds of such redemption were

requested to be paid or made payable to other than (a) the shareholder of record, or (b) a person Designated in the initial application or in writing at least one (1) day prior to such redemption to receive

redemption proceeds, or (c) a bank account Designated in the initial application or in writing at least one (1) day prior to such redemption to receive redemption proceeds; or

(2) Any Fax Redemption of Fund shares which had been improperly credited

to a shareholder's account, where such shareholder (a) did not cause, directly or indirectly, such shares to be credited to such account, and (b) directly or indirectly received any proceeds or other benefit from such redemption; or

(3) Any Fax Redemption from any account, where the proceeds of such

redemption were requested to be sent to any address other than the record address or another address for such account which was designated (a) over the telephone or by telefacsimile at least fifteen (15) days prior to such redemption, or (b) in the initial application or in writing at least one (1) day prior to such redemption; or

(4) The intentional failure to adhere to one or more Designated Fax

Procedures; or

(5) The failure to pay for shares attempted to be purchased.

4. The Single Loss Limit of Liability under Insuring Agreement N is limited to the sum of two million two hundred and fifty thousand Dollars ($2,250,000) it being understood, however, that such liability shall be part of and not in addition to the Limit of Liability stated in Item 3 of the Declarations of the attached Bond or amendments thereof.

5. With respect to coverage afforded under this Rider the applicable

Single loss Deductible Amount is twenty five thousand Dollars ($25,000).

Nothing herein contained shall be held to vary, alter, waive, or extend

any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By

Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

ICB014 Ed. 7-04

Page 1 of 2

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ENDORSEMENT OR RIDER NO.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

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endorsement or rider and the Bond or Policy have the same inception date.

ATTACHED TO AND FORMING PART OF BOND OR POLICY NO.

483PB0791

DATE ENDORSEMENT OR RIDER EXECUTED

08/17/07

* EFFECTIVE DATE OF ENDORSEMENT OR RIDER 12:01 A.M. STANDARD TIME AS SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Voice Initiated Transactions

It is agreed that:

1. The attached bond is amended by inserting an additional Insuring

Agreement as follows:

INSURING AGREEMENT L - VOICE-INITIATED TRANSACTIONS

Loss caused by a Voice-initiated Transaction, where the request for such

Voice-initiated Transaction is unauthorized or fraudulent and is made with the manifest intent to deceive; provided, that the entity which

receives such request generally maintains and follows during the Bond

Period all Designated Procedures with respect to Voice-initiated Redemptions and the Designated Procedures described in paragraph 2f (1) and (3) of this Rider with respect to all other Voice-initiated Transactions. The isolated failure of such entity to maintain and follow a particular Designated Procedure in a particular instance will not preclude coverage under this Insuring Agreement, subject to the specific exclusions herein and in the Bond.

2. Definitions. The following terms used in this Insuring Agreement shall

have the following meanings:

a. "Voice-initiated Transaction" means any Voice-initiated Redemption,

Voice-initiated Election, Voice-initiated Exchange, or Voice-initiated Purchase.

b. "Voice-initiated Redemption" means any redemption of shares issued by

an Investment Company which is requested by voice over the telephone.

c. "Voice-initiated Election" means any election concerning dividend

options available to Fund shareholders which is requested by voice over the telephone.

d. "Voice-initiated Exchange" means any exchange of shares in a

registered account of one Fund into shares in an identically registered account of another Fund in the same complex pursuant to exchange privileges of the two Funds, which exchange is requested by voice over the telephone.

e. "Voice-initiated Purchase" means any purchase of shares issued by an

Investment Company which is requested by voice over the telephone.

f. "Designated Procedures" means the following procedures:

(1) Recordings: All Voice-initiated Transaction requests shall be

recorded, and the recordings shall be retained for at least six (6) months. Information contained on the recordings shall be capable of being

retrieved and produced within a reasonable time after retrieval of specific information is requested, at a success rate of no less than 85%.

(2) Identity Test: The identity of the caller in any request for a Voice-

initiated Redemption shall be tested before executing that Voice-initiated Redemption, either by requesting the caller to state a unique

identification number or to furnish key specific account information.

(3) Written Confirmation: A written confirmation of each Voice-initiated

Transaction and of each change of the record address of a Fund shareholder requested by voice over the telephone shall be mailed to the

shareholder(s) to whose account such Voice-initiated Transaction or

change of address relates, at the original record address (and, in the case of such change of address, at the changed record address) by

the end of the Insured's next regular processing cycle, but no later than

five (5) business days following such Voice-initiated Transaction or change of address.

