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GLOBETEL COMMUNICATIONS CORP  
Form 10QSB  
May 16, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-Q  
(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended March 31, 2005

OR

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-23532

GLOBETEL COMMUNICATIONS CORP.

(Exact name of small business issuer as specified in its charter)

Delaware

88-0292161

-----  
(State or other jurisdiction of incorporation (IRS Employer Identification No.)  
or organization)

9050 Pines Blvd. Suite 110 Pembroke Pines Fl 33024  
(Address of principal executive offices)

954-241-0590  
(Issuer's telephone number)

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

As of May 12, 2005, we had issued and outstanding 1,101,045,657 (73,403,044 after 1 to 15 reverse stock split) shares of 71,688,676 common stock,

Transitional Small Business Disclosure Format (Check one): Yes  No

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## PART I - FINANCIAL INFORMATION

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GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS

---

|   |    | March<br>2005<br>(Unaudited) |
|---|----|------------------------------|
| <b>ASSETS</b>   |    |                              |
| <b>CURRENT ASSETS</b>   |    |                              |
| Cash and cash equivalents   | \$ | 3,600,000                    |
| Accounts receivable, less allowance for doubtful accounts of \$1,599,822<br>and \$1,505,731 |    | 2,500,000                    |
| Loans to employees  |    |                              |
| Prepaid expenses  |    |                              |
| Inventory   |    |                              |
| Deposits on equipment purchase  |    |                              |
| Deferred tax asset, less valuation allowance of \$5,069,551 and \$4,529,043                 |    |                              |
| <b>TOTAL CURRENT ASSETS</b>   |    | 6,300,000                    |
| <b>PROPERTY AND EQUIPMENT</b> , net of accumulated depreciation of \$306,006 and \$270,002  |    | 5,500,000                    |
| <b>OTHER ASSETS</b>   |    |                              |
| Investment in unconsolidated foreign subsidiary - Consolidated Global<br>Investments, Ltd.  |    | 300,000                      |
| Intangible assets - Sanswire  |    | 2,700,000                    |
| Deposits  |    |                              |
| Prepaid expenses  |    |                              |

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|   |         |
|---|---------|
| TOTAL OTHER ASSETS  | 3,1     |
|   | -----   |
| TOTAL ASSETS  | \$ 15,1 |
|   | =====   |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |         |
| LIABILITIES   |         |
| CURRENT LIABILITIES   |         |
| Accounts payable  | \$ 5    |
| Signing bonuses payable to Sanswire employees with GlobeTel stock   | 3       |
| Current portion of capital lease obligations  |         |
| Due to related payable - Carrier Services, Inc.   | 4       |
| Advances from unconsolidated foreign subsidiary - CGI, for Sanswire<br>licensing rights                                       | 1,1     |
| Accrued officers' salaries  |         |
| Accrued expenses and other liabilities  |         |
| Deferred revenues   |         |
| Related party payables  | 1       |
|   | -----   |
| TOTAL CURRENT LIABILITIES   | 2,7     |
|   | -----   |
| LONG-TERM LIABILITIES   |         |
| Capital lease obligations   |         |
|   | -----   |
| TOTAL LONG-TERM LIABILITIES   |         |
|   | -----   |
| TOTAL LIABILITIES   | 2,7     |
|   | -----   |
| COMMITMENTS AND CONTINGENCIES (Note 4)  |         |
| STOCKHOLDERS' EQUITY  |         |
| Series A Preferred stock, \$.001 par value, 10,000,000 shares authorized;<br>32,500 and 96,500 shares issued and outstanding: |         |
| Additional paid-in capital - Series A Preferred stock   | 1       |
| Series B Preferred stock, \$.001 par value, 35,000 shares authorized;<br>35,000 shares issued and outstanding:                |         |
| Additional paid-in capital - Series B Preferred stock   | 14,8    |
| Series C Preferred stock, \$.001 par value, 5,000 shares authorized;<br>750 shares issued and outstanding:                    |         |
| Additional paid-in capital - Series C Preferred stock   | 7       |
| Series D Preferred stock, \$.001 par value, 5,000 shares authorized;<br>1,000 shares issued and outstanding:                  |         |
| Additional paid-in capital - Series D Preferred stock   | 9       |
| Common stock, \$.00001 par value, 1,500,000,000 shares authorized;<br>73,331,636 and 63,389,976 shares issued and outstanding |         |
| Additional paid-in capital  | 46,0    |
| Stock subscriptions receivable:   |         |
| Series B Preferred Stock  | (6,4    |
| Series D Preferred Stock  | (7      |
| Accumulated deficit   | (43,2   |
|   | -----   |
| TOTAL STOCKHOLDERS' EQUITY  | 12,3    |
|   | -----   |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 15,1 |
|   | =====   |

See accompanying notes.

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GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

|   | For the Three Months Ended M |             |
|---|------------------------------|-------------|
|   | 2005                         | 2004        |
| REVENUES EARNED   | \$ 18,010,643                | \$ 3,210,3  |
| COST OF REVENUES EARNED   | 17,283,963                   | 3,164,7     |
| GROSS MARGIN  | 726,680                      | 45,5        |
| EXPENSES  |                              |             |
| Payroll and related taxes                                       | 570,591                      | 76,2        |
| Consulting and Professional fees                                | 1,283,458                    | 194,4       |
| Officers' and Directors' compensation                           | 309,550                      | 516,6       |
| Bad debts   | 94,092                       | 398,7       |
| Investment banking and financing fees                           | 439,715                      |             |
| Investor and public relations                                   | 25,730                       |             |
| Commissions expense - Carrier Services, Inc.                    | 724,513                      |             |
| Research and development - Sanswire                             | 443,924                      |             |
| Other operating expenses  | 107,542                      | 48,6        |
| Telephone and communications                                    | 21,947                       | 15,8        |
| Travel and related expenses                                     | 126,180                      | 43,8        |
| Rents   | 69,958                       | 13,9        |
| Insurance and employee benefits                                 | 63,416                       | 21,1        |
| Depreciation and amortization                                   | 18,402                       | 11,7        |
| TOTAL EXPENSES  | 4,299,018                    | 1,341,4     |
| LOSS BEFORE OTHER INCOME (EXPENSE) AND INCOME TAXES             | (3,572,338)                  | (1,295,8    |
| OTHER INCOME (EXPENSE)  |                              |             |
| Net gains on settlement of liabilities                          | --                           | 3,5         |
| Interest income   | 6,195                        | 7           |
| Interest expense  | (33,910)                     | (6,9        |
| NET OTHER EXPENSE   | (27,715)                     | (2,7        |
| LOSS BEFORE INCOME TAXES  | (3,600,053)                  | (1,298,5    |
| INCOME TAXES  |                              |             |
| Provision for income taxes                                      | --                           |             |
| Tax benefit from utilization of net operating loss carryforward | --                           |             |
| TOTAL INCOME TAXES  | --                           |             |
| NET LOSS  | \$ (3,600,053)               | \$ (1,298,5 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING            |                              |             |
| BASIC   | 66,121,945                   | 45,549,6    |
| DILUTED   | 66,664,411                   | 45,549,6    |
| NET LOSS PER SHARE  |                              |             |
| BASIC   | \$ (0.05)                    | \$ (0.      |
| DILUTED   | \$ (0.05)                    | \$ (0.      |

See accompanying notes.

