

GLOBETEL COMMUNICATIONS CORP  
Form 10-K/A  
December 05, 2007

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

FORM 10-K/A-1

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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

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

Commission File Number: 0-23532

GLOBETEL COMMUNICATIONS CORP.  
(Exact name of registrant as specified in charter)

Delaware  
(State or other jurisdiction of incorporation)

88-0292161  
(I.R.S. Employer Identification No.)

101 NE 3<sup>rd</sup> Ave, Suite 1500, Fort Lauderdale, Florida 33301  
(Address of Principal Executive Offices) (Zip Code)

Issuer's telephone number: (954) 332-3759

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Securities registered under Section 12 (b) of the Exchange Act:

Common Stock Par Value \$.00001 per share  
Title of each class

Name of exchange on which registered

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

State issuer's revenues for its most recent fiscal year ended December 31, 2005: \$10,144,812.

As of December 4, 2007, there were 127,749,688 shares of the issuer's common stock issued and outstanding. Affiliates of the issuer own 9,320,000 shares of the issuer's issued and outstanding common stock and the remaining 113,159,169 shares are held by non-affiliates. The aggregate market value of the shares held by non-affiliates at December 4, 2007, was \$13,413,717.

**DOCUMENTS INCORPORATED BY REFERENCE:**

There are documents incorporated by reference in this Annual Report on Form 10-K, which are identified in Part III, Item 13.

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

(\* ) Affiliates for the purposes of this Annual Report refer to the officers, directors of the issuer and subsidiaries and/or persons or firms owning 5% or more of issuer's common stock, both of record and beneficially.

**TABLE OF CONTENTS**

**PART I**

Item 1. Description of Business	4
Item 2. Description of Property	13
Item 3. Legal Proceedings	13
Item 4. Submission of Matters to a Vote of Security Holders	15

**PART II**

Item 5. Market for Common Equity and Related Stockholder Matters	16
Item 6. Management's Discussion and Analysis or Plan of Operation	18
Item 7. Financial Statements and Supplementary Data	24
Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	83
Item 8a. Controls and Procedures	83
Item 8b. Other Information	84

**PART III**

Item 9. Directors and Executive Officers, Promoters and Control Persons	85
Item 10. Executive Compensation	88
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	92
Item 12. Certain Relationships and Related Transactions	92
Item 13. Principal Accountant Fees and Services	92
Item 14. Exhibits and Financial Statement Schedules	92

## PART I

### Forward-Looking Statements and Risk Factors

Certain information included in this Form 10-K and other materials filed or to be filed by GlobeTel Communications Corp. ("GlobeTel," the "Company", "we", "us" or "ours") with the Securities and Exchange Commission (as well as information included in oral or written statements made from time to time by us, may contain forward-looking statements about our current and expected performance trends, business plans, goals and objectives, expectations, intentions, assumptions and statements concerning other matters that are not historical facts. These statements may be contained in our filings with the Securities and Exchange Commission, in our press releases, in other written communications, and in oral statements made by or with the approval of one of our authorized officers. Words or phrases such as "believe", "plan", "will likely result", "expect", "intend", "will continue", "is anticipated", "estimate", "project", "may", "could", "would", "should" and similar expressions are intended to identify forward-looking statements. These statements, and any other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, 15 U.S.C.A. Sections 77Z-2 and 78U-5 (SUPP. 1996), as codified in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended from time to time (the "Act").

Those statements include statements regarding our intent, belief or current expectations, and those of 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.

In connection with the "safe harbor" provisions of the Act, we are filing the following summary to identify important factors, risks and uncertainties that could cause our actual results to differ materially from those projected in forward-looking statements made by us, or on our behalf. These cautionary statements are to be used as a reference in connection with any forward-looking statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the Securities and Exchange Commission. Because of these factors, risks and uncertainties, we caution against placing undue reliance on forward-looking statements. Although we believe that the assumptions underlying forward-looking statements are reasonable, any of the assumptions could be incorrect, and there can be no assurance that forward-looking statements will prove to be accurate. Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to modify or revise any forward-looking statement to take into account or otherwise reflect subsequent events, or circumstances arising after the date that the forward-looking statement was made.

The following risk factors may affect our operating results and the environment within which we conduct our business. If our projections and estimates regarding these factors differ materially from what actually occurs, our actual results could vary significantly from any results expressed or implied by forward-looking statements. These risk factors include, but are not limited to, changes in general economic, demographic, geopolitical or public safety conditions which affect consumer behavior and spending, including the armed conflict in Iraq or other potential countries; increasing competition in the VoIP segment of the telecommunications industry; adverse Internet conditions which impact customer traffic on our Company's networks in general and which cause the temporary underutilization of available bandwidth; various factors which increase the cost to develop and/or affect the number and timing of the openings of new networks, including factors under the influence and control of government agencies and others; fluctuations in the availability and/or cost of local minutes or other resources necessary to successfully operate our Company's networks; our Company's ability to raise prices sufficiently to offset cost increases, including increased costs for local minutes; the feasibility and commercial viability of our Stratellite project; related contemplated funding

from third parties to finance the project, and necessary cooperation with various military and non-military agencies of the United States government, and similar agencies of foreign government and telecommunication companies; depth of management and technical expertise and source of intellectual and technological resources; adverse publicity about us and our networks; our current dependence on affiliates in our overseas markets; relations between our Company and its employees; legal claims and litigation against the Company; including the recently commenced SEC investigation; the availability, amount, type, and cost of capital for the Company and the deployment of such capital, including the amounts of planned capital expenditures; changes in, or any failure to comply with, governmental regulations; the amount of, and any changes to, tax rates and the success of various initiatives to minimize taxes; and other risks and uncertainties referenced in this Annual Report on Form 10-K. This statement, and any other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933 and Section 21E and the Securities Exchange Act of 1934, as amended from time to time (the "Act").

This annual report also contains certain estimates and plans related to the telecommunications industry in which we operate. The estimates and plans assume that certain events, trends and activities will occur, of which there can be no assurance. In particular, we do not know what level of growth will exist, if any, in the telecommunications industry, and particularly in those domestic and international markets in which we operate. Our growth will be dependent upon our ability to compete with larger telecommunications companies, and such factors as our ability to collect on our receivables and to generate profitable revenues from operations and/or from the sale of debt or equity securities, of which there can be no assurance. If our assumptions are wrong about any events, trends and activities, then our estimates for the future growth of GlobeTel and our consolidated business operations may also be wrong. There can be no assurance that any of our estimates as to our business growth will be achieved.

## ITEM 1. DESCRIPTION OF BUSINESS

### General

GlobeTel Communications Corp. ("GlobeTel"), a Delaware corporation was established in July 2002, is engaged in the business of providing telecommunication services, primarily involving Internet telephony using Voice over Internet Protocol ("VoIP") equipment.

### Reverse Stock Split

GlobeTel is authorized to issue up to 250,000,000 shares of Common Stock, par value \$0.00001 per share, (subsequent to a 15-for-1 reverse stock split on May 23, 2005 and subsequent to an increase in the authorized shares from 150,000,000 to 250,000,000 at the shareholder meeting on June 21, 2006) and 10,000,000 shares of Preferred Stock, par value \$0.001. The post split share calculation will be used throughout this document, unless noted. The preferred stock is a so-called "blank check" preferred, meaning that its terms such as dividends, liquidation and other preferences, are to be fixed by our Board of Directors at the time of issuance. The dividends, liquidation rights and other preferences for each class of Preferred Stock are explained in Item 7, Financial Statements, Note 27.

### Recent Developments

On October 5, 2007, GlobeTel received a "Wells Notice" from the Securities and Exchange Commission (the "SEC") in connection with the SEC's ongoing investigation of the Company. The Wells Notice provides notification that the staff of the SEC intends to recommend to the Commission that it bring a civil action against the Company for possible violations of the securities laws including violations of Sections 5 and 17(a) of the Securities Act of 1933; Sections 10(b), 13(a), and 13(b)(2)(A) & (B) of the Securities Exchange Act of 1934 ("Exchange Act") and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder; and seeking as relief a permanent injunction, civil penalties, and disgorgement with prejudgment interest. The staff is also considering recommending that the SEC authorize and institute proceedings to revoke the registration of Company's securities pursuant to Section 12(j) of the Exchange Act.

Under the process established by the SEC, recipients have the opportunity to respond in writing to a Wells Notice before the SEC staff makes any formal recommendation to the Commission regarding what action, if any, should be brought by the SEC.

On November 26, 2007 the SEC announced that it had filed a civil lawsuit against two former employees of GlobeTel alleging that Joseph J. Monterosso, former Chief Operating Officer of GlobeTel and former president of the Company's Centerline Communications Subsidiary, and Luis Vargas, an employee of Centerline, engaged in a scheme to create \$119 million in revenue that was subsequently reported on the Company's financial statements as filed with the Commission. *Securities and Exchange Commission v. Joseph J. Monterosso and Luis E. Vargas*, Civil Action No. 07-61693 (S.D. Fla., filed on November 21, 2007).

### Restatement of Results

We have determined that, in certain cases, we misinterpreted or misapplied Generally Accepted Accounting Principles ("GAAP") in our 2004 and 2005 consolidated financial statements and, accordingly, we have restated our consolidated financial statements for the periods ended December 31, 2004 and 2005.

As discussed more fully below, the restatements involve, among other matters, revenue recognition issues related to reporting gross revenue versus net as per EITF Issue 99-19. In making these restatements, we have performed an internal analysis of our accounting policies, practices, procedures and disclosures for the affected periods.



*Summary of restatement items*

The following tables set forth the effects of the restatement adjustments discussed below on revenue; cost of sales; net loss; and loss per share as presented in our consolidated statements of operations for the years ended December 31, 2004 and 2005, and intangible assets. The restatement adjustments are discussed in the paragraphs following the tables.

**Year ended December 31, 2005**

	<b>Revenue</b>	<b>Cost of Sales</b>	<b>Net Loss</b>	<b>Loss per Share</b>	<b>Intangible Assets</b>
Previously reported	\$ 81,143,838	\$ 80,730,141	\$ (31,953,395)	\$ (0.43)	\$ 9,907,550
<b>Restatement Adjustments, net:</b>					
Net Revenue Adjustment	\$ (70,999,058)	\$ (70,999,058)	—	(0.00)	
2004 Purchase accounting	—	—	—	(0.00)	(2,778,000)
Purchase accounting	—	—	(7,129,550)	(0.00)	(7,129,550)
Net restatements	\$ (70,999,058)	\$ (70,999,058)	(7,129,550)	(0.09)	(9,907,550)
As restated	\$ 10,144,780	\$ 9,731,083	\$ (39,082,945)	\$ (0.52)	\$ —

**Year ended December 31, 2004**

	<b>Revenue</b>	<b>Cost of Sales</b>	<b>Net Loss</b>	<b>Loss per Share</b>	<b>Intangible Assets</b>
Previously reported	\$ 28,996,213	\$ 29,187,414	\$ (13,166,869)	\$ (0.02)	\$ 2,778,000
<b>Restatement Adjustments, net:</b>					
Net Revenue Adjustment	\$ (17,686,837)	\$ (17,686,837)	—	(0.00)	
Purchase accounting	—	—	(2,778,000)	(0.00)	(2,778,000)
Net restatements	\$ (17,686,837)	\$ (17,686,837)	(2,778,000)	(0.00)	(2,778,000)
As restated	\$ 11,309,376	\$ 11,500,577	\$ (15,944,869)	\$ (0.02)	\$ —



## **Net Revenue Adjustment**

In 2005, we engaged in transactions where we recorded our wholesale telecommunications revenues as Gross Revenue. After thorough review, we concluded that 2005 revenues equaling \$70,999,058 could not be supported and thus were reduced from previously reported revenues. The adjustments were offset against previously reported cost of sales by the same amount of \$70,999,058.

In 2004, we engaged in transactions where we recorded our wholesale telecommunications revenues as Gross Revenue. After thorough review, we concluded that 2004 revenues equaling \$11,190,902 could not be supported and thus were reduced from previously reported revenues. Also after applying the indicators, upon application of the EITF Issue 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," Accounting Principles Board Opinion No. 10 ("APB 10") "Revenue Recognition Principle," and Financial Accounting Standards Board Interpretation No. 39 ("FIN 39") "Offsetting of Amounts Related to Certain Contracts," we concluded that we should record only the net revenue from certain wholesale telecommunications due to the indicators not supporting the criteria for gross revenue which further reduced revenues \$6,495,935 for a total of \$17,686,837. The adjustments were offset against previously reported cost of sales by the same amount of \$17,686,837.