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the event of a loss

ICB014 Ed. 7-04

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g. "Investment Company" or "Fund" means an investment company registered

under the Investment Company Act of 1940.

h. "Officially Designated" means or refers to a written designation

signed by a shareholder of record of a Fund, either in such shareholder's initial application for the purchase of Fund shares, with or without a

Signature Guarantee, or in another document with a Signature Guarantee.

i. "Signature Guarantee" means a written guarantee of a signature, which

guarantee is made by a financial or banking institution whose deposits are insured by the Federal Deposit Insurance Corporation or by a

broker which is a member of any national securities exchange registered

under the Securities Exchange Act of 1934.

3. Exclusions. It is further understood and agreed that this Insuring

Agreement shall not cover:

a. Any loss covered under Insuring Agreement A, "Fidelity, " of this

Bond; and

b. Any loss resulting from:

(1) Any Voice-initiated Redemption, where the proceeds of such redemption

were requested to be paid or made payable to other than (a) the shareholder of record, or (b) a person Officially Designated to

receive redemption proceeds, or (c) a bank account Officially Designated

to receive redemption proceeds; or

(2) Any Voice-initiated Redemption of Fund shares which had been

improperly credited to a shareholder's account, where such shareholder (a) did not cause, directly or indirectly, such shares to be credited to

such account, and (b) directly or indirectly received any proceeds or

other benefit from such redemption; or

(3) Any Voice-initiated Redemption from any account, where the proceeds

of such redemption were requested to be sent (a) to any address other than the record address for such account, or (b) to a record address for such account which was either (i) designated over the telephone fewer than thirty (30) days prior to such redemption, or (ii) designated in writing less than on (1) day prior to such redemption; or

(4) The intentional failure to adhere to one or more Designated

Procedures; or

(5) The failure to pay for shares attempted to be purchased; or

(6) Any Voice-initiated Transaction requested by voice over the telephone

and received by an automated system which receives and converts such request to executable instructions.

4. The total liability of the Underwriter under Insuring Agreement L is

limited to the sum of two million two hundred and fifty thousand Dollars ($2,250,000), it being understood, however, that such liability shall be part of and not in addition to the Limit of Liability stated in Item 3 of the Declarations of the attached bond or amendment thereof.

5. With respect to coverage afforded under this Rider the applicable

Deductible Amount is twenty five thousand Dollars ($25,000).

Nothing herein contained shall be held to vary, alter, waive, or extend

any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By

Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

ICB015 Ed. 7-04

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INSURED

ENDORSEMENT OR RIDER NO.

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ATTACHED TO AND FORMING PART OF BOND OR POLICY NO.

483PB0791

DATE ENDORSEMENT OR RIDER EXECUTED

08/17/07

* EFFECTIVE DATE OF ENDORSEMENT OR RIDER 12:01 A.M. STANDARD TIME AS

SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Amend Definition of Employee (Exclude EDP Coverage for Computer Software

or Programs)

It is agreed that:

1. Sub-section 7 of Section 1(a) in the Definition of Employee, is

deleted and replaced by the following:

(7) "each natural person, partnership or corporation authorized by

written agreement with the Insured to perform services as electronic data processor of checks or other accounting records of the Insured (does not

include the creating, preparing, modifying or maintaining the Insured's

computer software or programs), but excluding any such processor who acts as transfer agent or in any other agency capacity in issuing checks, drafts or securities for the Insured, unless included under sub-

section (9) hereof, and"

Nothing herein contained shall be held to vary, alter, waive, or extend

any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By

Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in

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ICB016 Ed. 7-04

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DATE ENDORSEMENT OR RIDER EXECUTED

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SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Definition of Investment Company

It is agreed that:

1. Section 1, Definitions, under General Agreements is amended to include

the following paragraph:

(f) Investment Company means an investment company registered under the

Investment Company Act of 1940 and as listed under the names of Insureds on the Declarations.

Nothing herein contained shall be held to vary, alter, waive, or extend

any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By

Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in

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ICB017 Ed. 7-04

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INSURED

ENDORSEMENT OR RIDER NO.

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483PB0791

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08/17/07

* EFFECTIVE DATE OF ENDORSEMENT OR RIDER 12:01 A.M. STANDARD TIME AS

SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Amend Section 2. – Exclusions – Loss reporting after termination of Bond

It is agreed that:

1. Section 2. Exclusions, of the CONDITIONS AND LIMITATIONS is amended to

include the following subsection:

(X) loss not reported to the Company in writing within Sixty (60) days after the termination of this bond as an entirety

Nothing herein contained shall be held to vary, alter, waive, or extend

any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By

Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

ICB018 Ed. 7-04

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INSURED

ENDORSEMENT OR RIDER NO.