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GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|   | For the Three Months<br>2005 |
|---|------------------------------|
|   | -----                        |
| CASH FLOWS FROM OPERATING ACTIVITIES  |                              |
| Net (loss)  | \$ (3,600,053)               |
| Adjustments to reconcile net loss to net cash used by operating activities: |                              |
| Depreciation and amortization   | 35,902                       |
| Bad debt expense  | 94,092                       |
| Common stock exchanged for services   | 1,166,400                    |
| (Increase) decrease in assets:  |                              |
| Accounts receivable   | (929,141)                    |
| Loans to employees  | 5,541                        |
| Prepaid expenses  | 9,593                        |
| Inventory   | 3,000                        |
| Deposits  | (1,351)                      |
| Prepaid expenses - other assets   | 8,012                        |
| Increase (decrease) in liabilities:   |                              |
| Accounts payable  | 65,504                       |
| Signing bonuses payable to Sanswire employees with GlobeTel stock           | 300,000                      |
| Due to related payable - Carrier Services, Inc.                             | 481,363                      |
| Accrued officers' salaries and bonuses                                      | (109,817)                    |
| Accrued expenses and other liabilities                                      | (25,089)                     |
| Deferred revenues   | (29,312)                     |
|   | -----                        |
| NET CASH USED BY OPERATING ACTIVITIES                                       | (2,525,356)                  |
|   | -----                        |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                              |
| Acquisition of property and equipment                                       | (5,151,177)                  |
| Deposit on equipment  | --                           |
|   | -----                        |
| NET CASH USED BY INVESTING ACTIVITIES                                       | (5,151,177)                  |
|   | -----                        |
| CASH FLOWS FROM FINANCING ACTIVITIES  |                              |
| Sale of preferred stock - Series A  | --                           |
| Sale of preferred stock - Series B  | 5,085,200                    |
| Sale of common stock  | 2,631,120                    |
| Proceeds from convertible notes payable                                     | 1,800,000                    |
| Proceeds from loan payable to unconsolidated foreign subsidiary - CGI       | 1,223,786                    |
| Payments on loan payable to unconsolidated foreign subsidiary - CGI         | (60,000)                     |
| Payments on capital lease financing   | (691)                        |
| Proceeds from notes and loans payable                                       | --                           |
| Payments on notes and loans payable   | --                           |
| Payments on related party payables  | --                           |
|   | -----                        |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                   | 10,679,415                   |

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|  |              |
|--|--------------|
| NET INCREASE IN CASH AND EQUIVALENTS                                   | 3,002,882    |
| CASH AND EQUIVALENTS - BEGINNING                                       | 601,559      |
| CASH AND EQUIVALENTS - ENDING  | \$ 3,604,441 |
| SUPPLEMENTAL DISCLOSURES   |              |
| Cash paid during the period for:                                       |              |
| Interest   | \$ 6,537     |
| Income taxes   | \$ --        |
| In addition to amounts reflected above, common stock was issued for:   |              |
| Shares issued for services   | \$ 1,166,400 |
| Shares issued for convertible notes payable                            | \$ 1,800,000 |
| Conversion of Series A preferred stock to common stock                 | \$ 585,000   |
| Payment of Series B preferred stock subscriptions receivable equipment | \$ 4,835,200 |

Non-cash Financing Activities:

On April 27, 2004, \$15,000,000 of Series B preferred stock was issued. A stock subscription receivable of \$6,414,800 was outstanding as of March 31, 2005

On April 27, 2004, \$1,000,000 of Series C preferred stock was issued. No stock subscription receivable was outstanding as of March 31, 2005.

On July 28, 2004, \$1,000,000 of Series D preferred stock was issued. A stock subscription receivable of \$750,000 was outstanding as of March 31, 2005.

See accompanying notes.

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GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim financial statements

The accompanying unaudited financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods presented. All adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

Certain financial information and footnote disclosures which are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but which are not required for interim reporting purposes, have been condensed or omitted. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements in its annual report on Form 10-KSB

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for the year ended December 31, 2004. The accompanying financial statements should be read in conjunction with the financial statements and notes. However, to assist the users of these financial statements, accounting policies for certain significant accounts and transactions are repeated below, notwithstanding the absence of any significant changes in any policies since the last reported period.

### Basis of Presentation

The financial statements include the accounts of GlobeTel Communication Corp. and its wholly-owned subsidiaries, Sanswire, LLC and Centerline Communications, LLC, and its wholly-owned subsidiaries, EQ8, LLC, EnRoute Telecom, LLC, G Link Solutions, LLC, Volta Communications, LLC, and Lonestar Communications, LLC, as well as the accounts GTCC de Mexico, S.A. de C.V, which is owned 99% by GlobeTel.

All material intercompany balances and transactions were eliminated in the consolidation.

### Nature of Operations

GlobeTel is engaged in the business of providing telecommunication services, primarily involving Internet telephony using Voice over Internet Protocol ("VoIP") technology and equipment. In addition, our subsidiary, Sanswire, LLC, is developing a National Wireless Broadband Network utilizing high-altitude airships called Stratellites that will be used to provide wireless voice, video, and data services.

### Organization and Capitalization

GlobeTel Communications Corp. ("GlobeTel") was organized in July 2002, under the laws of the State of Delaware. Upon its incorporation, GlobeTel was a wholly-owned subsidiary of American Diversified Group, Inc. (ADGI). ADGI was organized January 16, 1979, under the laws of the State of Nevada. ADGI had two other wholly-owned subsidiaries, Global Transmedia Communications Corporation (Global), a Delaware corporation, and NCI Telecom, Inc. (NCI), a Missouri corporation.

On July 1, 2002, both Global and NCI were merged into ADGI. On July 24, 2002, ADGI stockholders approved a plan of reincorporation for the exchange of all outstanding shares of ADGI for an equal number of shares of GlobeTel. Subsequently, ADGI was merged into GlobeTel, which is now conducting the business formerly conducted by ADGI and its subsidiaries, and all references to ADGI in these financial statements now apply to GlobeTel interchangeably.

In July 2002, pursuant to the reincorporation, the Company authorized the issuance of up to 1,500,000,000 shares of common stock, par value of \$0.00001 per share and up to 10,000,000 shares of preferred stock, par value of \$0.001 per share.

On May 6, 2005, by written consent of the majority vote of its shares, the Board of Directors approved a reverse split of our shares of common stock on a one for fifteen (1:15) basis, in anticipation of our stock moving to the American Stock Exchanges on or about May 19, 2005. All common stock amounts in this report have been retroactively restated to account for the reverse stock split, unless otherwise noted.

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### Accounts Receivable and Allowance for Doubtful Accounts

Trade and other accounts receivable are reported at face value less any provisions for uncollectible accounts considered necessary. Accounts receivable primarily includes trade receivables from customers and, in connections with our Mexico network, Mexican tax refunds receivable. The Company estimates doubtful accounts on an item-to-item basis and includes over-aged accounts as part of allowance for doubtful accounts, which are generally balances that are ninety-days overdue. Bad debt expense for the years three months ended March 31, 2005 and 2004 were \$94,092 and \$398,748.

### Inventory

Inventories consist of IP (Internet Protocol) Phones and ancillary items purchased wholesale and held for resale.

### Concentrations of Credit Risk and Economic Dependence

Financial instruments, which potentially subject the Company to a concentration of credit risk, are cash and cash equivalents and accounts receivable. The Company currently maintains a substantial portion of its day-to-day operating cash balances at a single financial institution. The Company had cash balances of \$3,553,688 and \$601,449 as of March 31, 2005 and December 31, 2004, respectively, which are in excess of federally insured limit. As of March 31, 2005 and December 31, 2004, the Company had \$3,450,705 and \$462,690, respectively, in excess of federally insured limits.

The Company operates worldwide. Consequently, the Company's ability to collect the amounts due from customers may be affected by economic fluctuations in each of the geographical locations in which the Company provides its services, principally Central and South America and Asia. The Company is dependent upon certain major customers, key suppliers, and contractual agreements, the absence of which may affect the Company's ability to operate its telecommunications business at current levels.

### Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles in the United States requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. Significant estimates include our allowance for doubtful accounts and our intangible assets, discussed below. If our present carrying values of such accounts are changed, we may recognize additional losses.

### Stock-Based Compensation

The Company accounts for its stock-based compensation arrangements with employees in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. As such, compensation expense under fixed term option plans is recorded at the date of grant only to the extent that the market value of the underlying stock at the date of grant exceeds the exercise price. In accordance with SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), since the Company has continued to apply the principles of APB 25 to employee stock compensation, pro forma loss and pro forma loss per share information has been presented as if the options had been valued at their fair values. The Company recognizes compensation expense for stock options, common stock and other equity instruments issued to non-employees for services received based upon the fair value of the services or equity instruments issued, whichever is more reliably



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determined. Stock compensation expense is recognized as the stock option is earned, which is generally over the vesting period of the underlying option.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation". This statement amends SFAS 123. SFAS 148 provides alternative methods of transition for companies that voluntarily change to the fair value-based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results.

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In March 2000, the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." ("FIN 44") The Company adopted FIN 44, effective July 1, 2000, with respect to certain provisions applicable to new awards, option repricings, and changes in grantee status. FIN 44 addresses practice issues related to the application of APB 25. The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of SFAS 123 and SFAS 148 and EITF No. 96-18, "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services". The measurement date used is the earlier of either the performance commitment date or the date at which the equity instrument holder's performance is complete.

When compensation cost for the Company's stock option plans are determined based on the fair value at the grant date for awards under those plans, consistent with the measurement provisions of SFAS 123 and SFAS 148, the Company's net loss and basic loss per share would have to be adjusted. In such cases the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model utilizing appropriate assumptions.