In our previously issued consolidated financial statements, we booked the gross consideration for all our wholesale telecommunications revenue without additional consideration to its characteristics. As part of our internal analysis of our accounting policies, practices and procedures in place in 2004 and 2005, we did not review the previous accounting model for recording our revenues.

## **Purchase Accounting**

As described in Item 7, Financial Statements, Note 9 - Asset Acquisition - Hotzone, we found a discrepancy in the application of purchase accounting for the June 2, 2005 transaction and have recorded an adjustment to correct it in our restated consolidated financial statements.

*Intangible Assets.* We recorded restatement adjustments to the amounts allocated to the technology-in-place intangible assets acquired in the transaction. The effect of the adjustments to intangible assets in 2005 was a reduction of \$7,129,550 and subsequently an increase to research and development expense in 2005 of \$7,129,550.

As described in Item 7, Financial Statements, Note 8 - Asset Acquisition - Sanswire, we found a discrepancy in the application of purchase accounting for the April 15, 2004 transaction and have recorded an adjustment to correct it in our restated consolidated financial statements.

*Intangible Assets.* We recorded restatement adjustments to the amounts allocated to the technology-in-place intangible assets acquired in the transaction. The effect of the adjustments to intangible assets in 2004 was a reduction of \$2,778,000 and subsequently an increase to research and development expense in 2004 of \$2,778,000.

## **Background**

We were previously a wholly-owned subsidiary of American Diversified Group, Inc. ("ADGI"). At a special meeting of stockholders of ADGI held on July 24, 2002, the stockholders of ADGI approved a plan (the "Plan") for the exchange of all outstanding shares of ADGI for an equal number of shares of GlobeTel.

ADGI was incorporated under the laws of the State of Nevada as Terra West Homes, Inc. on January 16, 1979. On March 15, 1995, its name was changed to "American Diversified Group, Inc." During the period ended July 24, 2002, ADGI's business activities included (i) sale of telecommunication services primarily involving Internet telephony using VoIP through its Global Transmedia Communications Corporation subsidiary ("Global"), and (ii) wide area

network and local area network services provided through its NCI Telecom, Inc. subsidiary ("NCI").

Global was acquired by ADGI on February 19, 2000, and NCI was acquired on June 29, 2000. During 2002, Global and NCI were merged with and into ADGI, with ADGI as the surviving corporation.

When ADGI exchanged all of its outstanding shares of common stock for GlobeTel common stock, ADGI became a wholly-owned subsidiary of GlobeTel and GlobeTel began conducting the business formerly conducted by ADGI.

We have a 99% ownership of GTCC de Mexico, S.A. de C.V., a Mexican company established to represent our interests in Mexico. The remaining 1% is owned by the Company's Mexican lawyer who is representing the Company in all matters of the operations in Mexico. GTCC de Mexico is utilized in connection with our operations in Mexico including No Mas Cables de Mexico S.A. de CV.

In 2004, we formed wholly-owned subsidiaries: Sanswire, LLC (“Sanswire-FL”) for our Stratellite project; and Centerline Communications, LLC, (“Centerline” or “CLC”) and its wholly-owned subsidiaries, EQ8, LLC, G Link Solutions, LLC, Volta Communications, LLC, and Lonestar Communications, LLC for the purpose of the recording and managing the sale of wholesale minutes and related network management functions. We have since closed Centerline and its subsidiaries.

In 2004, we acquired a 73.15% interest in Consolidated Global Investments, Ltd. (“CGI”), formerly known as Advantage Telecommunications, Ltd. (“ATC”), an Australian company. CGI was to be utilized in the carrier sales sector of our business and was later to be a licensee of the Sanswire Networks, LLC in Australia. However, we have since sold our shares in CGI back to the company and no longer have any interest in CGI. Certain shares of GlobeTel acquired by CGI were sold by CGI. The Securities and Exchange Commission has questioned the validity of the exemption used for the sale of such shares as more fully discussed below in Item 3 “Legal Proceedings.”

### **Business of GlobeTel**

We are a communications company with a range of services, product lines, and projects as described below. Our core products and services are: wireless broadband networks, IP Telephony (“VoIP” or “Voice over Internet Protocol”), and lighter than air (“LTA”) unmanned aerial vehicles (“UAVs”) for use in communications and other applications.

From time to time, we embark on certain services, product lines and projects and enter into certain contractual and non-contractual relationships, which we may subsequently deem unfeasible, impractical, cost prohibitive or otherwise incompatible with our overall business plans. In such cases, we disclose the initial intent and anticipated result of the applicable service, product, project or relationship. We further disclose the current status of each project and current and/or contemplated changes resulting from the factors mentioned above.

### **International Wholesale Carrier Traffic**

The business of International Wholesale Carrier traffic is a business whereby we bought and sold large blocks of calling minutes with particular origination and termination points. In some instances, we would enter into agreements with established international telephone carriers to deliver international calls into their domestic telephone networks for termination to the parties being called. Additionally we purchased a bulk package of minutes to specific destinations and resold these minutes in smaller quantities to individual and business customers. In most instances, our customers prepaid for these minutes or post letters of credit with our bank, securing their purchases.

Beginning in July 2004, we began to migrate these operations from GlobeTel, the parent company, to our subsidiary, Centerline and its subsidiaries. The migration was completed in the beginning of September 2004.

In 2007, the Centerline business was wound down and the Company has liquidated most of the Centerline assets. Additionally, certain revenues reported by Centerline are being restated and are the subject of an investigation by the Securities and Exchange Commission. The Commission believes that certain former officers and employees of the Company improperly recognized revenue from carrier traffic that ran off 3<sup>rd</sup> party telecommunications switches, and created false invoices with regard to such revenue.

### **Networks**

To provide the above described services we interconnect with licensed carriers in each country we would desire to provide calling services. In some countries, we placed electronic equipment called a "hub" on the carrier's premises and then interconnect with their local network. In other countries, we would connect directly to the carrier's hub, which is connected to the local telephone network in that country. Historically, we maintained hubs in Miami, Los Angeles, Monterrey Mexico, Sao Paulo, Brazil and Hong Kong.

When we would establish service to a new country and traffic volume is relatively low, we create a "virtual" network connection between the two hubs. Virtual networks have been described as "tunnels" through the Internet.

In line with the Company's strategy to close down the Centerline business, all Virtual Networks were also shut down.

### **Internet Telephony**

Since our launch of the MagicPhone in May of 2004, we expanded and upgraded our Internet Telephony product line. Our original MagicPhone product and program, which was based on the SIP protocol was being sold primarily in the Mexican market. Along with the MagicPhone launch, we continued product development and upgraded the system based on new open source standards that better serve the needs of both residential and business consumers. It also opened up many markets that the older technology could not reach. Our new MagicPhone was "plug and play" and provides the user with enhanced features such as conference calling, call forwarding, emergency services, voice mail and multiple lines.

We targeted the Mexican, Latin American and Eastern European markets for the continued rollout of this product.

The MagicPhone line was replaced by the StrateVoIP system in 2006 which uses the SIP protocol and industry standard Linksys PAPs. StrateVoIP launched services aimed at the Brazilian market with its VozBrasil and iLigue products. The StrateVoIP system also underlies the Company's wireless broadband offerings. The Company is no longer actively promoting or supporting the VozBrasil and iLigue services, though the underlying StrateVoIP platform remains in use.

### **Enhanced Services - PrePaid Calling Services**

Our Enhanced Services use proprietary software that operated on our switch interconnected with various customer networks. PrePaid Calling Services are the most widely used Enhanced Service. Our Prepaid Calling Services allowed carrier customers and reseller customers to sell their own branded prepaid calling cards in their markets and allows their customers to make both domestic and international calls.

We focused on prepaid calling services and outsourcing the use of our Enhanced Services switch. We were a provider and enabler of these services having expanded our market from telephone companies and prepaid calling card resellers to financial institutions who wish to create new revenue sources from their existing bank card customer base by introducing new value added services to their bank cards.

These enhanced services were part of the Stored Value Services, further discussed below, which in November 2006 were sold to Gotham Financial Services. GlobeTel entered into an agreement to sell substantially all of the assets related to its stored value card division, also known as the Magic Money program, to Gotham Financial LLC. Under terms of the agreement, Gotham acquired substantially all of the assets, which include the stored value program, financial processing switch and contracts, and assumed the liabilities associated with the program including certain employees and leased office space.

The agreement calls for the payment, over a 3-to-6 year period, of up to \$4 million. The length of the payment period depends upon Gotham making certain minimum payments. Revenues earned by GlobeTel will be based on the successful rollout of the platform by Gotham and on user fees following a formula that considers the total number of transactions on a Stored Value card and use of the card at any ATM, Point-of-Sale (POS) or other transaction, under closed and committed contracts GlobeTel had at the time of sale, and the number of transactions utilizing the Financial Processing Switch.

The agreement also gives GlobeTel the right to the most favorable pricing if it decides in the future to utilize the services to be provided by Gotham.

### **Stored Value Services**

In late 2003, we began offering new products and services which we call the MagicMoney program. The features of the MagicMoney program allowed telecommunications companies and financial institutions worldwide to add true stored value services to their existing products and create new products. MagicMoney stored value services included: prepaid long distance and international calling services, debit card "electronic bank accounts" and funds sharing services.

We developed the MagicMoney program as a stored value product to sell into specific ethnic communities around the world so that Overseas Foreign Workers remain connected with their family members and friends in their country of origin. Some of the features that made our product unique were the combination of such stored value services as inexpensive prepaid calling services, funds sharing between linked cardholders, electronic banking services and a full complement of debit card services that were offered anywhere the Maestro and Cirrus logos are found, which covers

between 5 - 8 million merchants and approximately 1 million ATMs around the world.

Our programs were geared towards Latin American, Filipino and Asian markets, linking their overseas family members to home. One of our key goals was to tap into the multi-billion dollar money remittance market while providing all of the other financial and non-financial services not commonly available to these ethnic groups.

By having developed a comprehensive stored value services platform and system infrastructure we were able to support a unique range of innovative solutions for telecommunications companies, financial institutions, credit card processors, retail outlets, nonprofit organizations and additional businesses in a range of vertical markets that already have their own existing card programs.

We were widely recognized as "an enabler" of ground-breaking stored value applications and technology. Our suite of stored value applications aided firms with existing card programs and brought them flexibility to add ancillary services to their cards. These ancillary services helped firms create new profit centers from products, drive new value added benefits for existing cardholders and create new marketing vehicles for firms to attract new cardholders and grow their businesses. These new stored value technology based solutions further defined our paradigm shift.

We have developed a wireless access application to enable the cardholders in the United States to access all of the stored value features and functionally via their mobile phones using SMS technology.

The following Stored Value Service Agreements & Programs were transferred to Gotham Financial Services as part of their purchase of the MagicMoney program in November 2006.

#### **Banco Azteca Letter of Intent**

In February 2005, we signed a Letter of Intent (“LOI”) with Banco Azteca, a Mexican financial institution. We are no longer pursuing this opportunity.

#### **Bankcard Agreement**

In June 2004, we entered into an agreement with Bankcard Inc. (“Bankcard”), a member of the RCBC Group, one of the largest private commercial bank and financial institutions in the Philippines, to introduce a stored value card program for domestic and international use. Bankcard will be able to issue a MasterCard and/or VISA card that will offer Overseas Filipino Workers and Filipinos in foreign countries, convenient, risk free and low cost international funds transfer and discounted long distance calling services.

We and Bankcard were working on the deployment of a MasterCard Electronic Signature based Stored Value Card to be launched in the Philippines, the Middle East and additional countries in South East Asia. We have not been able to develop this opportunity and, as a result, we are no longer pursuing it.

#### **Globe Telecom Memorandum of Agreement**

In October 2004, we signed a Memorandum of Agreement with Globe Telecom (“Globe”), a Filipino mobile company to jointly develop an integrated payment system that will combine the Company's stored value card payment processing capabilities with Globe's SMS applications technology. The purpose of this program was to allow the Company's stored value cardholders to send money directly to family and friends through their Globe Mobile Phone (“G-Cash”). We are no longer pursuing this opportunity.