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483PB0791

DATE ENDORSEMENT OR RIDER EXECUTED

08/17/07

* EFFECTIVE DATE OF ENDORSEMENT OR RIDER 12:01 A.M. STANDARD TIME AS

SPECIFIED IN THE BOND OR POLICY

07/27/07

* ISSUED TO

CLOUGH GLOBAL ALLOCATION FUND

Amend Section 13. – Termination as to any Employee

It is agreed that:

1. Sub-sections (b) of Section 13. TERMINATION under CONDITIONS AND

LIMITATIONS, is deleted in its entirety, and the following is substituted in lieu thereof:

Upon the detection by any Insured that such Employee has committed any

dishonest or fraudulent act(s) or theft, the Insured shall immediately remove such Employee from a position that may enable such Employee to cause the Insured to suffer a loss by any subsequent dishonest or fraudulent act(s) or theft. The Insured, within forty-eight (48) hours of such detection, shall notify the Underwriter with full and complete particulars of the detected dishonest or fraudulent act(s) or theft, or

For purposes of this section, detection occurs when any partner, officer,

or supervisory Employee of any Insured, who is not in collusion with such (detected) Employee, becomes aware that the (detected) Employee has committed any dishonest or fraudulent act(s) or theft.

This Bond shall terminate as to any Employee by written notice to each

Insured and to the Securities and Exchange Commission from the Underwriter of not less than sixty (60) days prior to the effective date of termination specified in such notice.

Nothing herein contained shall be held to vary, alter, waive, or extend

any of the terms, conditions, provisions, agreements or limitations of the above mentioned Bond or Policy, other than as above stated.

By

Authorized Representative

The hard copy of the bond issued by the Underwriter will be referenced in

the event of a loss

July 12, 2007

Clough Global Equity Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203

Re: Fidelity Bond

To Whom It May Concern:

The parties hereto (the Trusts) will be named as joint insured(s) pursuant to a bond to be issued by St. Paul Mercury Insurance Company, a St. Paul Travelers Insurance Company (the Bond), with a limit of liability of al limit is $2,500,000 for all three Funds although for a single Trust the limit would be $1,250,000 as set forth under Rule 17g-1(f) of the Investment Company Act of 1940 (the Act), which provides that where a registered management investment company such as one of the Trusts named as insured under a joint insured bond, such investment company shall enter into an agreement with the other joint insured(s) providing for an equitable and proportionate share of any recovery under the bond as a result of any loss sustained.

Accordingly, it is agreed that in the event recovery is received under the Bond as a result of a loss sustained by more that on of the Trusts, each such Trust shall receive an equitable and proportionate share of the recovery, but at least equal to the amount of the minimum coverage required for such Trust pursuant to Rule 17g-1(d) under the Act.

Very truly yours,

CLOUGH GLOBAL ALLOCATION FUND

By: Erin E. Douglas
Name: Erin E. Douglas
Title: Secretary

CLOUGH GLOBAL OPPORTUNITIES FUND

By: Erin E. Douglas
Name: Erin E. Douglas

Title: Secretary

AGREED:

CLOUGH GLOBAL EQUITY FUND

By: Jeremy O. May
Name: Jeremy O. May
Title: Treasurer

Approval of GLQ Insurance Policies

VOTED, that the Board of Trustees of the Clough Global Equity Fund (GLQ) hereby authorizes the officers of GLQ to negotiate and effect the GLQ s fidelity bond and E&O/D&O insurance policies based on the parameters outlined to the Board;

FURTHER VOTED, that the form and amount of mutual fund professional and directors and officers liability policy, as discussed at this meeting, be, and the same hereby is, approved after consideration of all factors deemed relevant by the Board;

FURTHER VOTED, that the officers of GLQ are hereby authorized to execute a Letter Agreement by and among the Clough Global Allocation Fund, Clough Global Opportunities Fund, and GLQ (each an Insured Party and collectively Insured Parties) providing that in the event of a loss sustained by the Insured Parties, each Insured Party shall receive an equitable and proportionate share of the recovery, which Letter Agreement shall be substantially the same as attached hereto;

FURTHER VOTED, that the Secretary of GLQ be, and hereby is designated as the officer responsible for making the necessary filings and giving the notices with respect to such fidelity bond required by paragraph (g) of Rule 17g-1 under the Investment Company Act of 1940; and

FURTHER VOTED, that the Officers of GLQ be, and each of them hereby is, authorized to make any and all payments, and to do any and all other acts, in the name of GLQ and on their behalf, as they, or any of them, may determine to be necessary or desirable and proper with the advice of counsel to GLQ in connection with or in furtherance of the foregoing resolutions.