In December 2004, the FASB issued SFAS No. 123 (revised 2004). Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends SFAS No. 95, Statement of Cash Flows. Effective for the years on or after December 15, 2005, the Company will recognize all share-based payments to employees, including grants of employee stock options, in the statement of operations based on their fair values.

### Intangible Assets

Intangible assets are recorded under the provisions of the Financial Accounting Standards Board (FASB) Statement 142 No. (FAS 142), Goodwill and Other Intangible Assets. FAS 142 requires that an intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially recognized and measured based on its fair value. Costs of internally developing, maintaining and restoring intangible assets (including goodwill) that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, are recognized as an expense when incurred.

An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized until its useful life is determined to be no longer indefinite. The remaining useful lives of intangible assets not being amortized are evaluated every reporting period to determine whether events and circumstance continue to support an indefinite useful life.

An intangible asset that is not subject to amortization shall be tested for impairment annually or more frequently if events or changes in circumstances

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indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible assets with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

It is the Company's policy to test for impairment no less than quarterly, or when conditions occur, which may indicate an impairment. The Company's Sanswire intangible assets, which consist primarily of intellectual property, including technology and know-how, were evaluated by management, initially and as of March 31, 2005 and determined to have an indefinite useful life and are not subject to amortization. The Company also tested the assets for impairment and determined that no adjustment for impairment was necessary as of March 31, 2005 whereas the fair value of the intangible assets exceed its carrying amount.

### NOTE 2 - ACCOUNTS RECEIVABLE AND SALES - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK AND ECONOMIC DEPENDENCE

As of March 31, 2005, four customers accounted for 94% of our accounts receivable, including 48% attributable to the Philippines network customer, 12% related to our Brazil network customer, and 34% related to our Mexico network.

Two customers accounted for 36% of the Company's sales for the three months ended March 31, 2005, including 19% attributable to our Philippines network and 17% to Mexico (none related to our Mexico network).

Sales attributable to foreign operations for the three months ended March 31, 2005 were \$17,751,449 or 99% of total sales. Revenue is attributable to various foreign countries, since calls either originate or terminate in these countries. All transactions were accounted for in U.S. currency, and no gain or loss was recorded on fluctuations in foreign currency.

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### NOTE 3 - INVESTMENT IN AND ADVANCES FROM UNCONSOLIDATED FOREIGN SUBSIDIARY - CGI

Notwithstanding the Company's 73.15% ownership interest and control of Consolidated Global Investments (CGI)'s Board of Directors, the Company has not consolidated CGI into its accounts, whereas CGI is a foreign subsidiary of the Company, with no current operations. Furthermore, the primary asset of CGI as of March 31, 2005, consists of the 10.5 million shares of the Company's stock. Such consolidation is not required by generally accepted accounting principles in the United States.

The Company's stock issuances to acquire its interest in CGI, as described in our December 31, 2004, Form 10-KSB, were recorded at par value, and the carrying value of the Company's investment in the unconsolidated foreign subsidiary is \$352,000, representing the sum of cash advanced by the Company to CGI through March 31, 2005.

As of March 31, 2005, CGI's shares were not trading on the Australian Stock Exchange, or any other exchange. However, CGI expects the shares to be relisted in the near-term. The Company intends to make CGI into an operating company, with operations in Telecommunications and Sanswire projects, expanding the Company's presence in the Asian market, and resulting in the marketability of CGI's stock and potential income from the subsidiary. Upon the occurrence of such events, the Company may adjust the carrying value of and/or consolidate the subsidiary in accordance with generally accepted accounting principles used in the United States.

In addition, the Company has agreed with the Liquidator of CGI's former UK

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subsidiary to acquire telecommunication equipment owned by that former subsidiary valued by the Company at \$128,210.

Through March 31, 2005, CGI sold a total of 6 million shares of GlobeTel stock, resulting in total net proceeds of \$1,223,786. These proceeds were advanced to GlobeTel. CGI had acquired the shares during its course of business prior to becoming an affiliate of GlobeTel. GlobeTel repaid \$60,000 to CGI, resulting in a net balance advanced from CGI of \$1,163,786 as of March 31, 2005. An additional 1 million shares were sold in April 2005 resulting in additional net proceeds of \$330,229, which were advanced to GlobeTel. The amounts advanced from CGI to GlobeTel are to be applied towards CGI's pending acquisition of certain licensing rights for Sanswire, the terms of which the parties are currently negotiating.

### NOTE 4 - COMMITMENTS AND CONTINGENCIES

#### Mexico Associate and Customer Litigation

GlobeTel is in the process of taking legal actions against its associate and customer in Mexico, GTCC Qualnet Mexico, for non-payment of amounts owed and non-payment to carrier (supplier / vendor) in Mexico. The customer, however, has been cooperating and continues to work with the Company. The customer has Mexican tax refunds receivable and the Company has filed a motion to be the first assigned payee to receive the tax refunds which the customer expects to receive in 2005. The customer also has telecommunications equipment and existing working networks and customers, which the Company is taking over its operations. The Company and its associate / customer, through the court system, are working towards continuing the operations together reaping the full benefits of the working network until the balance due has been paid in full.

As a result of the non-payment and because the outcome of the motion cannot be determined, the Company wrote off \$1,251,710 of accounts receivables as bad debts.

#### Former Consultants Litigation

The Company is presently in a dispute with two former consultants who resigned as consultants to the Company prior to December 31, 1998. The remaining balance of a loan payable of \$15,000 originally advanced by the consultants was written-off based on the belief that such loans had been satisfied based in part on the consideration given in the consulting agreement. The Company has taken the position that it owes no further compensation to the consultants, and further that the loans from these two individuals have been satisfied, as a result of the consideration given to the consultants, the consultants' resignation and their failure to provide services required under the consulting agreement. The agreement provided for the arbitration in the event of any dispute. As of the date of this report, the Company cannot predict the outcome of any legal proceeding or arbitration, or whether, as a result of any such proceeding or arbitration, the Company will be required to issue additional common stock as consideration or repay any loans. The \$15,000 awarded was accrued by the Company but unpaid as of March 31, 2005, and as of the date of this report.

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#### Patent Infringement Litigation

In September 2004, a case was filed against the Company for patent infringement, alleging the stored value card and service we are planning to offer infringes

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one or more U.S. Patents allegedly owned by an unrelated party (Plaintiff). The lawsuit was dismissed in January 2005. In February 2005, the Company filed suit against the Plaintiff and related parties, seeking a declaratory judgment from the court that the referenced patents are invalid, not enforceable and will not be infringed by the Company's stored value card offering. The Company is also seeking recovery of damages for breach of confidential disclosure and trust; intentional interference with business advantage; and for unfair competition under Sec. 501.204 of the Florida Statutes. The Company is currently engaged in settlement discussions with the opposing parties and has not yet formally served any of the parties. At this stage of the proceeding, the Company does not believe an unfavorable outcome to this action is likely.

### Contingent Consideration - Sanswire Asset Acquisition

In accordance with the Sanswire and Stratodyne agreements a total of 28 million shares (before the 1:15 reverse stock split) were issued, as discussed in our December 31, 2004 Form 10-KSB. On February 5, 2005, GlobeTel filed a registration statement to register shares associated with these agreements. An additional 200 million (13,333,333 after 1:15 reverse stock split) shares were to be issued pursuant to the terms and conditions of the "successful commercial launch" of a commercial communications platform aboard an airship developed by Sanswire and Stratodyne by the December 31, 2005 closing date. The Stratodyne agreement provides that 50 million (3,333,333 after 1:15 reverse stock split) of the 200 million (13,333,333 after 1 to 15 reverse stock split) additional shares will be issued to Stratodyne or its assignee(s) and the remaining 150 million (10 million after 1:15 reverse stock split) shares to Sanswire Technologies, Inc.

For purposes of the Sanswire purchase agreement, a "successful commercial launch" was to be deemed to have occurred if all the conditions in the agreement have been satisfied and all other conditions deemed material by GlobeTel are satisfied, as determined by GlobeTel in its sole discretion. A "successful commercial launch" will occur if (i) an airship (dirigible) is flown for a period of 90 consecutive days at an approximate altitude of 70,000 feet, without technical difficulty, (ii) a customer is able to receive both voice and Internet services at the same time when it uses the "Stratellite service", at a customer-premises equipment (CPE) cost of approximately \$100, and (iii) at least 250,000 paying customers must be able to use the Stratellite service based on agreed upon engineering specifications. For these purposes, it is also assumed that the cost of each airship used in the Stratellite service will not exceed \$3 million, the cost of each tracking earth station will not exceed \$7 million and that each earth station (if more than one) will have the ability to cover several deployed airships at one time. If the cost of any airship or earth station exceeds \$3 million or \$7 million, respectively, at the time that the "commercial launch" is being implemented, the project will not be deemed to be commercially viable and a "successful commercial launch" will not have occurred.