#### **Equitable Card Letter of Understanding**

In August 2004, we signed a Letter of Understanding with Equitable Card Network, Inc. for Equitable to enable the Company to issue GlobeTel branded VISA Electron Cards in the Philippines. We are no longer pursuing this opportunity.

#### **Pier One Filipino Seafarers Union**

In July 2004, we entered into an agreement with Pier One to develop GTEL's Stored Value Card Program for seafarers. The "Lighthouse Card" allowed Filipino seafarers to load and remit cash from overseas at special rates. Corresponding Lighthouse cardholders in the Philippines could then withdraw money from any ATM in the Philippines and access their account from most locations throughout the world. We are no longer pursuing this opportunity.

#### **First Class Professional Agreement**

In August 2004, we entered into an agreement with First Class Professional Human Resources, Inc. (“FC Professional”), a Philippines corporation based in Manila, to develop the GTEL Stored Value Program for use by its members in Japan. FC Professional represented approximately 40,000 Filipino workers in Japan. These benefits included low cost

international calling, funds sharing and loyalty discounts.

We are no longer pursuing this opportunity due to the mandate passed by the Japanese government that dramatically reduced the number of Filipino workers who were allowed to work in Japan.

### **OnQ Program**

In July 2004, we announced the launching of the stored value card program in Australia, Bill Express, through the Australian distributor, OnQ, with over 8,000 points of sale throughout Australia. We are no longer pursuing this opportunity.

### **Timesofmoney.com Memorandum of Understanding**

In September 2004, we entered into a Memorandum of Understanding with Times of Money in which Timesofmoney.com would provide direct deposit facilities to 54 banks and issue prepaid cards in India for GTEL cardholders. We are no longer pursuing this opportunity.



### **Englewood Agreement**

In May of 2004, we signed a joint venture agreement with Englewood Corporation whereby (“Englewood”) would provide all of its current and future business opportunities to GlobeTel. This included carrier customers, carrier termination networks, stored value products and services and value added ATM, debit and credit card products for both financial and non financial products and services and the processing capabilities for such transactions on ATM/debit card networks including but not limited to MasterCard Inc, MasterCard International, VISA and private banking ATM networks. This was transferred to Gotham as part of the sale of the Magic Money division

### **Processing Switch Agreement**

In August 2004, through Englewood Corporation, we entered into an agreement to join with Grupo Ingedigit C.A. ("GI"), a certified MasterCard third party transaction processor and the leading electronic financial transactions services backbone provider for the banking industry in Venezuela, establishing a new venture in Miami, Florida providing domestic and worldwide financial transaction processing services. This domestic venture combined with GI's current international processing capabilities will support on its own network all the Magic Money and other private label GTEL stored value card programs around the world, as well as other third party cards. Both parties were to contribute equally to the operation of the Miami switch. The switch was expected to be certified to process MasterCard, Visa, Cirrus, and other independent ATM network transactions. Operations were expected to begin by the third quarter of 2005. The switch was to be installed and integrated by Englewood Corporation; however the Switch was included in the sale of the MagicMoney program to Gotham Financial Services in November 2006.

### **HotZone Wireless**

In September 2004, the Company entered into an independent contractor agreement with Hotzone Wireless, LLC (“HotZone”), a service provider for consulting/engineering services related to the Sanswire Stratellite project. The non-exclusive service provider provided engineering / consulting services, transmission equipment, and installation and testing of equipment. The term of the agreement was for six (6) months and was automatically renewable for additional one (1) year terms after the initial term unless terminated by either party. As initial compensation, Company paid the service provider \$10,000 per month. This agreement was terminated during fiscal year 2005.

On June 2, 2005, the Company entered into an agreement to acquire assets of HotZone, an advanced developer of WIMAX and extended range WIFI Systems with operations in the United States and Europe. The acquisition transaction, which closed during the three months ended September 30, 2005, was paid with \$27,000 cash and provides for a total of 2 million (post split) shares of the Company's common stock to be issued in increments of 666,667 shares on each of the first, second, and third anniversary dates of the agreement, assuming that certain milestones are achieved. The first milestone was achieved for 2005, and accordingly, shares are to be issued during fiscal year 2006. The remainder of the shares were transferred in 2007.

Mr. Altvater has subsequently left the Company and the Company entered into a consulting agreement with him to continue to provide technical support and manufacturing to the Company. That agreement was terminated in May 2007 and the Company has filed an action for the return of certain property held by Altvater pursuant to the consulting agreement. The Company and Altvater are currently in negotiations to revolve the outstanding matters between the parties.

The Company has installed a HotZone based wireless network in and around Pachuca, Mexico, northwest of Mexico City. At this time, the Company cannot determine whether or not this venture will be successful in its current form. The joint venture, No Mas Cables de Mexico, SA de CV provides coverage to approximately 8,000 housing units, but penetration of the service has been lower than expected. With our partners we are exploring how to increase market penetration and which other markets would benefit from the services offered.

**Sanswire Networks LLC**

Sanswire is developing a Wireless Broadband Network utilizing high-altitude airships called Stratellites that will be used to provide wireless voice, video, and data services. These Stratellites will form strategic nodes for the Super Hub(TM) Network. A Stratellite is similar to a satellite, but is stationed in the stratosphere rather than in orbit. At an altitude of only 13 miles, each Stratellite will have clear line-of-site to an entire major metropolitan area and should allow subscribers to easily communicate in "both directions" using readily available wireless devices. Each Stratellite will be powered by a series of solar powered hybrid electric motors and other state-of-the-art energy storage technologies.

In addition to Sanswire's Wireless Broadband Network, proposed telecommunications uses include cellular, 3G/4G mobile, MMDS, paging, fixed wireless telephony, HDTV and others.

We strongly believe that we will be able to use the Stratellites as the most efficient and cost-effective means of interconnecting our Super Hubs(TM).

The Stratellite is being designed and tested to operate at an altitude of between 55,000 and 65,000 feet using GPS coordinates to achieve its on-station position. Tests of the Stratellite and its systems began in the second quarter of 2005.

We have had on-going discussions with several groups within the U.S. government and military concerning the rollout and use of the Stratellite. Further, we are in discussions with the other corporate and private groups, as well as foreign governments, all of whom have expressed interest in the development and commercial viability of the Stratellite.

Sanswire has been contacted by the U.S. Army's Space and Missile Defense Command ("SMDC"), which expressed its desire to be involved in the sharing of technology and information as well as possible involvement in the development of the Stratellite. In addition to the commercial applications being developed by GTEL, the SMDC sees several military intelligence gathering and operational applications for Stratellite-type systems.

On January 18, 2005, we signed a Letter of Intent ("NASA LOI") with the National Aeronautics and Space Administration ("NASA"). The agreement with NASA's Dryden Flight Research Center at Edwards Air Force Base in California positions us for future governmental associations and business development ventures.

The NASA LOI was subsequently terminated.

On March 8, 2005, we announced a global strategy for Sanswire. We signed a Letter of Intent to immediately establish Sanswire Europe S.A., its first regional operating subsidiary. Sanswire Europe was to 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.

In December 2006, Sanswire demonstrated the Sanswire 2A Technology Demonstrator that opened a new area of service for the Company: low and mid-altitude airships. In 2007, Sanswire designed and continues to develop low and mid altitude ships called SkySats. These SkySat airships have been designed to address the growing military and defense markets; providing integrated solutions for Homeland Security, Border Control and persistent surveillance. These airships will supplement the high-altitude airship, Stratellites that will be used to provide wireless voice, video, and data services.

### **Competitive Business Conditions - Telecommunications Services**

The telecommunications industry is highly competitive, rapidly evolving and subject to constant technological change and to intense marketing by different providers of functionally similar services. Since there are few, if any, substantial barriers to entry, except in those markets that have not been subject to governmental deregulation, we expect that new competitors are likely to enter our markets. Most, if not all, of our competitors are significantly larger and have substantially greater market presence and longer operating history as well as greater financial, technical, operational, marketing, personnel and other resources than we do.

Due to these competitive conditions and the high cost of capital associated with running the business, the Company has decided to shut down its carrier operations.

### **Competitive Business Conditions - Sanswire Project**

We are aware of other companies that are also developing high altitude platforms similar in nature to our Stratellite project. Our competitors, though, may have more resources available to develop their respective products. Furthermore, since the Sky Sat and Stratellite project are currently in the development stage, there can be no assurance that the project will successfully complete the development stage and result in a commercially viable product. Even if a properly functioning, commercially viable product is established there can be no assurance that revenues will be achieved from the sales of Stratellites or Sky Sats or that the costs to produce such revenues will not exceed the revenues or that the project will otherwise be profitable. There can be no assurance that we will be able to successfully achieve the results we anticipate with this project.

#### **Sources and Availability of Hardware and Software**

GlobeTel has developed in-house proprietary software for network applications and stored value products. We are dependent upon many suppliers of hardware and software. However we use equipment from prime manufacturers of equipment including Cisco, Motorola, SUN, HP and Newbridge Networks, among others. Equipment for the Stratellite, SkySat and the prototypes thereof are custom made for those products and are dependent upon either single or limited number of suppliers for certain goods. Failure of a supplier could cause significant delays in delivery of the airships if another supplier cannot be promptly found.

## **Sources and Availability of Technical Knowledge and Component Parts**

The Sanswire project requires a high level of technological knowledge and adequately functioning component parts and sub-assemblies to continue the project and achieve commercial viability. We have current and contemplated arrangements for supply of both internal and external technical knowledge to provide the intellectual capital to continue with this project. Specifically, there is a high level of interest and anticipated cooperation from technical experts within the government, military, and commercial sectors. Similarly, we have current and contemplated arrangements for supply required component parts, both internally developed, as well as, outsourced from specialty contractors to provide component parts to continue with this project in the near term.

## **Dependence on a Few Customers**

As discussed below in Item 6, Management Discussion and Analysis and Plan of Operation, we are currently dependent on a limited number of customers. As we expand our products, services, and markets, we expect to substantially broaden our customer base and reduce our dependence upon just a few customers. However, there is no guarantee that we will be able to broaden our customer base.

## **Trademarks**

We have filed marks and/or are filing marks for the following:

- International trademark application under the Madrid Protocol for MagicMoney;
- International trademark application under the Madrid Protocol for GlobeTel;
  - Trademark of GlobeTel in Canada;
  - Trademark of MagicMoney in Canada;
  - Trademark of GlobeTel in Mexico;
  - Trademark of MagicMoney in Mexico;
  - Trademark of GlobeTel in Guatemala;
  - Trademark of MagicMoney in Guatemala;
  - Trademark of MagicMoney in Brazil;
  - Trademark of GlobeTel in Brazil; and
  - Trademark of GlobeTel in Philippines.

We have filed for registration of the names "Stratellite" and "Sanswire" under the Madrid Protocol and in many non-Madrid Protocol countries.

We intend to file for patents covering unique design and intellectual property covering the design and engineering of the Stratellite, but will wait until these are finalized.

## **Regulatory Matters**

Carriers seeking to provide international telecommunication services are required by Section 214 of the Telecommunications Act to obtain authorization from the Federal Communications Commission to provide those services. We applied for and obtained the required authorization.

Our operations in foreign countries must comply with applicable local laws in each country we serve. The communications carrier with which we associate in each country is licensed to handle international call traffic, and takes responsibility for all local law compliance. For that reason we do not believe that compliance with foreign laws will affect our operations or require us to incur any significant expense.

The export of the Stratellite or SkySat may be subject to United States State Department restrictions on the transfer of technology. We are currently investigating whether or not the export of the Sanswire products would require export licenses and how the production of these vehicles in Germany through our agreement with TAO Technologies, GmbH would impact this.

### **Effect of Existing or Probable Governmental Regulations**

In February 1997, the United States and approximately seventy (70) other countries of the World Trade Organization (“WTO”) signed an agreement committing to open their telecommunications markets to competition and foreign ownership beginning in January 1998. These countries account for approximately 90% of world telecommunications traffic. The WTO agreement provides us and all companies in our industry with significant opportunities to compete in markets where access was previously either denied or extremely limited. However, the right to offer telecommunications services is subject to governmental regulations and therefore our ability to establish ourselves in prospective markets is subject to the actions of the telecommunications authorities in each country. In the event that new regulations are adopted that limit the ability of companies such as ourselves to offer VoIP telephony services and other services, we could be materially adversely affected.

## **Research and Development**

Research and development costs for 2005 in connection with our Sanswire and Globetel Wireless projects were \$9,494,223 and \$3,038,085 for 2004 for our Sanswire project. Since our acquisition of the Sanswire assets in April 2004 and Globetel Wireless assets in June 2005, amounts of time and resources devoted to these businesses are expected to continue increasing in the near term as our Stratellite project continues and expands.

## **Number of Total Employees and Number of Full-Time Employees**

At present we have 7 full-time employees, including our executive officers and employees of our subsidiaries. We do not believe that we will have difficulty in hiring and retaining qualified individuals in the fields of Internet telephony and other communications projects although the market for skilled technical personnel is highly competitive.

## **ITEM 2. DESCRIPTION OF PROPERTY**

We previously leased facilities at 9050 Pines Blvd., Suite 110, Pembroke Pines, Florida 33024, as of April 1, 2004 with an initial monthly rent of \$5,462 (plus 6% sales tax), and increases of 4% per year.

In November 2004, we leased additional adjacent space under the same terms and period as the existing lease, bringing the total monthly office rent to \$9,186 (including sales tax).

We have subsequently turned over the space we were occupying to Gotham Financial and have relocated the Company's corporate offices to 101 NE 3<sup>d</sup> Ave., Suite 1500, Fort Lauderdale, Florida 33301. Rent and services for this space is approximately \$6,500 per month.

In January 2005, we satisfied our lease obligation at 444 Brickell Avenue, Suite 522, Miami, Florida 33131 and have no further obligation in the property.

In January 2005, we signed a lease agreement with the San Bernardino International Airport Authority for hangar space at the airport in San Bernardino, CA 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.

As of October 2007, Sanswire no longer occupies a hangar at Palmdale Regional Airport, the monthly cost of this space was \$20,847. This facility was adjacent to the United States Air Force's Plant 42 and Edwards Air Force Base. Sanswire constructed and tested Stratellite and Sky Sat prototypes at the facility. The hangar also included administrative office space.

Sanswire Technologies, Inc., the company from which we purchased our Sanswire, LLC assets, had an office space lease in Dekalb County, GA. 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 and the company no longer occupies the space and is no longer obligated for any lease payments.

## **ITEM 3. LEGAL PROCEEDINGS**

### Securities and Exchange Commission

In March 2006 the Company received a request from the Securities and Exchange Commission (the "SEC") regarding the purchase of Company shares by an administrative assistant around the time of a material corporate announcement.

They asked for information regarding the announcement and the assistant's knowledge of the announcement. The SEC later informed the Company that it did not intend to proceed with its investigation into the assistant.



The Company received a formal order of investigation from the SEC on September 28, 2006. While it only named the company and was not specific to any particular allegations, the SEC has requested documentation from certain officers and directors of the Company. In subsequent subpoenas the SEC has asked for information regarding the way the Company accounted for assets acquired with regard to its purchase of assets from HotZone Wireless LLC and Sanswire Technologies Inc.; information regarding the recognition of revenue regarding the Company's Centerline subsidiary; and information regarding the sales of Company shares by an unconsolidated subsidiary.

On October 5, 2007, GlobeTel received a "Wells Notice" from the SEC in connection with the SEC's ongoing investigation of the Company. The Wells Notice provides notification that the staff of the SEC intends to recommend to the Commission that it bring a civil action against the Company for possible violations of the securities laws including violations of Sections 5 and 17(a) of the Securities Act of 1933; Sections 10(b), 13(a), and 13(b)(2)(A) & (B) of the Securities Exchange Act of 1934 ("Exchange Act") and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder; and seeking as relief a permanent injunction, civil penalties, and disgorgement with prejudgment interest. The staff is also considering recommending that the SEC authorize and institute proceedings to revoke the registration of Company's securities pursuant to Section 12(j) of the Exchange Act.

Under the process established by the SEC, recipients have the opportunity to respond in writing to a Wells Notice before the SEC staff makes any formal recommendation to the Commission regarding what action, if any, should be brought by the SEC.

On November 26, 2007 the SEC announced that it had filed a civil lawsuit against two former employees of GlobeTel alleging that Joseph J. Monterosso, former president of the Company's Centerline Communications Subsidiary, and Luis Vargas, an employee of Centerline, engaged in a scheme to create \$119 million in revenue that was subsequently reported on the Company's financial statements as filed with the Commission. *Securities and Exchange Commission v. Joseph J. Monterosso and Luis E. Vargas*, Civil Action No. 07-61693 (S.D. Fla., filed on November 21, 2007).

#### Richard Stevens v. GlobeTel

The Company and its directors were sued in the case RICHARD STEVENS vs. GLOBETEL COMMUNICATIONS CORP., et al. Case No.: 06-cv 21071. The original allegations of the complaint were that the company's proposed transaction to build wireless networks in Russia was a sham. The amended complaint alleged that the transaction was not a sham, but that the company refused to accept payment of \$300 million. Recently, the officers and directors with the exception of Timothy Huff have been dismissed from the case.

The Company and the Plaintiff have reached a settlement in principle that has been filed with the Court for approval. Under the terms of the proposed settlement agreement in the class action, the Company's D&O insurance carrier will make a cash payment to the class of \$2,300,000, less up to \$100,000 for potential counsel fees and expenses. All claims in the class action will be dismissed with prejudice. The US District Court for the Southern District of Florida has preliminarily approved the settlements reached in its pending securities class action and a shareholder derivative action

#### Alexsam v. GlobeTel

In August, 2004, GlobeTel was sued in the United States District Court for the Eastern District of Texas, Marshall Division, in a civil action entitled Alexsam, Inc. v. FSV Payment Systems, Ltd. et al., Civil Action No. 2-03CV-337 ("the Texas Lawsuit"). In this action, Alexsam alleged that GlobeTel infringed U.S. Patent No. 6,000,608, issued on December 14, 1999, entitled "Multifunction Card System", and U.S. Patent No. 6,189,787, issued on February 20, 2001, entitled "Multifunctional Card System" (collectively referred to as "the Patents"). On October 8, 2004, GlobeTel filed a motion in the Texas Lawsuit to dismiss the entitled action. GlobeTel's motion to dismiss was granted on January 14, 2005.

GlobeTel then took two actions against Alexsam. GlobeTel filed a motion in the Texas Lawsuit seeking to recover the attorneys' fees and costs it incurred defending itself. GlobeTel also filed a Declaratory Judgment lawsuit against Alexsam, Inc. and Robert Dorf in the United States District Court for the Southern District of Florida, Ft. Lauderdale Division, in a civil action entitled GlobeTel Communications Corp. v. Alexsam, Inc. et al., Civil Action No. 05-60201-CIV ("the Florida Lawsuit"). This lawsuit sought, among other things, a declaration that GlobeTel's product and service offerings would not infringe the Patents.

Alexsam and GlobeTel subsequently settled their dispute. In exchange for granting a non-exclusive license to GlobeTel for the Patents, GlobeTel withdrew its motion for attorneys' fees in the Texas Lawsuit and dismissed the Florida Lawsuit. The License Agreement was made and entered into in September 2005. The license taken by GlobeTel extends further to GlobeTel's customers, bank partners, third party financial processors and cardholders, and all those in privity with any of them, but only to the extent those entities' activities relate to GlobeTel and its license.

#### Derivative Action

On July 10, 2006 a derivative action was filed against the officers and directors of GlobeTel alleging that they have not acted in the best interest of the Company or the shareholders and alleged that the transaction to install wireless networks in Russia was a "sham." The lawsuit is pending in the Federal District Court for the Southern District of Florida (Civil Case No. 06-60923). The Company believes that the suits are without merit and will vigorously defend against it. The Company has hired outside counsel to defend it in this action. The Company and the Plaintiff have reached an agreement in principle to settle this action and have submitted such settlement with the Court for its approval. Under the terms of the proposed settlement, Company's D&O insurance carrier will pay \$60,000 in attorneys' fees to plaintiff's counsel, the Company will implement or maintain certain corporate governance changes, and all claims will be dismissed with prejudice.

Former Consultants

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 pre split 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 pre split 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 pre split 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.

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 pre split 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 case was assigned to a judicial hearing officer and there was one week of trial. The trial has been since adjourned with no further trial dates having been set.

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.

This case went before a Judicial Hearing Officer on July 6 and 7, 2006. No resolution occurred during the July hearing and the Judicial Hearing Officer has asked for written statements of facts and law. The outcome cannot be projected with any certainty. However, the company does not believe that it will be materially adversely affected by the outcome of the proceeding.

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

ANNUAL MEETING

On August 11, 2005, by written consent of the majority vote of its shares at the Company's annual meeting, the shareholders re-elected the Company's directors and approved all proposals. The directors included, Timothy Huff, Przemyslaw Kostro, Mitchell Siegel, Kyle McMahan, Laina Raveendran Greene, and Leigh Coleman. Additionally, proposals to ratify Dohan & Co. CPA's PA as our auditors, increase the number of authorized common shares from 100 million to 150 million (subsequent to the reverse split authorized in the preceding quarter), and ratify the 2004 employee stock option plan were all approved.

The following table lists the number of votes cast for each matter, including a separate tabulation with respect to each nominee for office. There were no votes against and no abstentions. The total number of voting shares was 62,559,026.

Przemyslaw Kostro	62,047,431
Timothy Huff	62,019,756
Laina Raveendran Greene	62,182,817
Leigh Coleman	62,126,151
Mitchell A. Siegel	62,043,609
Kyle McMahan	62,217,392
Ratify the Company's appointment of Dohan and Company, CPAs, PA as independent auditors of the Company for the fiscal year ending December 31, 2005	61,865,684
Increase the number of authorized common shares from 100,000,000 (One Hundred Million) to 150,000,000 (One Hundred Fifty Million)	58,335,831
Proposal to approve the 2004 Employee Stock Option Plan	8,164,899 (1)

(1) This represents a majority the votes cast on this issue. There were 50,799,309 broker non-votes.

There were no other matters brought to a vote of security holders 2005.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

#### (a) MARKET PRICE

Our shares of common stock were quoted on the Over-the-Counter Bulletin Board (OTCBB) quotation system under the symbol "GTEL." Effective 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 preparation for our move to the American Stock Exchange, which occurred on May 23, 2005. All common stock amounts in this report have been retroactively restated to account for the reverse stock split, unless otherwise noted. Since its move to AMEX, GlobeTel stock has been traded under the symbol of "GTE". As of the date of this report, there are approximately 39 market makers in our common shares.

The following information sets forth the high and low bid price of our common stock during fiscal 2003, 2004 and 2005 and was obtained from the National Quotation Bureau. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

\*Value of shares recalculated based on the 1:15 reverse split effective May 25, 2005

CALENDAR 2003	HIGH	LOW
Quarter Ended March 31	\$0.6600 (\$0.0440 pre-split)	\$0.3000 (\$0.0200 pre-split)
Quarter Ended June 30	\$0.4350 (\$0.0290 pre-split)	\$0.2265 (\$0.0151 pre-split)
Quarter Ended September 30	\$0.6000 (\$0.0400 pre-split)	\$0.2850 (\$0.0190 pre-split)
Quarter Ended December 31	\$1.9650 (\$0.1310 pre-split)	\$0.3750 (\$0.0250 pre-split)

## CALENDAR 2004

Quarter Ended March 31	\$2.9400 (\$0.1960 pre-split)	\$0.7500 (\$0.0500 pre-split)
Quarter Ended June 30	\$1.9500 (\$0.1300 pre-split)	\$1.2000 (\$0.0800 pre-split)
Quarter Ended September 30	\$1.9200 (\$0.1280 pre-split)	\$1.0500 (\$0.0700 pre-split)
Quarter Ended December 31	\$2.1000 (\$0.1400 pre-split)	\$0.1500 (\$0.0100 pre-split)

## CALENDAR 2005

Quarter Ended March 31	\$5.5500 (\$0.3700 pre-split)	\$0.4500 (\$0.0300 pre-split)
Quarter Ended June 30	\$4.0500	\$2.2500 (\$0.1500 pre-split)
Quarter Ended September 30	\$2.8800	\$1.1400
Quarter Ended December 31	\$4.3400	\$1.2500

(b) HOLDERS

As of the date of this report, there were approximately 28,000 beneficial owners and 1,400 registered holders of our common stock.