An amended agreement modified the definition of a "successful" commercial launch by eliminating the CPE cost provisions described in (ii) above, and eliminated all of the provisions of (iii) above, except that it is assumed that the cost of each airship used in the Stratellite service will not exceed \$3 million. The other provisions above remain the same in the Stratodyne agreement.

As of to date the conditions precedent to the entitlement to the issuance of the additional shares have not yet been fulfilled.

### Sanswire Subsidiaries

On March 8, 2005, we announced a global strategy for its Sanswire Networks Corporation subsidiary. We signed a Letter of Intent to immediately establish

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Sanswire Europe S.A., its first regional operating subsidiary. Sanswire Europe will be a joint venture between GlobeTel's wholly-owned operating subsidiary, Sanswire Networks, LLC and Strato-Wireless Ltd. (SWL), in which GlobeTel will own 55% and Strato-Wireless will own 45% of the shares of the European Venture. The new operation will be managed jointly by J. Randolph Dumas and John A. Jensen, Jr., both former senior managing directors at global investment banking firms. Both principals have decades of business experience throughout Europe and the Middle East.

### Signing Bonuses Payable To Sanswire Employees with GlobeTel Stock

In March 2005, Sanswire entered into employment agreements with certain Sanswire personnel. In order to attract key employees, and in connection with these employment agreements, the Company recorded \$300,000 in signing bonuses payable with GlobeTel stock.

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### Due To Related Party - Carrier Services, Inc.

As described in the Company's December 31, 2004 Form 10-KSB, the Company entered into an agreement with Carrier Services, Inc. (CSI) in 2004 whereby CSI upon the Company's subsidiary, Centerline, achieving in 25 million in profitable revenues, CSI will receive 5 million (333,333 after 1:15 reverse stock split) shares of the company's publicly traded stock.

The required revenues were achieved in January 2005 and CSI became entitled to the shares. The Company and CSI mutually decided to conclude their joint business operations as of February 6, 2005, and thereafter completed reconciling and agreeing upon the final amount due to CSI. The parties agreed that the payment source for the shares compensation due to CSI was the proceeds from the sale of 5 million shares of the Company stock by sold by CGI and advanced to GlobeTel, as described above. The net proceeds from the 5 million shares (333,333 after 1:15 reverse stock split) for CSI were \$1,063,686.

After offsetting amounts due to CSI against amounts due from CSI, consisting of the amounts due for accounts receivable collected by CSI on behalf of the Centerline and for accounts receivable, pre-paid expenses and accounts payable assumed by CSI, and payments made by the Company on behalf of CSI, net of any payments made by CSI on behalf of the Company and paying CSI approximately \$178,000, the balance due to CSI was \$481,363 as of March 31, 2005.

In connection with the CSI agreement, the Company recorded commission expenses of \$724,513 for the three months ended March 31, 2005.

### Sanswire - Australian Project

On April 14, 2004, the Company entered into an agreement with Australian based individuals, Michael Terry, E. John Hardy and Robert Johnson to form a new company to be domiciled in Australia. The new company will have the following distribution: GlobeTel - 45%, Mr. Terry - 30%, Mr. Hardy - 12.5% and Mr. Johnson - 12.5%.

The purpose of the new corporation is to deploy the Stratellite™ technology and other GlobeTel international services in the Australian and New Zealand markets. Messrs. Terry, Hardy & Johnson will undertake initial capital raising to fund the launch of the Stratellite™ technology in Australia while GlobeTel will enter into a license agreement with the new company to provide its Stratellite™ technology and GlobeTel services under terms and conditions agreed upon.

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No operations or activities were conducted through the date of this report.

### Service Provider Agreement - Brazil Network

Under the service provider agreement, for services provided, Trans Global Ventures, Inc (TGV) was entitled to receive 20% of the project income, defined as: the revenues from the Brazil network, less direct costs of sales for operating this network, less other costs allocated to this project (based on multiplying total operating expenses by the percentage of Brazil network sales to total Company revenues for the year).

However, the Company and TGV are currently in the process of winding-down their joint operations. Accordingly, the Company is not currently utilizing the service provider, and, instead is utilizing the services of various other service providers with the ability to produce higher gross margin. Although the Brazil network is not presently operating, the Company intends to utilize the network in connection with its Stored Value program.

The Company recognized revenues of \$101,368 for the three months ended March 31, 2005. The cost of sales, substantially all of which was paid directly to third-party suppliers, was \$105,768 during the period.

### Service Provider Agreement - Mexico Network

Under the service provider agreement for the Mexico network, for services provided, Qualnet Telecom, LLC (Qualnet) was entitled to receive 20% of the project income, defined as: the revenues from the Mexico network, less direct costs of sales for operating this network, less other costs allocated to this project (based on multiplying total operating expenses by the percentage of Mexico network sales to total Company revenues for the year).

The Company is not currently utilizing the service provider, and, instead is utilizing the services of various other service providers with the ability to produce higher gross margin.

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Although the Mexico network is not presently operating, the network is expected to resume operating at or near capacity in the near term and the relationship continues not as that of a service provider. Instead, as described above, the Company is in the process of taking over the operations of the network and if successful, will control all income and expenses of the operations. The 20% of the project income that Qualnet was entitled to, shall now be applied against the balance it owes to GlobeTel.

The Company recognized no revenues from the Mexico network during the three months ended March 31, 2005.

### Joint Venture Agreement - Englewood Corporation

On May 3, 2004, the Company entered into a Joint Venture Agreement and Stock Option Plan with Englewood Corporation and respectively with Joseph Seroussi an individual (Agreement). Under the Agreement Englewood gives to the Company all of its current and new products and services in the telephony, financial and non financial services fields all market contacts and relationships and existing and future telecommunications, non financial and financial contracts and to develop the processing capabilities for transactions on networks in conjunction with ATM, debit and credit cards including but not limited to the financial networks of MasterCard, MasterCard International, VISA and private banking ATM networks

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along with the ability to market such products and services through strategic partners in various countries around the world. Subject to the terms and conditions of the Agreement the Company will earn 100% of all revenues and profits. During the three-year term of this Agreement Englewood at its sole discretion may elect to have a third party independent appraiser, mutually agreed to by both parties, determine the fair market value of the Joint Venture. The Englewood portion of the value of the Joint Venture will be equal to 20% of the fair market value of the Joint Venture.

At Englewood's sole discretion Englewood may elect in whole or in part to exchange in whole or a portion of its interest in the Joint Venture for cashless options granted by the Company. The options granted by the company shall be at .02 cents per share (.30 after consideration of the 1:15 stock split) of the Company's common stock. Once exercised, the options shall be distributed to Englewood over a three-year period in 12 equal parts. Englewood will have piggy back registration rights for a period of two years following the grant of each block of options.

Additionally, at the time of the Agreement, Seroussi will continue to serve as a consultant to the Company for a minimum period of three years. Subsequently Seroussi and the Company have entered in an Agreement whereby Seroussi has given up his consulting contract and on October 1, 2004, joined the Company as its Chief Technical Officer. All of the terms and conditions of the Agreement with Englewood remain the same.

For the three months ended March 31, 2005, there were no transactions requiring recording in the financial statements related to this joint venture.

### Use of Proceeds from Preferred Stock Subscriptions Receivable

During the three months ended March 31, 2005, \$250,000 and equipment totaling \$4,835,000 was received in payment of Series B Preferred Stock subscriptions receivable for a total of \$5,085,000.

During the remainder of 2005, the Company anticipates receiving the balance due from the stock subscriptions of \$6,414,800 million, of which substantially all is committed to capital expenditures for equipment for our stored value program.

### Leases and Rents

The Company leases office facilities at 9050 Pines Blvd., Suite 110, Pembroke Pines, Florida 33024, as of April 1, 2004. This lease will expire in June 2009, and has an initial monthly rent of \$5,462 with increases of 4% per year.

In November 2004, the Company leased additional adjacent space at the Pembroke Pines, Florida location under the same terms and period as the existing lease, which increased the total monthly rent to \$9,186.

In January 2005, GlobeTel signed a lease agreement with the San Bernardino International Airport Authority for hanger space at the airport in San Bernardino, California for the purpose of assembling and storing the Stratellite prototype. The term of the agreement is from January 15, 2005 through March 31, 2005, at a monthly lease rate of \$9,767. Three months prepaid rent totaling \$29,302 was paid in December 2004. The agreement provides that with the consent of the lessor we may remain on a month-to-month basis, and the Company intends to remain in the space for the near term.