(c) DIVIDENDS

We have never paid a dividend and do not anticipate that any dividends will be paid in the near future. We currently have no funds from which to pay dividends and as of December 31, 2005, our accumulated deficit was \$81,521,980. We do not expect that any dividends will be paid for the foreseeable future.

(d) SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

In September 2003, the board of directors authorized the issuance of stock options totaling 3,183,414 (47,751,200 pre-split) shares to the officers of the company in return for the forgiveness of \$683,168 in accrued salaries and \$33,100 in other accrued expenses through December 31, 2002. The stock options were exercisable at the lower of \$.225 (\$.015 pre-split) or 50% of the closing market price.

In December 2003, the board of directors authorized the issuance of stock options totaling 1,088,889 (16,333,333 pre-split) shares to the officers of the company in return for the forgiveness of \$245,000 in accrued salaries through December 31, 2003. The stock options were exercisable at the lower of \$.225 (\$.015 pre-split) per share or 50% of the closing market price.

On January 8, 2004, the officers exercised their rights to convert the stock options into common stock at \$.225 (\$.015 pre-split) and as a result, we issued 4,272,303 (64,084,533 pre-split) shares of common stock in January 2004, in accordance with the stock option agreements.

In May 2004, the board of directors approved an Officers' Stock Option Grant Plan, pursuant to which certain officers are entitled to receive stock options, for each of three years, beginning in 2004 (Year 1). The annual number of option shares to be issued will be equal to amounts that, after the exercise of such options, would affect ownership of various percentages of the total shares then issued and outstanding. The following officers received options for shares in the following percentages: CEO - 3.0% in each of the three years (total 9.0%); COO - 2.0% in each of the three years (total 6.0%), CFO - 2.0% in Year 1.5% and 1.5% in each of the following years (total 5.0%), former President - 1.0% in Year 1.0 and 0.5% in each of the following years (total 2.0%), current President - 1% in each of the three years (total 3.0%), and CTO - 1.0% in each of the three years (total 3.0%). The recipient's rights to the options are fully vested, as of December 31, 2004, although compensation expense is recorded at the completion of each year. The total of 6,654,197 (99,812,946 pre-split) option shares were issued for 2004. The stock options are exercisable at the lower of \$.675 (\$.045 pre-split) per share.

In December 2004, we established our 2004 Stock Option Bonus Plan, wherein the board of directors authorized the issuance of stock options totaling 1,765,833 (26,487,483 pre-split) shares to the officers and employees of the company as payment of accrued bonuses through December 31, 2004. The stock options are exercisable at the lower of \$.675 (\$.045 pre-split) per share or 50% of the closing market price at the date of exercise.

In December 2004, the board of directors authorized the issuance of stock options totaling 247,886 (3,718,279 pre-split) shares to the directors of the company as payment of accrued board members' stipends through December 31, 2004. The stock options are exercisable at the lower of \$.5865 (\$.0391 pre-split) per share or 50% of the closing market price on date of exercise.

In January 2005, the option holders exercised their rights to convert a portion of the stock options pursuant to the Officers Stock Grant Plan, the 2004 Stock Option Bonus Plan, and the options for accrued directors' stipends into common stock at \$.675 (\$0.045 pre-split), and, as a result, we issued 2,000,000 (30,000,000 pre-split) shares of common stock in January 2005, in accordance with the stock option agreements.

In November 2005, the Company established its 2005 Stock Option Bonus Plan, wherein the board of directors authorized the issuance of stock options for restricted shares totaling 1,509,180 (post-split) shares to the officers and employees of the company as payment of accrued bonuses through December 31, 2005. The stock options are exercisable at \$2.12, based on the closing market price of the Company's free-trading shares on the date the options were granted. Through the date of this report, none of these options have been exercised.

During 2005, the board of directors authorized the issuance of stock options for restricted shares totaling 199,490 (pos-split) shares to the directors of the company as board members' compensation for services through December 31, 2005. The stock options are exercisable at various amounts, ranging from \$1.99 to \$4.35 per share, based on the closing market price of the Company's free-trading shares on the date the options were granted, except for a now former director who was issued 37,500 and 30,000 (post-split) options shares at \$1.49 and \$0.99, respectively. Through the date of this report, none of these options have been exercised.



In addition to the above parties, the corporate Secretary / general counsel and the Senior Vice-President were awarded 1% and 2%, respectively, of the total shares outstanding, at the fair market value of the Company's stock on the date the options were granted. Also, a board member, Randolph Dumas, was awarded 2.5% of the total shares outstanding, exercisable at \$1.79 per share. A total of 13,992,374 and 6,654,196 (post-split) options shares were granted for 2005.

#### 2004 STOCK OPTIONS EXERCISED IN 2005

During 2005, a total of 1,785,490 (26,782,350 post-split) of stock options shares were exercised and issued (net of shares used to pay for "cashless" options"), with payment in cash and common stock subscriptions receivable totaling \$92,906, pursuant to the 2004 Stock Option Bonus Plan, the Officers' Stock Option Grant Plan, and for accrued board members' stipends, and, furthermore, these shares were registered by the Company's filing a Form S-8 registration statement. The number of shares registered were allocated to the individuals exercising the options based a ratio of the number of options held by each individual to the total number of options held by all individuals.

In addition, certain employees, vendors, professionals and consultants were paid with common stock (see Note 25 to financial statements) and with stock options (see Note 26 to financial statements) and certain investment banking and broker's fees were paid with preferred stock (see Note 27 to financial statements) in lieu of cash compensation.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### GENERAL

Twelve months ended December 31, 2005 ("Fiscal 2005" or "2005" or "the current year") compared to twelve months ended December 31, 2004 ("Fiscal 2004" or "2004" or "the prior year").

#### RESULTS OF OPERATIONS

**REVENUES.** During fiscal 2005, our gross sales were \$10,144,780, representing a decrease of 10.3% over the prior year when our gross sales were \$11,309,376. Our revenues decreased primarily due to a decrease in revenues associated with Brazil network. The majority of our revenues were predominately from telecommunications minutes going through our Philippines network through September 2005. Thereafter substantially all of our wholesale traffic revenues were significantly reduced.

Our Philippines network generated \$7,674,615 (or 76% of gross revenues). Other domestic and international wholesale traffic revenues were \$2,358,020 (or 23% of gross revenues).

Additional revenues generated included \$109,023 from our Magic Money program as compared to \$69,845 in the prior year and \$3,154 from the sale of IP Phones for the current year as compared to \$7,717 in the prior year. No revenues were generated from our Store Value Card program for the current year as compared to \$9,515 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 \$9,731,083 for fiscal 2005, compared to \$11,500,577 for fiscal 2004. We expect cost of sales to increase or decrease in future periods to the extent that our sales volume increases or decreases.

**GROSS MARGIN (LOSS).** Our gross margin was \$413,697 or 4.1% for fiscal 2005, compared to a gross loss of (\$191,201) or (-1.7%) of total revenues in fiscal 2004, an increase of \$604,898 or 316.4%. The increase is primarily due to the fact that there were higher margins on resale of wholesale minutes related to the decreased cost of the minutes to terminate.

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 fiscal 2005 were \$37,756,045 compared to fiscal year 2004 operating expenses of \$15,628,250 an increase of \$22,127,795 or 141.6%.

The increase is primarily due to an increase in officers' and directors' compensation to \$12,082,809 (including non-cash compensation), from \$6,520,206 in the prior year. During fiscal 2005, total officers' and directors' compensation, included non-cash equity compensation (stock and stock options) of \$10,799,267, compared to \$5,805,046 in non-cash compensation during fiscal 2004.

In addition, employee payroll and related taxes for fiscal 2005 were \$3,118,676 compared to \$1,248,562 compared, an increase of \$1,870,114 or 149.8%. This increase was due to expansion of our operations, facilities and workforce from 30 total employees to 65 during 2005, and included in non-cash equity compensation (stock and stock options) for employees was \$439,818 in fiscal 2005 compared to \$438,187 in fiscal 2004.

We incurred \$6,200,054 of consulting and professional fees, an increase of \$3,993,817 or 181.0% for 2005 (including \$4,288,867 in non-cash equity compensation) compared to \$2,206,237 in 2004 (including \$325,000 in non-cash equity compensation). These increases are related to additional services required to develop and expand our geographical and product markets and projects, including our Stored Value Program and international markets (such as Australia, India and Philippines) as well as increased professional fees in maintaining and expanding a public company, including our move to the American Stock Exchange. Our consulting and professional fees include such expenses as computer consulting, technical consulting, accounting and legal fees.

We incurred \$9,494,223 of research and development costs for our Sanswire project and our GlobeTel Wireless business during 2005, compared to \$3,038,085 in 2004, a increase of \$6,456,138 or 212.5%. During 2005, \$2,104,559 of these costs represent direct expenses of development and building of the airship, as compared to \$156,051 of direct expenses during 2004. This is due mainly to the fact that the first prototype airship was completed during 2005.

We incurred \$848,880 of sales commission for our Centerline operations during 2005, compared to \$404,747 during fiscal 2004, an increase of \$444,133 or 109.7%. These commissions are based on the agreement between Carrier Services, Inc. ("CSI") and the Company where Centerline is to build telecommunication revenues and a client base, utilizing each party's network and financial resources and to engage in any other business or activity that is necessary and proper. Pursuant to the agreement, the Company was responsible for all costs associated with the operation and maintenance of the Prepaid Calling Card Platform, all expenses related to funding, staffing, technical support, customer service, equipment, and credit facilities. CSI was responsible for all costs and responsibilities associated with operation of the termination network, providing network facilities for the termination of carrier traffic, administer and operate the termination network, including subscriber accounts and tracking of minutes, all training and salary expenses of its sales personnel, all marketing expenses connected with the sale of the calling services and all other organizations related expense in any foreign base operation in which the LLC is operating.

The agreement provided for minimum selling requirements of \$50 million per year in revenues for the LLC. If the LLC brought in \$50 million in revenues at the end of the first year of operation, CSI will receive \$1 million of the company's publicly traded stock. If CSI repeats the \$50 million in revenues in year two, CSI would receive another \$1 million of the company's publicly traded stock. The initial term of the agreement was for two years and automatically renewable for another two years. The parties subsequently modified the agreement to provide for minimum selling requirements of \$25 million in revenues for the LLC. Upon the LLC achieving in \$25 million in revenues, CSI will receive 333,333 (5 million pre-split) shares of the company's publicly traded stock.

During 2005, we incurred \$788,985 of investment and broker fees as compared to \$172,106 during 2004. The \$616,879 increase is due to 2005 equity funding related to subscription agreements with investors for 5% convertible notes and from private placements executed (see note 18).

**LOSS FROM OPERATIONS.** We had an operating loss of (\$39,082,945) for fiscal year 2005 as compared to an operating loss of (\$15,944,869) for fiscal 2004, primarily due to increased operating expenses as described above, including higher operating costs and 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 (\$1,740,597) during fiscal year 2005 compared to (\$125,418) during fiscal 2004. This variance was due primarily to a global settlement with a former officer of the

company. In 2005 the company had a loss on the settlement of an agreement to deploy telecommunications in Asia with a related party, Sky China Limited, for (\$1,256,873). Also during 2005, the company wrote-off its investment in CGI for (\$352,300).

Fiscal year 2004 included \$268,397 in net gains on the settlements of liabilities. Various liabilities, representing disputed obligations, were settled for amounts less than the previously recorded values, pursuant to agreements between us and the vendors. We had interest income of \$44,368 in fiscal year 2005 compared to \$2,067 in fiscal 2004. Other expense of (\$56,804) in fiscal 2004 was a result of losses realized on the disposition of fixed assets.

Interest expense for fiscal year 2005 was \$175,792 compared to \$189,520 for the prior year. Interest expense decrease was primarily due to a reduction in accrual of contractual financing charges in connection with the operations of our Centerline subsidiary. This is also a result of our debt reduction strategy.

NET LOSS. We had a net loss of (\$39,082,945) in fiscal year 2005 compared to a net loss of (\$15,944,869) in fiscal 2004. The net loss is primarily attributable to the increase in the operating expenses as discussed above.

#### LIQUIDITY AND CAPITAL RESOURCES

ASSETS. At December 31, 2005, we had total assets of \$10,411,522 compared to total assets of \$3,417,977 as of December 31, 2004.

The current assets at December 31, 2005, were \$3,330,778 compared to \$2,561,197 at December 31, 2004. As of December 31, 2005, we had \$1,228,180 of cash and cash equivalents compared to \$601,559 at December 31, 2004.

The Company had restricted cash of \$1,122,000 as of December 31, 2005 representing security for letters of credit to suppliers for MasterCard in the amount of \$1,000,000 in support of the Store Value Card program, a rental deposit for Los Angeles World Airport related to the Palmdale Hanger occupied by Sanswire Networks, LLC in the amount of \$72,000 and for a wholesale carrier in the amount of \$50,000. No such letters of credit to vendors existed as of December 31, 2004. As of the date of this report the Company canceled the MasterCard letter of credit and used the collateral for working capital purposes. The rent deposit with LAWA was used to pay rent obligations on the Palmdale Hanger, that is no longer occupied by Sanswire.

Our net accounts receivable, which consisted of 22 customers, were \$371,618 as of December 31, 2005 compared to \$1,740,883 as of December 31, 2004. For 2004, the company wrote-off \$1,096,631 of customer receivables deemed to be uncollectible. Approximately 92% of the December 31, 2004 receivables were attributable to three customers, including 63% or \$773,319 (net of allowance) related to the Mexico network and 22% or \$266,167 (net of allowance) related to the Brazil network. We have increased our allowance for doubtful accounts by \$1,141,534 for the year, the substantial portion of which relates to two of these three customers.

Other current assets included \$185,960 of prepaid expenses to a related party ISG Jet, LLC, and \$184,434 in prepaid expenses, primarily prepaid minutes with carriers, compared to \$58,900 in 2004; \$67,525 inventory of IP Phones in 2005, compared to \$63,976 in 2004, and deposits on equipment purchases and other current assets of \$124,993 in 2005, compared to \$88,994 in 2004 related to additional deposits made for the Mastercard Switch which was not operational as of December 31, 2005.

Property and Equipment as of December 31, 2005 was \$7,028,422 as compared to \$445,756 at December 31, 2004. The variance is due primarily to an increase in telecommunications equipment in the amount of \$6,104,526, which was due primarily to the acquisition of the new Mastercard switch \$5,267,526 and \$837,000 for the acquisition of the new telecommunications switch acquired by our subsidiary Centerline Communications.

LIABILITIES. At December 31, 2005, we had total liabilities of \$9,906,933 compared to total liabilities of \$919,400 as of December 31, 2004.

The current liabilities at December 31, 2005 were \$5,198,766 compared to \$914,682 at December 31, 2004, an increase of \$4,284,084. The increase is principally due to the current portion of payments due to related party - Hotzone Wireless for \$2,451,834 (see note 9) and to Carrier Services, Inc. for \$901,606 and a payable due to former employee of \$237,600 (see note 13)

Long-term liabilities increased to \$4,708,167 due to the non-current portion of the due to a related party - Hotzone Wireless, (see note 9) as compared to \$4,718 as of December 31, 2004, which represented the non-current portion of capital leases.

**CASH FLOWS.** Our cash used in operating activities was \$12,610,149 compared to \$4,467,989 for the prior year. 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 was \$2,084,559 which was mainly attributed to cash payments made towards the purchase of our Telecommunications switch in Centerline and the MasterCard Switch, compared to \$356,570 in the prior year.

Net cash provided by financing activities was \$15,321,329 principally from the sale of common stock and the conversion of notes and loan payables totaling \$13,271,957, as compared to \$5,201,124 in the prior year.

In order for us to pay our operating expenses during 2005 and 2004, including certain operating expenses for our wholly-owned subsidiaries, Centerline and Sanswire, and the overall expansion of our operations, we raised \$500,000 in sales of preferred stock in 2005, compared to \$5,157,500 in sales of preferred stock in 2004. We raised \$13,271,957 from loans and notes payable related to the exercise of warrants by convertible note holders and private placements, compared to \$375,000 in the prior year.

As detailed in the financial statements, we have stock subscriptions receivable for preferred shares that will raise a total of \$500,000 in cash in 2006, primarily in the form of financing provided by Series D preferred shareholders. In January 2006, we received approximately \$6.8 million from the exercise of warrants by certain investors. With this funding, as well as the additional funding, we will have the existing capital resources necessary to fund our operations and capital requirements as presently planned over the next twelve months.

We raised an additional approximately \$5 million in equity placements in 2005. Throughout 2006 and continuing into 2007, the Company has been dependent upon monthly funding from its existing debt holders. Funding decisions have typically not extended beyond thirty days at any given time, and the Company does not currently have a defined funding source. Funding delays and uncertainties have seriously damaged vendor relationships, new product development and revenues. In the absence of continued monthly funding by its current debt holders, the Company would have insufficient funds to continue operations. There is no assurance that additional funding from the current debt holders will be available, or available on terms and conditions acceptable to the Company.

As reflected in the accompanying financial statements, during the year ended December 31, 2005 we had a net loss of (\$39,082,945) compared to a net loss of (\$15,944,869) during 2004. Consequently, there is an accumulated deficit of (\$81,521,980) at December 31, 2005 compared to (\$42,439,036) at December 31, 2004.

## General

Twelve months ended December 31, 2004 ("Fiscal 2004" or "2004" or "the current year") compared to twelve months ended December 31, 2003 ("Fiscal 2003" or "2003" or "the prior year").

## Results of Operations

**Revenues.** During the fiscal 2004, our gross sales were \$11,309,376, representing a decrease of 0.4% over the prior year when our gross sales were \$11,351,939. Our revenues remained consistent due to the fact that wholesale telecommunications revenues were being moved from GlobeTel Communications to the subsidiary, Centerline which was better suited for wholesale traffic revenues (telecommunications minutes). The revenues continued to be predominantly from telecommunications minutes going through our Mexico, Philippines and Brazil networks through June 2004.

Our Mexico network generated \$4,774,657 (or 42.2% of gross revenues), while our Philippines network generated \$3,234,279 (or 28.6% of gross revenues) and our Brazil network generated \$2,147,119 (or 19.0% of gross revenues). Other domestic and international wholesale traffic revenues were \$1,065,656 (or 9.4% of gross revenues), including revenues \$469,821 (or 4.1% of gross revenue) from Mexico (unrelated to our Mexico network).

Additional revenues generated included \$9,515 from our Stored Value Card program, \$69,845 from our Magic Money program and \$7,717 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 \$11,500,577 for fiscal 2004, compared to \$8,840,872 for fiscal 2003. We expect cost of sales to increase in future periods to the extent that our sales volume increases.

**Gross Margin (Loss).** Our gross margin (loss) was (\$191,201) or (0.66%) for fiscal 2004, compared to \$2,511,067 or 22.12% of total revenues in fiscal 2003, a decrease of \$2,702,268 or (107.6%). The decrease 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.

**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 fiscal 2004 were \$15,628,250 compared to fiscal 2003 operating expenses of \$3,805,388, an increase of

\$11,822,862 or 311%.

The increase is primarily due to an increase in officers' and directors' compensation to \$6,520,206, including non-cash compensation, from \$595,000 in the prior year. During fiscal 2004, total officers' and directors' compensation included non-cash equity compensation (stock and stock options) of \$5,805,646, compared \$185,000 in non-cash compensation during fiscal 2003.

In addition, employee payroll and related taxes for fiscal 2004 were \$1,248,562 compared to \$283,408, an increased by \$965,154 or 340.6%. This increase was due to expansion of our operations, facilities and workforce from 15 total employees to 30 during 2004. Included in non-cash equity compensation (stock and stock options) for employees was \$438,187 in fiscal 2004, compared to \$86,000 in fiscal 2003. Consulting and professional fees increased by \$1,487,250 or 206.9%, to \$2,206,237 in 2004 (including \$325,000 in non-cash equity compensation), compared to \$718,987 in 2003 (including \$203,607 in non-cash equity compensation). These increases are 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.

21

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We incurred \$3,038,085 of research and development costs for our Sanswire project - development of the Stratellite during fiscal 2004, compared to none in the prior year, whereas the Sanswire assets was acquired in April 2004.

We incurred \$404,747 of sales commissions for our Centerline operations during fiscal 2004, compared to none in the prior year, whereas the Centerline operations began in 2004.

**Income (Loss) from Operations.** We had an operating loss of (\$15,819,451) for fiscal 2004 as compared to an operating loss of (\$1,294,321) for fiscal 2003, primarily due to the excess of costs of revenues earned over revenues earned and increased operating expenses as described above, including reduced margins and higher operating costs and 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 \$125,418 during fiscal 2004 compared to \$4,908,205 during fiscal 2003.

Other income during fiscal 2004 included \$268,397 in net gains on the settlements of liabilities, compared to \$26,274 in 2003. Various liabilities, representing disputed obligations, were settled for amounts less than the previously recorded values, pursuant to agreements between us and the vendors. We also reported a net gain of \$55,842 in 2003 in connection with the closing of operations of our St. Louis, Missouri office after accounting adjustments were made. We had interest income of \$2,067 in fiscal 2004 compared to none in fiscal 2003.

Other expense of \$56,804 in fiscal 2004 was a result of losses realized on the disposition of fixed assets, compared to a loss of \$42,301 in fiscal 2003. Other expense of \$4,834,878 in fiscal 2003 was as a result of the write-off of assets and liabilities resulting from the transactions in Australia with IPW.

Interest expense for fiscal 2004 was \$189,520 compared to \$113,142 during fiscal 2003. Interest expense increase was primarily due to the accrual of contractual financing charges in connection with the operations of our Centerline subsidiary. Other interest charges actually decreased in 2004, as result in reduction of our total debts.

**Net Income (Loss).** We had a net loss of (\$15,944,869) in fiscal 2004 compared to a net loss of (\$6,202,526) in fiscal 2003. The net loss is primarily attributable to the increase in the operating expenses as discussed above.

### **Liquidity and Capital Resources**

**Assets.** At December 31, 2004, we had total assets of \$3,417,977 compared to total assets of \$4,144,231 as of December 31, 2003.

The current assets at December 31, 2004, were \$2,561,197, compared to \$3,389,421 at December 31, 2003. As of December 31, 2004, we had \$601,559 of cash and cash equivalents compared to \$224,994 as of December 31, 2003.

Our net accounts receivable were \$1,740,883 as of December 31, 2004, compared to \$3,039,427 at the same point in 2003. Approximately 92% of the December 31, 2004 receivables were attributable to three customers, including 63% or \$773,319 (net of allowance) related to the Mexico network and 22% or \$266,167 (net of allowance) related to the Brazil network. We have increased our allowance for doubtful accounts by \$1,141,534 for the year, the substantial portion of which relates to two of these three customers.

Other current assets included \$58,900 in prepaid expense, primarily prepaid minutes with carriers, compared to \$71,000 in 2003; \$63,976 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 2003.

We had other assets totaling \$411,024 as of December 31, 2004, compared to \$318,435 as of December 31, 2003. The increase was attributable primarily to the additional investments of \$50,000 in CGI, our unconsolidated foreign subsidiary, totaling \$352,300 as of December 31, 2004.

**Liabilities.** At December 31, 2004, we had total liabilities of \$919,400 compared to total liabilities of \$1,908,686 as of December 31, 2003.

The current liabilities at December 31, 2004 were \$914,682 compared to \$1,908,686 at December 31, 2003, a decrease of \$994,004. The decrease is principally due to payments of notes and loans payable, payment of accounts and loans payable to related parties with stock, and a reduction in accounts payable. There were no significant long-term liabilities as of December 31, 2004 and 2003.

**Cash Flows.** Our cash used in operating activities was (\$4,467,989) for 2004, compared to (\$1,389,102) for the prior year. 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 investment in CGI, and loans to employees for a total of (\$356,570) compared to (\$607,401) in the prior year.

Net cash provided by financing activities was \$5,201,124, principally from the sale of preferred stock, for 2004, as compared to \$2,019,686, principally from the sale of preferred and common stock and proceeds from notes and loans payable, for the prior year.

In order for us to pay our operating expenses during 2004 and 2003, including certain operating expenses of our wholly-owned subsidiaries, Sanswire and Centerline, and the overall expansion of our operations, we raised \$5,157,500 from sales of preferred stock in 2004, compared \$717,140 and \$500,000 from sales of preferred stock and common stock, respectively in 2003. We also raised \$60,000 and \$144,194 from proceeds from related party payables in 2004 and 2003, respectively. We generated \$375,000 and \$784,259 from loans and notes payable in 2004 and 2003, respectively.