Sanswire Technologies, Inc., the company from which we purchased our Sanswire,

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LLC intangible assets, had an office space lease in Dekalb County, Georgia. The lease term was from April 1, 2004 through March 31, 2005, with monthly rent of \$2,628. Although not directly obligated on this lease, the Company paid the monthly rent from May 2004 through March 2005, whereas employees of our subsidiary, Sanswire, LLC, utilized the premises. The employees have since vacated the premises.

### NOTE 5 - STOCKHOLDERS' EQUITY

#### Convertible Notes Payable

In January 2005, the Company entered into financing agreements for convertible promissory notes payable totaling \$1.8 million. Net proceeds of \$1,579,487 were received, after deducting costs and expenses related to the transaction. Under the agreements the notes were convertible into common stock of the Company at \$.08 (or \$1.20 after 1:15 reverse stock split) per share. Prior to any notice of conversion, the Company had the right to redeem the note(s) at a premium, subject to a 3-day right to convert by the investor.

In addition, there were two types of warrants to purchase additional shares of common stock. There were 12,500,000 Class A Warrants exercisable at \$.12 (or \$1.80 after 1:15 reverse stock split) per share and Redemption Warrants were to be provided in the event that the Company sought to redeem more than 50% of the principal of the note. They were given on the basis of 1,111 warrants for each \$1,000 in principal the Company sought to redeem over \$900,000. These Warrants are identical to the Class A Warrants except that they have an exercise price of \$ .11 (or \$1.65 after 1:15 reverse stock split) per share.

In February 2005, the note holders elected to convert all of the notes in the amount of \$1.8 million, plus accrued interest of \$5,969. Pursuant to the conversion, total shares issued were 23,074,615 (or 1,538,308 after 1:15 reverse stock split) , including 500,000 (or 33,333 after 1:15 reverse stock split) shares as commission to a promoter.

At the same time in February 2005, the 12,500,000 Class A Warrants were exercised at \$ .11 (or \$1.65 after 1:15 reverse stock split) per share, except for one million shares at \$ .1227 (or \$1.84 after 1:15 reverse stock split) as agreed by the parties. Total proceeds of \$1,442,650 were received and commissions totaling \$80,208 were paid.

Upon agreement of the parties, in lieu of the Company exercising its redemption rights, an additional \$1,237,500 was received in connection with the conversion, increasing the per share price to \$ .19 (or \$2.85 after 1:15 reverse stock split).

On February 5, 2005, GlobeTel filed a registration statement with the Securities and Exchange Commission on Form SB-2 to register shares offered, plus an additional shares totaling 75% of the underlying convertible notes and warrants to ensure that shares are available for conversion under all contingencies.

#### Stock for Services

In March 2005, the Company issued a total of 2.4 million (or 160,000 after 1:15 reverse stock split) shares for consulting and professional services, valued at \$716,400, based on \$ .2985 (or \$4.4775 after 1 to 15 reverse stock split) per share, the closing price of the shares on the date of issuance.

Also in March 2005, the Company issued 3 million (or 200,000 after 1:15 reverse stock split) shares to a vendor for costs of sales valued at \$450,000 based on \$ .30 (or \$4.50 after 1 to 15 reverse stock split) per share, the closing price of



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the shares on the date of issuance.

### Registration Statement

A registration statement Form S-8 for 32,400,000 (or 2,160,000 after 1:15 reverse stock split) shares was filed in March 2005, registering 27 million (or 1.8 million after 1:15 reverse stock split) of the options issued in 2004 (allocated pro-rata among the holders of the 129,225,064 (or 8,615,004 after 1 to 15 reverse stock split) total option shares issued in 2004), plus the 5.4 million (or 360,000 after 1:15 reverse stock split) share issued for services above.

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### NOTE 6 - PREFERRED STOCK

#### Conversion of Series A Preferred Shares

During the three months ended March 31, 2005, Series A Preferred Shareholders converted a total of 82,420,000 (or 5,494,667 after 1:15 reverse stock split) shares with a recorded value totaling \$585,000.

#### Series B Preferred Stock Conversion Rights

Except for voting rights and conversion rights, each share of Series B Preferred Stock shall have rights that are identical to shares of the Company's common stock. The Series B Preferred Stock issued to Caterham and its nominees will have voting rights equal to 50% plus one share of the Company's authorized shares of common stock for a period of three years beginning on the first closing date and ending three years thereafter, provided that Caterham and/or its nominee have not converted more than 15% of their Series B Preferred Stock into the Company's common stock during this time period. In March 2005 the Company and Caterham amended the agreement to revise voting rights to specify that provided at least 85% of the Series B Preferred Stock remains outstanding, the holders of the Series B Preferred Stock, voting as a group, will have voting rights equal to 50% plus one shares of the Company's authorized shares of common stock for a period up to and including April 30, 2005. Thereafter the holders shall have one vote for each share of common stock for which the Series B Preferred Stock may be converted, regardless of the percentage of Series B Preferred Stock outstanding.

Beginning on the first anniversary after the first closing date and expiring two years thereafter, Caterham and its nominees may convert (in whole or in part) its Series B Preferred Stock into GlobeTel common stock. Each 1,000 share increment of Series B Preferred Stock, as a class, issued to Caterham and its nominees shall be convertible into that number of shares of the Company's common stock equal to 1% of GlobeTel then issued and outstanding shares (the "Aggregate Conversion Shares") as determined on the date in which Caterham, or one of its nominees, first converts its Series B Preferred Stock into the Company's common stock (the "First Conversion Date"). In March 2005, the Company and Caterham amended the agreement to revise conversion rights to provide issuance of 5,542,000 (or 369,467 after 1:15 reverse stock split) shares of GlobeTel common stock. Each holder of the Series B Preferred Stock will receive shares of GlobeTel aggregate conversion shares based on his pro-rata ownership of the Series B Preferred Stock. Three years after the first closing date, all of the shares of GlobeTel's Series B Preferred Stock which have not converted into GTEL common stock will be automatically converted into shares of GlobeTel's common stock.

No Series B Preferred shares were converted through the date of this report.

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### Series C Preferred Stock Conversion Rights

The Series C Preferred Stock subscription agreement provided that the preferred shares have not been converted, the holders of the Series C Preferred Stock, voting as a group, will have voting rights equal to the current conversion share amount at the time of the vote of GTEL's authorized shares of common stock for a period of three years from the first closing date.

For a period of one year after the first closing date, the Series C Preferred Stock shall not be convertible into shares of GTEL common stock. Beginning on the first anniversary of the first closing date and for a period of two years thereafter, Tim Ingram may convert (in whole or part) its Series C Preferred Stock into GTEL common stock. Each 1,000 shares of Series C Preferred Stock will represent 2% of the GTEL common in their converted state. The Series C Preferred Stock shall be convertible in at least 100 share increments, each increment, at the time of conversion, will represent one tenth of 2% of the issued and outstanding shares of GTEL common stock. On the third anniversary of the First Closing Date, all shares of Series C Preferred Stock owned by Tim Ingram will automatically be converted into GTEL common stock (to the extent such shares have not been converted into common stock prior to this date). Except for the aforementioned voting rights and conversion rights, each share of Series C Preferred Stock shall have rights that are identical to that of GTEL's common stock.

In April 2005, the parties agree to modify the conversion terms above as follows: For a period of one year after the first closing date, the Series C Preferred Stock shall not be convertible into shares of GTEL common stock. Beginning on the first anniversary of the first closing date and for a period of two years thereafter, the purchases may convert (in whole or part) its Series C Preferred Stock into GTEL common stock in at least 250 share increments. Each increment, at the time of conversion, will represent 7.5 million (or 500,000 shares after the 1:15 reverse stock split ) shares of GTEL common stock. On the third anniversary of the First Closing Date, all shares of Series C Preferred Stock will automatically be converted into GTEL common stock (to the extent such shares have not been converted into common stock prior to this date).

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No Series C Preferred shares were converted through the date of this report.

### Series D Preferred Stock Conversion Rights

On July 28, 2004, the Company agreed to sell 1,000 shares of Series D Preferred Stock of GlobeTel Communications Corp. ("GTEL") to Mitchell A. Siegel, Chief Operating Officer of the Company. The Company intends to use \$1 million of this investment for working capital and purchase of equipment necessary to expand the Company's stored value card programs.

Mitchell A. Siegel agreed to advance \$1 million to GTEL in four (4) quarterly installments beginning August 2004. The agreement was subsequently modified for the installment period to be semi-annual and to begin in October 2004. Mr. Siegel has remitted the initial \$250,000 and expects to remit the remaining amounts.

Provided that the preferred shares have not been converted, the Holders of the Series D Preferred Stock, voting as a group, will have voting rights equal to the current conversion share amount at the time of the vote of GTEL's authorized shares of common stock for a period of three years from the first closing date.

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For a period of two years after the first closing date, the Series D Preferred Stock shall not be convertible into shares of GTEL common stock. Beginning on the second anniversary of the first closing date and for a period of one year thereafter, Mitchell A. Siegel may convert (in whole or part) its Series D Preferred Stock into GTEL common stock. The 1000 shares of Series D Preferred Stock will represent 2% of the GTEL common in their converted state. The Series D Preferred Stock shall be convertible in at least 100 share increments, each increment, at the time of conversion, will represent one tenth of 2% of the issued and outstanding shares of GTEL common stock. On the third anniversary of the first closing date, all shares of Series D Preferred Stock owned by Mitchell A. Siegel will automatically be converted into GTEL common stock (to the extent such shares have not been converted into common stock prior to this date). Except for the aforementioned voting rights and conversion rights, each share of Series D Preferred Stock shall have rights that are identical to that of GTEL's common stock.

In April 2005, the parties agreed to modify the conversion terms above as follows: For a period of two year after the first closing date, the Series C Preferred Stock shall not be convertible into shares of GTEL common stock. Beginning on the second anniversary of the first closing date and for a period of one year thereafter, the purchaser may convert (in whole or part) its Series C Preferred Stock into GTEL common stock in at least 250 share increments. Each increment, at the time of conversion, will represent 8.75 million (or 583,333 shares after the 1:15 reverse stock split) shares of GTEL common stock. On the third anniversary of the First Closing Date, all shares of Series C Preferred Stock will automatically be converted into GTEL common stock (to the extent such shares have not been converted into common stock prior to this date).

No Series D Preferred shares were converted through the date of this report.

### NOTE 7 - EARNINGS (LOSS) PER SHARE

Per share information is computed based on the weighted average number (after the 1:15 reverse stock split) of common shares outstanding (basic and diluted) during the period.

### NOTE 8 - SEGMENT INFORMATION

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. All inter-segment sales prices are market based. The Company evaluates performance based on operating earnings of the respective business units, segregated into telecommunications services (international wholesale carrier traffic, networks, prepaid calling services, internet telephony, stored value services and Super Hubs (TM)) and the Sanswire Stratellite project. The "Unallocated" column includes expenses incurred by and net other income realized by the parent corporation, GlobeTel, including corporate operating expenses, not specifically allocated to either operating segment. Segment information for the current period is as follows:

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|                          | Telecom<br>----- | Sanswire<br>----- | Unallocated<br>----- | Totals<br>----- |
|--------------------------|------------------|-------------------|----------------------|-----------------|
| Revenues Earned          | \$ 18,010,643    | \$ --             | \$ --                | \$ 18,010,643   |
| Costs of Revenues Earned | 17,283,963       | --                | --                   | 17,283,963      |

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|  |              |                |                |                |
|--|--------------|----------------|----------------|----------------|
| Gross Margin (Loss)                                    | 726,680      | --             | --             | 726,680        |
| Expenses   | 841,783      | 1,018,669      | 2,438,566      | 4,299,018      |
| Loss Before Other Income (Expense)<br>and Income Taxes | (115,103)    | (1,018,669)    | (2,438,566)    | (3,572,338)    |
| Other Income (Expense)                                 | --           | --             | (27,715)       | (27,715)       |
| Loss Before Income Taxes                               | (115,103)    | (1,018,669)    | (2,466,281)    | (3,600,053)    |
| Income Taxes   | --           | --             | --             | --             |
| Net Loss   | \$ (115,103) | \$ (1,018,669) | \$ (2,466,281) | \$ (3,600,053) |

Segment reported was not applicable for the prior period.

NOTE 9 - SUBSEQUENT EVENTS

Private Placement

On May 9, 2005, the Company entered into a private placement with a number of accredited investors, whereby these investors have purchased \$2,357,960 in our common shares at a price of \$ .1924 (\$ 2.886 after 1:15 reverse stock split), with warrants to purchase up to an additional 8,578,856 (571,924 after 1:15 reverse stock split) shares of common stock at an exercise price of \$ .3395 (\$ 5.0925 after 1:15 reverse stock split).

The Company has entered into a Registration Rights Agreement with the investors and is obligated to register the shares purchased by investors and the shares underlying the investors' warrants.

Move To American Stock Exchange

The American Stock Exchange (Amex) granted approval for the exchange contingent upon our affecting a 1 for 15 reverse stock split. Further, this approval is contingent upon the Company remaining in compliance with all applicable listing standards on the date it begins trading on the Exchange, and during the interim period preceding trading, and may be rescinded if we are not in compliance with such standards.

The reverse split is pending and it is anticipated that the shares will begin trading (post reverse) on the Amex on or about May 19, 2005.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Three months ended March 31, 2005, ("2005" or "the current period") compared to the three months ended March 31, 2004, ("2004" or "the prior period").

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### Results of Operations

Revenues. During the current period, our gross sales were \$18,010,643, representing an increase of 461.1% over the prior period when our gross sales were \$3,210,333. Our revenues increased primarily due to revenues from our subsidiary, Centerline and its subsidiaries, which recorded consolidated revenues of \$13,399,726 (or 76.1% of total revenues), consisting primarily of wholesale traffic revenues (telecommunications minutes) and related network management fees. The remainder of our revenues continued to be predominantly from telecommunications minutes going through our Philippines and Brazil networks.

Philippines network generated \$3,491,970 (or 20.2% of gross revenues) and our Brazil network generated \$101,368 (or less than 1% of gross revenues). Other domestic and international wholesale traffic revenues were \$14,417,305 (or 79.0% of gross revenues), including revenues \$2,988,375 (or 16.6% of gross revenues) from Mexico (unrelated to our Mexico network). Our Mexico network generated no revenues.

Additional revenues generated included \$700,000 from a network built for an international client (netting in \$35,000 of gross profit, after costs of \$665,000). Revenues from our Magic Money program were \$39,585 and \$2,976 from the sale of IP Phones. There were no sales from these programs in the prior year.

Cost of Sales. Our cost of sales consists primarily of the wholesale cost of buying bandwidth purchased by us for resale, collocations costs, technical services, wages, equipment leases, and the costs of telecommunications equipment. We had cost of sales of \$17,283,963 for the current year, compared to \$3,164,741 for the prior period. We expect cost of sales to increase in future periods to the extent that our sales volume increases.

Gross Margin (Loss). Our gross margin was \$726,680 or 4.0% for the current period, compared to \$45,592 or 1.4% of total revenues in the prior period, an increase of \$681,088 or 767.9%. The increase is primarily due to the fact that there was lower margin on resale of wholesale minutes related to the increased cost of the minutes to terminate, especially the Mexico network, where our margin was less than two percent, and initial activities of Centerline, where our gross margin was minimal or zero in the prior period. We expect to derive higher margins once we formally take over the operations of our customer's Mexico network as described in Part II, Item 1 "Legal Proceedings," and commence sales directly to the retail market.

Operating Expenses. Our operating expenses consist primarily of payroll and related taxes, professional and consulting services, expenses for executive and administrative personnel and insurance, bad debts, investment banking and financing fees, investor and public relations, research and development, sales commissions telephone and communications, facilities expenses, travel and related expenses, and other general corporate expenses. Our operating expenses for the current period were \$4,299,018 compared to prior period operating expenses of \$1,341,459, an increase of \$2,957,559 or 220%. The increase is primarily due to the following.

Consulting and professional fees increased to \$1,238,458 (including non-cash compensation of \$716,400), from \$194,405 in the prior period. Investment banking and financing fees increased to \$439,715 in the current period, related to obtaining funding of approximately \$4.8 million, compared to none in the prior period

In addition, employee payroll and related taxes for the current period were

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\$570,501 compared to \$72,288, an increase of \$494,303 or 637.9%. This increase was due to expansion of our operations, facilities and workforce, related to additional services required to develop and expand our geographical and product markets and projects, including our Stored Value Program, our Sanswire Project, and international markets, primarily in Asia and Australia, as well as increased professional fees in maintaining and expanding a public company.

We incurred \$443,924 of research and development costs for our Sanswire project - development of the Stratellite during the current period, compared to none in the prior year, whereas the Sanswire assets were acquired in April 2004.

We incurred \$724,513 of sales commissions for our Centerline operations during the current period, compared to none in the prior year, whereas the Centerline operations began in after the prior period in 2004.

Income (Loss) from Operations. We had an operating loss of (\$3,572,338) for the current period as compared to an operating loss of (\$1,295,867) for the prior period, primarily due to increased operating expenses as described above, including the expansion of our various programs. We expect that we will continue to have higher operating costs as we increase our staffing and continue expanding operations, programs, projects and operating costs related to our newly acquired subsidiaries.

Other Income (Expense). We had net other expenses totaling \$27,715 during the current period compared to \$2,700 in the prior period.

Net Income (Loss). We had a net loss of (\$3,600,053) in the current period compared to a net loss of (\$1,298,567) in the prior period. The net loss is primarily attributable to the increase in the operating expenses as discussed above.

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### Liquidity and Capital Resources

Assets. At March 31, 2005, we had total assets of \$15,124,388 compared to total assets of \$4,292,220 as of March 31, 2004.

The current assets at March 31, 2005, were \$6,390,994, compared to \$3,877,848 at March 31, 2004. As of March 31, 2005, we had \$3,604,441 of cash and cash equivalents compared to \$333,917 as of March 31, 2004. The increase in cash and cash equivalents is primarily related to private placement funding during the current period.

Our net accounts receivable were \$2,575,932 as of March 31, 2005, compared to \$3,039,427 at the same point in 2004. Approximately 94% of the March 31, 2005, receivables were attributable to four customers, including 27% or \$695,087 (net of allowance) related to the Mexico network, 19% or \$485,800 (net of allowance) related to the Brazil network and 48% or \$1,232,310 related to the Philippines network. We have increased our allowance for doubtful accounts by \$94,095 for the year.

Other current assets included \$49,307 in prepaid expense, primarily prepaid minutes with carriers, compared to \$245,300 in 2004; \$60,976 inventory of IP Phones, compared to none in the prior year; and deposits on equipment purchases and other current assets of \$88,994 compared to none in 2004.

We had other assets totaling \$3,181,363 as of March 31, 2005, compared to \$27,057 as of March 31, 2004. The increase was attributable primarily to the acquisition of the Sanswire intangible assets valued at \$2,778,000 and

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investment in CGI, our unconsolidated foreign subsidiary, totaling \$352,300 as of March 31, 2005. Neither of these two items existed as of March 31, 2004.

Liabilities. At March 31, 2005, we had total liabilities of \$2,765,146 compared to total liabilities of \$1,423,180 as of March 31, 2004.

The current liabilities at March 31, 2005 were \$2,761,176 compared to \$1,423,180 at March 31, 2004, an increase of \$1,337,996. The increase is principally due to \$1,163,786 due to CGI, our unconsolidated foreign subsidiary, contractual obligations netting \$481,363 due to CSI, and \$300,000 in sign-on bonuses payable to Sanswire employees with GlobeTel stock. There were no significant long-term liabilities as of March 31, 2005 and 2004.

Cash Flows. Our cash used in operating activities was (\$2,525,356) for the current period, compared to (\$1,137,403) for the prior period. The increase was primarily due to the increased level of operations and operating activities and changes in our current assets and liabilities.

Our cash used in investing activities, including acquisitions of property and equipment totaling (\$5,151,177), relating primarily to our expanding telecommunication program, compared to (\$3,792) in the prior year.

Net cash provided by financing activities was \$10,679,415, principally from proceeds from the sale of preferred stock of \$5,085,200 for the current period, compared to \$1,132,060 in the prior period; proceeds totaling \$1,800,000 (before related costs) for convertible notes payable; \$2,631,120 from sales of common stock, relating to the exercise of warrants by convertible note holders; and proceeds of \$1,163,786 (net of repayments) from the loan payable to CGI.

In order for us to pay our operating expenses during 2005, including certain operating expenses of our wholly-owned subsidiaries, Sanswire and Centerline, and the overall expansion of our operations, we raised approximately \$10.7 million during the current period. An additional, private placement funding approximately \$3.5 million is expected to be received during the second quarter of 2005.

As detailed in the financial statements, we have stock subscriptions receivable for preferred shares that will raise a total of approximately \$7 million in cash in 2005, primarily in the form of financing provided by Series B preferred shareholders. Of these funds, \$5 million is committed to the purchases of equipment (two data switches) for our stored value program. With this funding, as well as the additional funding received to-date in 2005, we will have the existing capital resources necessary to fund our operations and capital requirements as presently planned over the next twelve months. However, if we do not receive the full amount, then we may not have the existing capital resources or credit lines available that are sufficient to fund our operations and capital requirements and therefore we may have to pursue additional funds through the issuance of debt and/or equity instruments.

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Furthermore, the capital markets have responded favorably to our growth and business strategies through to-date in 2005, particularly as a result of our Stratellite project, and increased investment is anticipated in the near term.

As reflected in the accompanying financial statements, during the period ended March 31, 2005, we had a net loss of (\$3,600,053) compared to a net loss of (\$1,298,567) during the prior period. Consequently, there is an accumulated deficit of (\$43,261,089) at March 31, 2005, compared to (\$27,792,733) at March 31, 2004.

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This Form 10-Q and other statements issued or made from time to time by GlobeTel contain statements which may constitute "Forward-Looking Statements" within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934 by the Private Securities Litigation Reform Act of 1995, 15 U.S.C.A. Sections 77Z-2 and 78U-5 (SUPP. 1996). Those statements include statements regarding our intent, belief or current expectations, our officers and directors and the officers and directors of our subsidiaries as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results and the timing of certain events may differ materially from those contemplated by such forward-looking statements.

Forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations, intentions and assumptions and other statements that are not historical facts. Words like "expect", "anticipate", "intend", "plan", "believe", "seek", "estimate" and similar expressions identify forward-looking statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Chief Executive Officer and President and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of March 31, 2005. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their desired control objectives. Additionally, in evaluating and implementing possible controls and procedures, the Company's management was required to apply its reasonable judgment. Furthermore, in the course of this evaluation, management considered certain internal control areas, including those discussed below, in which we have made and are continuing to make changes to improve and enhance controls. Based upon the required evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as of March 31, 2005, the Company's disclosure controls and procedures were effective (at the "reasonable assurance" level mentioned above) to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

From time to time, the Company and its management have conducted and will continue to conduct further reviews and, from time to time put in place additional documentation, of the Company's disclosure controls and procedures, as well as its internal control over financial reporting. The Company may from time to time make changes aimed at enhancing their effectiveness, as well as changes aimed at ensuring that the Company's systems evolve with, and meet the needs of, the Company's business. These changes may include changes necessary or desirable to address recommendations of the Company's management, its counsel and/or its independent auditors, including any recommendations of its



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independent auditors arising out of their audits and reviews of the Company's financial statements. These changes may include changes to the Company's own systems, as well as to the systems of businesses that the Company has acquired or that the Company may acquire in the future and will, if made, be intended to enhance the effectiveness of the Company's controls and procedures. The Company is also continually striving to improve its management and operational efficiency and the Company expects that its efforts in that regard will from time to time directly or indirectly affect the Company's disclosure controls and procedures, as well as the Company's internal control over financial reporting.

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For the year ended December 31, 2004, the Company's independent auditors, Dohan and Company, CPA's, P.A. ("Dohan") advised management and the Board of Directors by a letter dated March 19, 2005 that, in connection with its audit of the Company's consolidated financial statements for the year ended December 31, 2004, it noted certain matters involving internal control and its operation that it considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are matters coming to an independent auditors' attention that, in their judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Further, a material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Dohan advised management and the Board of Directors that it considered the items that constitute material weaknesses in internal control and operations. Dohan noted that these matters were considered by them during their audit and did not modify the opinion expressed in its independent auditor's report dated March 19, 2005.

The Company is in the process of assessing the findings of its independent auditors. As noted above, however, the Company has made and is continuing to make changes in its controls and procedures, including its internal control over financial reporting, aimed at enhancing their effectiveness and ensuring that the Company's systems evolve with, and meet the needs of, the Company's business. As further noted above, the Company is also continually striving to improve its management and operational efficiency and the Company expects that its efforts in that regard will from time to time directly or indirectly affect the Company's controls and procedures, including its internal control over financial reporting.

### Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation. We have established a financial reporting controls committee, which meets quarterly to address corporate financial issues and has added two more employees to its accounting staff, include an experienced full-time Controller. Furthermore, we are currently in the process of restructuring departmental responsibilities and instituting a budgeting process.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Former Consultants

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We are a defendant in two lawsuits filed by Matthew Milo and Joseph Quattrocchi, two former consultants, filed in the Supreme Court of the State of New York (Richmond County, Case no. 12119/00 and 12118/00). These matters were subsequently consolidated as a result of an Order of the court and now bear the singular index number 12118/00. The original lawsuits were for breach of contract. The complaint demands the delivery of 10,000,000 shares of ADGI stock to Milo and 10,000,000 to Quattrocchi. GlobeTel was entered into the action, as ADGI was the predecessor of the Company. The suit also requests an accounting for the sales generated by the consultants and attorneys fees and costs for the action.

The lawsuits relate to consulting services that were provided by Mr. Milo and Mr. Quattrocchi and a \$50,000 loan advanced by these individuals, dated May 14, 1997, of which \$35,000 has been repaid.

We entered into an agreement with Mr. Milo and Mr. Quattrocchi as consultants on June 25, 1998. The agreement was amended on August 15, 1998. On November 30, 1998, both Mr. Milo and Mr. Quattrocchi resigned from their positions as consultants to our company without fulfilling all of their obligations under their consulting agreement. We issued 3 million shares each to Mr. Milo and Mr. Quattrocchi as consideration under the consulting agreement. We have taken the position that Mr. Milo and Mr. Quattrocchi received compensation in excess of the value of the services that they provided and the amounts that they advanced as loans.

Mr. Milo and Mr. Quattrocchi disagreed with our position and commenced action against us that is pending in the Supreme Court of the State of New York. Mr. Milo and Mr. Quattrocchi claim that they are entitled to an additional 24,526,000 shares of our common stock as damages under the consulting agreement and to the repayment of the loan balance. We believe that we have meritorious defenses to the Milo and Quattrocchi action, and we have counterclaims against Mr. Milo and Mr. Quattrocchi.

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With regard to the issues related to original index number 12119/00, as a result of a summary judgment motion, the plaintiffs were granted a judgment in the sum of \$15,000. The rest of the plaintiff's motion was denied. The court did not order the delivery of 24,526,000 shares of ADGI common stock as the decision on that would be reserved to time of trial.

An Answer and Counterclaim had been interposed on both of these actions. The Answer denies many of the allegations in the complaint and is comprised of eleven affirmative defenses and five counterclaims alleging damages in the sum of \$1,000,000. The counterclaims in various forms involve breach of contract and breach of fiduciary duty by the plaintiffs.

For the most part, the summary judgment motions that plaintiffs brought clearly stated that their theories of recovery and the documents that they will rely on in prosecuting the action. The next court appearance is for April 14, 2005, for a status conference.

It is still difficult to evaluate the likelihood of an unfavorable outcome at this time in light of the fact that there has been no testimony with regard to the actions. However, the plaintiffs have prevailed with regard to their claim of \$15,000 as a result of the lawsuit bearing the original index Number 12119/00.

However, we cannot project an outcome with any certainty. We have not entered into any settlement negotiations with Mr. Milo and Mr. Quattrocchi and we do not believe that we will be materially adversely affected by the outcome of this

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proceeding.

Presently, we are continuing our defense and counterclaims in this matter.

### Mexico Associate and Customer

We are taking legal actions against our associate and customer in Mexico for non-payment of the amount they owe the company. This customer has substantial assets, including telecommunications equipment, existing working networks and Mexican tax refunds which they have proposed to turn over to us. The motion filed in the Mexican courts was necessary to formally request that we become the assigned payee of the tax refund receivable and formally secure the equipment and to take over the operations of the existing networks.

In February 2005, the customer agreed that proceeds from the network operations will be paid totally to GlobeTel, including the customer's portion of the profit sharing, until the amount they owe us has been fully paid. Upon full payment, we will begin the sharing profits again in accordance with the contract.

As of the date of this report, we have taken possession and control of the network operations, along with the substantial portion of the related equipment, and we anticipate receiving positive cash flow from the network operations, as well as receipt of the Mexican tax refunds, later in 2005.

This situation with our customer has caused us to record an allowance for bad debt expense of \$1,251,710 and \$938,782 through March 31, 2005 and December 31, 2004, respectively. We are not certain of the amounts that, ultimately, we will realize from our Mexico associate.

### Patent Infringement Lawsuit

A case was filed against us for patent infringement. On or about September 1, 2004, Alexsam, Inc. (Alexsam) filed an action for patent infringement against the company alleging the stored value card and service we are planning to offer infringes one or more of U.S. Patent No. 6,000,608 (the 608 patent) and U.S. Patent No. 6,189,787 (the 787 patent), allegedly owned by Alexsam. The actions were filed in the United States District Court, Eastern District of Texas, styled Alexsam, Inc. vs. Datastream Card Svc., et al. Case Number 2:03-cv-337. On January 14, 2005, the court dismissed the lawsuit against the company.

On February 8, 2005, we filed suit against Alexsam and Robert Dorf (collectively the defendants) in the United States District Court for the Southern District of Florida, Civil Action No. 05-60201, seeking a declaratory judgment from the court that the 608 and 787 patents are invalid, not enforceable and will not be infringed by our stored value card offering. We are also seeking recovery for damages brought on us by Alexsam, the owners of Alexsam and Dorf for breach of confidential disclosure and trust; intentional interference with business advantage; and for unfair competition under Sec. 501.204 of the Florida Statutes. We are currently engaged in settlement discussions with the defendants and have not yet formally served any of the defendants. At this stage of the proceeding our attorneys cannot predict the outcome or the range of possible loss or gain to us.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In January 2005, the Company entered in financing agreements for convertible promissory notes payable totaling \$1.8 million. Net proceeds of \$1,579,487 were received, after deducting costs and expenses related to the transaction. Under

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the agreements the notes were convertible into common stock of the Company at \$.08 (or \$1.20 after 1:15 reverse stock split) per share. Prior to any notice of conversion, the Company had the right to redeem the note(s) at a premium, subject to a 3-day right to convert by the investor.

In addition, there were two types of warrants to purchase additional shares of common stock. There were 12,500,000 Class A Warrants exercisable at \$.12 (or \$1.80 after 1:15 reverse stock split) per share and Redemption Warrants were to be provided in the event that the Company sought to redeem more than 50% of the principal of the note. They were given on the basis of 1,111 warrants for each \$1,000 in principal the Company sought to redeem over \$900,000. These Warrants are identical to the Class A Warrants except that they have an exercise price of \$.11 (or \$1.65 after 1:15 reverse stock split) per share.

In February 2005, the note holders elect to convert all of the notes in the amount of \$1.8 million, plus accrued interest of \$5,969. Pursuant to the conversion, total shares issued were 23,074,615 (or 1,538,308 after 1:15 reverse stock split), including 500,000 (or 33,333 after 1:15 reverse stock split) shares as commission to a promoter.

At the same time in February 2005, the 12,500,000 Class A Warrants were exercised at \$.11 (or \$1.65 after 1:15 reverse stock split) per share, except for 1 million share at \$.1227 (or \$1.84 after 1:15 reverse stock split) as agreed by the parties. Total proceeds of \$1,442,650 were received and commissions totaling \$80,208 were paid.

Upon agreement of the parties, in lieu of the Company exercising its redemption rights, an additional \$1,237,500 was received in connection with the conversion, increasing the per share price to \$.19 (or \$2.85 after 1:15 reverse stock split).

On February 5, 2005 GlobeTel filed a registration statement with the Securities and Exchange Commission on Form SB-2 to register shares offered, plus an additional shares totaling 75% of the underlying convertible notes and warrants to ensure that shares are available for conversion under all contingencies.

### Item 3. Defaults upon Senior Securities

None

### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters brought to a vote of security holders during the quarter ended March 31, 2005.

On May 6, 2005, by written consent of the majority vote of its shares, the Board of Directors approved reverse split of our shares of common stock on a one for fifteen (1:15) basis, in anticipation of our stock moving to the American Stock Exchanges on May 19, 2005

### Item 5. Other Information

None

### Item 6. Exhibits

#### (a) Exhibits:

| Exhibit No. | Document Description |
|-------------|----------------------|
|-------------|----------------------|

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- 31.1 Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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(b) Form 8-K.

None

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLOBETEL COMMUNICATIONS CORP.

Registrant

/s/ Timothy Huff  
Timothy Huff, Chief Executive Officer

Date: May 12, 2005

/s/ Thomas Y. Jimenez  
Thomas Y. Jimenez, Chief Financial Officer

Date: May 12, 2005

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