In April 2004, Caterham Financial Management Ltd., subscribed for 35,000 shares of Series B Preferred Stock. Originally, the Series B Preferred allowed the purchaser to convert such shares for up to 35% of the then outstanding shares of common stock of the Company. However, prior to the Company listing on the American Stock Exchange in 2005, the Company and Caterham agreed to fix the number of shares to which the Series B Preferred could be converted to 193,970,000 shares (prior to giving effect to the May 2005 reverse split). Caterham subsequently converted all their Series B Preferred Shares.

We raised an additional approximately \$5 million in equity placements in 2005. We do not have existing capital resources or credit lines available that are sufficient to fund our operations and contractual obligations as presently planned over the next twelve months. Throughout 2006 and continuing into 2007, the Company has been dependent upon monthly funding from its existing debt holders. Funding decisions have typically not extended beyond thirty days at any given time, and the Company does not currently have a defined funding source. Funding delays and uncertainties have seriously damaged vendor relationships, new product development and revenues. In the absence of continued monthly funding by its current debt holders, the Company would have insufficient funds to continue operations. There is no assurance that additional funding from the current debt holders will be available, or available on terms and conditions acceptable to the Company.

As reflected in the accompanying financial statements, during the year ended December 31, 2004, we had a net loss of (\$15,944,869) compared to a net loss of (\$6,202,526) during 2003. Consequently, there is an accumulated deficit of (\$42,439,036) at December 31, 2004, compared to (\$26,494,167) at December 31, 2003.

**ITEM 7. FINANCIAL STATEMENTS**

GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2005, 2004 AND 2003

TABLE OF CONTENTS

	<b>Page</b>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>25</b>
Consolidated Balance Sheets	26
Consolidated Statements of Operations	27
Consolidated Statements of Cash Flows	28
Consolidated Statements of Stockholders' Equity	30
Notes to Consolidated Financial Statements	35

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Globetel Communications Corp. and Subsidiaries  
Ft. Lauderdale, Florida

We have audited the accompanying consolidated balance sheets of Globetel Communications Corp. and Subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income (loss), cash flows and stockholders' equity for the years then ended December 31, 2005, 2004 and 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Globetel Communications Corp. and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended December 31, 2005, 2004 and 2003 in conformity with U.S. generally accepted accounting principles.

As described in Note 2 to the financial statements, the 2005 and 2004 financial statements have been restated for an error in the method of revenue recognition related to reporting gross revenue versus net as per EITF 99-19 and in the application of an accounting principle relating to purchase accounting.

Miami, Florida  
March 13, 2006 except as to Note 2, which is November 30, 2007

/s/ Dohan & Company,  
CPAs

Member:

Florida Institute of Certified Public Accountants

American Institute of Certified Public Accountants Private Companies and SEC Practices Sections National and worldwide associations through Accounting Group International

**GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	DEC. 31, 2005 (restated)	DEC. 31, 2004 (restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,228,180	\$ 601,559
Restricted cash	1,122,000	—
Accounts receivable, less allowance for doubtful accounts of \$409,100 and \$1,505,731	371,618	1,740,883
Loans to employees	46,068	6,885
Prepaid expenses	184,434	58,900
Prepaid expenses - related party, ISG Jet, LLC	185,960	—
Inventory	67,525	63,976
Deposits on equipment purchase	124,993	88,994
Deferred tax asset, less valuation allowance of \$9,828,700 and \$5,163,407	—	—
<b>TOTAL CURRENT ASSETS</b>	<b>3,330,778</b>	<b>2,561,197</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>7,028,422</b>	<b>445,756</b>
<b>OTHER ASSETS</b>		
Investment in unconsolidated foreign subsidiary - Consolidated Global Investments, Ltd.	—	352,300
Deposits	52,322	50,712
Prepaid expenses	—	8,012
<b>TOTAL OTHER ASSETS</b>	<b>52,322</b>	<b>411,024</b>
<b>TOTAL ASSETS</b>	<b>\$ 10,411,522</b>	<b>\$ 3,417,977</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>COMMITMENTS AND CONTINGENCIES (NOTES 6, 7, 17, AND 18)</b>		
	—	—
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 907,208	\$ 456,248
Current portion of long-term debt	—	2,846
Due to related party - Carrier Services, Inc.	901,606	—
Due to former employee payable in GTE stock	237,600	—
Due to related party payable in GTE Stock - Hotzone Wireless, Inc. - short-term portion	2,451,834	—
Accrued officers' and directors' compensation	97,382	198,333
Accrued expenses and other liabilities	545,636	93,436
Deferred revenues	—	46,319
Related party payables	57,500	117,500
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,198,766</b>	<b>914,682</b>
<b>LONG-TERM LIABILITIES</b>		

Due to related party payable in GTE Stock - Hotzone Wireless, Inc.	4,708,167	—
Capital lease obligations	—	4,718
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>4,708,167</b>	<b>4,718</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 9,906,933</b>	<b>\$ 919,400</b>
<b>STOCKHOLDERS' EQUITY</b>		
Series A Preferred stock, \$.001 par value, 10,000,000 shares authorized;		
0 and 96,500 shares issued and outstanding:	—	97
Additional paid-in capital - Series A Preferred stock	—	697,403
Series B Preferred stock, \$.001 par value, 35,000 shares authorized;		
0 and 35,000 shares issued and outstanding:	—	35
Additional paid-in capital - Series B Preferred stock	—	14,849,965
Series C Preferred stock, \$.001 par value, 5,000 shares authorized;		
500 and 750 shares issued and outstanding:	—	1
Additional paid-in capital - Series C Preferred stock	—	749,999
Series D Preferred stock, \$.001 par value, 5,000 shares authorized;		
1,000 shares issued and outstanding:	1	1
Additional paid-in capital - Series D Preferred stock	999,999	999,999
Common stock, \$.00001 par value, 150,000,000 shares authorized;		
98,192,101 and 63,389,976 shares issued and outstanding	982	9,508
Additional paid-in capital	81,570,082	39,880,605
Stock subscriptions receivable:		
Series B Preferred Stock	—	(11,500,000)
Series D Preferred Stock	(500,000)	(750,000)
Common Stock	(44,494)	—
Accumulated deficit	(81,521,980)	(42,439,036)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>504,589</b>	<b>2,498,577</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 10,411,522</b>	<b>\$ 3,417,977</b>

See accompanying notes.



**GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	2005 (restated)	2004 (restated)	2003
REVENUES EARNED	\$ 10,144,780	\$ 11,309,376	\$ 11,351,939
COST OF REVENUES EARNED	9,731,083	11,500,577	8,840,872
GROSS MARGIN(LOSS)	413,697	(191,201)	2,511,067
EXPENSES			
Payroll and related taxes	3,118,676	1,248,562	283,408
Consulting and professional fees	6,200,054	2,206,237	718,987
Officers' and directors' compensation	12,082,809	6,520,206	595,000
Bad debts	1,373,458	1,141,534	1,409,994
Investment banking and financing fees	788,985	172,106	223,886
Investor and public relations	550,460	117,856	121,656
Commissions expense - related party Carrier Services, Inc.	848,880	404,747	—
Research and development	9,494,223	3,038,085	—
Other operating expenses	826,101	156,011	92,715
Telephone and communications	200,129	75,390	69,169
Travel and related expenses	882,557	240,862	95,213
Rents	480,995	126,424	48,607
Insurance and employee benefits	672,700	126,644	102,383
Depreciation and amortization	236,018	53,586	44,370
TOTAL EXPENSES	37,756,045	15,628,250	3,805,388
LOSS BEFORE OTHER INCOME (EXPENSE) AND INCOME TAXES	(37,342,348)	(15,819,451)	(1,294,321)
OTHER INCOME (EXPENSE)			
Net gains on settlement of liabilities	—	268,397	26,274
Loss on disposition of property and equipment	—	(56,804)	(42,301)
Loss on settlement	(1,256,873)	—	—
Loss on disposition of unconsolidated foreign subsidiary - CGI	(352,300)	—	—
Loss on equipment deposit	—	(149,558)	—
Loss on discontinued operations	—	—	55,842
Loss on write-off of receivables and non-readily marketable securities	—	—	(4,834,878)
Interest income	44,368	2,067	—
Interest expense	(175,792)	(189,520)	(113,142)
NET OTHER EXPENSE	(1,740,597)	(125,418)	(4,908,205)
LOSS BEFORE INCOME TAXES	(39,082,945)	(15,944,869)	(6,202,526)
INCOME TAXES			
Provision for income taxes	—	—	—
Tax benefit from utilization of net operating loss carryforward	—	—	—
TOTAL INCOME TAXES	—	—	—
NET LOSS	(\$39,082,945)	(\$15,944,869)	(\$ 6,202,526)

**WEIGHTED AVERAGE NUMBER OF COMMON  
SHARES OUTSTANDING**

BASIC	75,072,487	49,892,551	41,854,325
DILUTED	75,072,487	49,892,551	41,854,325

**NET LOSS PER SHARE**

BASIC	(\$ 0.52)	(\$ 0.32)	(\$ 0.15)
DILUTED	(\$ 0.52)	(\$ 0.32)	(\$ 0.15)

**See accompanying notes**

27

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**GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	2005 (restated)	2004 (restated)	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	(\$39,082,945)	(\$15,944,869)	6,202,526
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	331,543	170,021	227,200
Gain on settlement of liabilities	—	(85,337)	26,274
Gain on discontinued operations	—	—	55,842
Loss on settlement	1,256,873	—	—
Loss on disposition of unconsolidated foreign subsidiary - CGI	352,300	—	—
Loss on disposition of fixed assets	—	56,804	42,301
Loss on write-off of receivables and non-readily marketable securities	—	—	4,834,878
Bad debt expense	1,373,458	1,141,534	1,409,994
Research and development expense	7,129,550	2,778,000	—
Common stock exchanged for services	4,930,573	1,558,707	604,510
Common stock exchanged for severance pay	177,397	—	—
Options exchanged for services	10,499,842	5,828,833	—
(Increase) decrease in assets:			
Accounts receivable	(4,193)	—	—
Restricted cash	(1,122,000)	211,010	(2,755,602)
Loans to employees	(39,183)	—	—
Prepaid expenses	(117,522)	(66,912)	—
Prepaid expenses - related party, ISG Jets, LLC	(185,960)	—	—
Inventory	(3,549)	(63,976)	—
Other current assets	—	—	—
Deposits on equipment purchases	(1,610)	(28,092)	74,486
Deposits and prepaid expenses	—	71,000	(71,000)
Increase (decrease) in liabilities:			
Accounts payable	451,141	(309,867)	1,111,960
Accounts payable, to be satisfied with non-readily marketable securities	—	—	(974,951)
Due to former employee with GTE stock	237,600	—	—
Due to related party - Carrier Services and company principal	901,606	—	—
Accrued officers' salaries and bonuses	(100,951)	198,333	—
Accrued expenses and other liabilities	452,200	29,054	426,460
Deferred revenues	(46,319)	14,791	(46,106)
Deferred revenues - related party	—	(27,023)	(152,822)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(12,610,149)</b>	<b>(4,467,989)</b>	<b>(1,389,102)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	(2,021,559)	(204,206)	(305,101)

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Acquisition of Hotzone assets	(27,000)	—	—
Advances to related party - Sanswire European joint venture	—	—	—
Deposit on equipment	(36,000)	(145,479)	(302,300)
Loans to employees	—	(6,885)	—
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(2,084,559)</b>	<b>(356,570)</b>	<b>(607,401)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Sale of preferred stock - Series A	—	1,057,500	717,140
Sale of preferred stock - Series B	250,000	2,850,000	—
Sale of preferred stock - Series C	250,000	1,000,000	—
Sale of preferred stock - Series D	—	250,000	—
Sale of common stock	6,903,931	—	500,000
Sale of common stock - exercises of options	48,412	—	—
Proceeds from unconsolidated foreign subsidiary - CGI	1,568,524	—	—
Proceeds from capital lease financing	—	9,554	—
Payments on capital lease financing	(4,718)	(2,229)	(29,674)
Proceeds from notes and loans payable	6,368,026	375,000	784,259
Payments on notes and loans payable	(2,846)	(398,701)	—
Proceeds from related party payables	—	60,000	144,194
Payments on related party payables	(60,000)	—	(96,053)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>15,321,329</b>	<b>5,201,124</b>	<b>2,019,866</b>
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	<b>626,621</b>	<b>376,565</b>	<b>23,363</b>
<b>CASH AND EQUIVALENTS - BEGINNING</b>	<b>601,559</b>	<b>224,994</b>	<b>201,631</b>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ 1,228,180</b>	<b>\$ 601,559</b>	<b>\$ 224,994</b>

**GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

SUPPLEMENTAL DISCLOSURES	2005 (restated)	2004 (restated)	2003
Cash paid during the period for:			
Interest	\$ 730	\$ 11,071	\$ 95,736
Income taxes	\$ —	\$ —	—
In addition to amounts reflected above, common stock was issued for:			
Options issued for services	\$ 10,499,842	\$ 5,828,833	\$ 10,000
Options issued for settlement of obligations	\$ 1,256,873	\$ —	2,447,732
Shares issued for services	\$ 4,930,573	\$ 1,546,568	\$ —
Shares issued for broker's fees (66,667 shares, recorded at par)	\$ —	\$ —	—
Shares issued for research and development	\$ 7,073,640	\$ 2,778,000	\$ —
Shares issued for assets	\$ 55,910	\$ 32,000	\$ —
Conversion of Series A preferred stock to common stock	\$ 697,500	\$ 1,452,140	\$ —
Conversion of Series B preferred stock to common stock	\$ 8,435,200	\$ —	\$ —
Conversion of Series C preferred stock to common stock	\$ 750,000	\$ 250,000	\$ —
Conversion of notes payable to common stock	\$ 6,368,026	\$ —	\$ —
In addition to amounts reflected above, preferred stock was issued for:			
Series A preferred stock issued for broker's fees (7,167 shares,			
Series A preferred stock issued for broker's fees (7,167 shares, recorded at par)	\$ —	\$ —	\$ —
Series B preferred stock issued for broker's fees	\$ —	\$ 150,000	\$ —
Series B preferred stock issued for settlement of debt	\$ —	\$ 500,000	\$ —
Series B preferred stock issued for equipment	\$ 4,835,200	\$ —	\$ —

**NON-CASH FINANCING ACTIVITIES:**

On July 28, 2004, \$1,000,000 of Series D preferred stock was issued. A stock subscription receivable of \$500,00 was outstanding as of December 31, 2005

See accompanying notes.

**GLOBETEL COMMUNICATIONS CORP. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005(restated), 2004(restated), AND 2003**

Description	COMMON STOCK			
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	STOCK SUBSCRIPTIONS RECEIVABLE
Balance, Dec. 31, 2002	40,354,686	404	24,450,106	—
Shares issued for services	1,583,236	16	568,494	—
Options issued for services	—	—	10,000	—
Shares issued for severance pay	80,000	1	35,999	—
Shares issued for extinguishment of debt	2,986,133	29	1,431,055	—
Options issued for extinguishment of debt	—	—	1,016,468	—
Shares issued for cash	1,338,688	13	499,987	—
Shares issued for loan collateral	333,333	3	(3)	—
Shares returned for loan collateral	(3,127,778)	(31)	31	—
Preferred Series A shares issued for cash and stock subscriptions receivable	—	—	—	—
Net loss	—	—	—	—
Balance, Dec. 31, 2003	43,548,298	435	28,012,137	—
Shares issued for options exercised	3,963,186	39	(39)	—
Shares issued to / for unconsolidated foreign subsidiary	1,333,333	13	(13)	—
Shares issued for services	1,750,977	18	1,546,550	—
Shares issued for Sanswire assets	21,333	1	31,999	—
Shares issued for research and development	1,845,333	19	2,767,981	—
Shares issued for Stratodyne assets	133,333	1	(1)	—
Preferred Series A shares issued for cash and stock subscriptions receivable	—	—	—	—
Preferred Series A shares issued for broker's fees	—	—	—	—
Shares issued for conversion of Preferred Series A shares	—	—	—	—
Preferred Series B shares issued for cash and stock subscriptions receivable	—	—	—	—
Preferred Series B shares issued for extinguishment of debt	—	—	—	—
Preferred Series B shares issued for broker's fees	—	—	—	—
Preferred Series C shares issued for cash and stock subscriptions	—	—	—	—

receivable

Shares issued for conversions of Preferred Series C shares	151,515	2	249,998	—
Preferred Series D shares issued for cash	—	—	—	—
Options issued for Board member stipends	—	—	145,313	—
Options issued for services, per 2004 Stock Option Plan	—	—	1,191,937	—
Options issued for services, per Executives % Stock Option Grant Plan	—	—	4,491,583	—
Net loss	—	—	—	—
Balance, Dec. 31, 2004 (restated)	63,389,976	634	39,889,479	—
Shares issued for options exercised	1,785,490	18	92,888	(44,494)
Shares issued for services	2,232,215	22	4,930,729	—
Shares issued for convertible note payable and accrued interest	4,269,876	43	6,367,983	—
Shares issued for cash	3,177,916	32	6,903,901	—
Shares issued for brokers fees	66,667	1	(1)	—
Shares issued for severance pay	106,977	1	177,396	—
Conversion of amount due to unconsolidated subsidiary to equity per buy-back agreement	—	—	1,568,524	—
Shares issued for conversion of Preferred Series A shares	8,911,651	89	697,411	—
Preferred Series B stock subscriptions receivable paid for with cash and equipment	—	—	—	—
Shares issued for conversion of Preferred Series B shares	12,931,334	129	8,435,070	—
Shares issued for conversion of Preferred Series C shares	1,320,000	13	749,987	—
Preferred Series D stock subscriptions receivable paid for with cash	—	—	—	—
Options issued for Board member stipends	—	—	85,575	—
Options issued for executive compensation	—	—	55,000	—
Options issued for services, per Executives % Stock Option Grant Plan	—	—	10,359,267	—
Options issued for settlement of obligations	—	—	1,256,873	—
Net loss	—	—	—	—
<b>BALANCE, DEC. 31, 2005 (restated)</b>	<b>98,192,102</b>	<b>982</b>	<b>81,570,082</b>	<b>(44,494)</b>

Description	SHARES	AMOUNT	SERIES A	STOCK
			ADDITIONAL PAID-IN CAPITAL	SUBSCRIPTIONS RECEIVABLE
Balance, Dec. 31, 2002	—	—	—	—
Shares issued for services	—	—	—	—
Options issued for services	—	—	—	—
Shares issued for severance pay	—	—	—	—
Shares issued for extinguishment of debt	—	—	—	—
Options issued for extinguishment of debt	—	—	—	—
Shares issued for cash	—	—	—	—
Shares issued for loan collateral	—	—	—	—
Shares returned for loan collateral	—	—	—	—
Preferred Series A shares issued for cash and stock subscriptions receivable	72,000	72	1,092,068	(375,000)
Net loss	—	—	—	—
Balance, Dec. 31, 2003	72,000	72	1,092,068	(375,000)
Shares issued for options exercised	—	—	—	—
Shares issued to / for unconsolidated foreign subsidiary	—	—	—	—
Shares issued for services	—	—	—	—
Shares issued for Sanswire assets	—	—	—	—
Shares issued for research and development	—	—	—	—
Shares issued for Stratodyne assets	—	—	—	—
Preferred Series A shares issued for cash and stock subscriptions receivable	70,500	71	1,057,429	375,000
Preferred Series A shares issued for broker's fees	107,500	107	(107)	—
Shares issued for conversion of Preferred Series A shares	(153,500)	(153)	(1,451,987)	—
Preferred Series B shares issued for cash and stock subscriptions receivable	—	—	—	—
Preferred Series B shares issued for extinguishment of debt	—	—	—	—
Preferred Series B shares issued for broker's fees	—	—	—	—
Preferred Series C shares issued for cash and stock subscriptions receivable	—	—	—	—
Shares issued for conversions of Preferred Series C shares	—	—	—	—
Preferred Series D shares issued for cash	—	—	—	—



Options issued for Board member stipends	—	—	—	—
Options issued for services, per 2004 Stock Option Plan	—	—	—	—
Options issued for services, per Executives % Stock Option Grant Plan	—	—	—	—
Net loss	—	—	—	—
Balance, Dec. 31, 2004 (restated)	96,500	97	697,403	—
Shares issued for options exercised	—	—	—	—
Shares issued for services	—	—	—	—
Shares issued for convertible note payable and accrued interest	—	—	—	—
Shares issued for cash	—	—	—	—
Shares issued for brokers fees	—	—	—	—
Shares issued for severance pay	—	—	—	—
Conversion of amount due to unconsolidated subsidiary to equity per buy-back agreement	—	—	—	—
Shares issued for conversion of Preferred Series A shares	(96,500)	(97)	(697,403)	—
Preferred Series B stock subscriptions receivable paid for with cash and equipment	—	—	—	—
Shares issued for conversion of Preferred Series B shares	—	—	—	—
Shares issued for conversion of Preferred Series C shares	—	—	—	—
Preferred Series D stock subscriptions receivable paid for with cash	—	—	—	—
Options issued for Board member stipends	—	—	—	—
Options issued for executive compensation	—	—	—	—
Options issued for services, per Executives % Stock Option Grant Plan	—	—	—	—
Options issued for settlement of obligations	—	—	—	—
Net loss	—	—	—	—
BALANCE, DEC. 31, 2005 (restated)	—	—	—	—

Description	SHARES	AMOUNT	SERIES B	STOCK
			ADDITIONAL PAID-IN CAPITAL	SUBSCRIPTIONS RECEIVABLE
Balance, Dec. 31, 2002	—	—	—	—
Shares issued for services	—	—	—	—
Options issued for services	—	—	—	—
Shares issued for severance pay	—	—	—	—
Shares issued for extinguishment of debt	—	—	—	—
Options issued for extinguishment of debt	—	—	—	—
Shares issued for cash	—	—	—	—
Shares issued for loan collateral	—	—	—	—
Shares returned for loan collateral	—	—	—	—
Preferred Series A shares issued for cash and stock subscriptions receivable	—	—	—	—
Net loss	—	—	—	—
Balance, Dec. 31, 2003	—	—	—	—
Shares issued for options exercised	—	—	—	—
Shares issued to / for unconsolidated foreign subsidiary	—	—	—	—
Shares issued for services	—	—	—	—
Shares issued for Sanswire assets	—	—	—	—
Shares issued for research and development	—	—	—	—
Shares issued for Stratodyne assets	—	—	—	—
Preferred Series A shares issued for cash and stock subscriptions receivable	—	—	—	—
Preferred Series A shares issued for broker's fees	—	—	—	—
Shares issued for conversion of Preferred Series A shares	—	—	—	—
Preferred Series B shares issued for cash and stock subscriptions receivable	35,000	35	14,999,965	(12,150,000)
Preferred Series B shares issued for extinguishment of debt	—	—	—	500,000
Preferred Series B shares issued for broker's fees	—	—	(150,000)	150,000
Preferred Series C shares issued for cash and stock subscriptions receivable	—	—	—	—
Shares issued for conversions of Preferred Series C shares	—	—	—	—
	—	—	—	—

Preferred Series D shares issued for cash				
Options issued for Board member stipends	—	—	—	—
Options issued for services, per 2004 Stock Option Plan	—	—	—	—
Options issued for services, per Executives % Stock Option Grant Plan	—	—	—	—
Net loss	—	—	—	—
Balance, Dec. 31, 2004 (restated)	35,000	35	14,849,965	(11,500,000)
Shares issued for options exercised	—	—	—	—
Shares issued for services	—	—	—	—
Shares issued for convertible note payable and accrued interest	—	—	—	—
Shares issued for cash	—	—	—	—
Shares issued for brokers fees	—	—	—	—
Shares issued for severance pay	—	—	—	—
Conversion of amount due to unconsolidated subsidiary to equity per buy-back agreement	—	—	—	—
Shares issued for conversion of Preferred Series A shares	—	—	—	—
Preferred Series B stock subscriptions receivable paid for with cash and equipment	—	—	—	5,085,200
Shares issued for conversion of Preferred Series B shares	(35,000)	(35)	(14,849,965)	6,414,800
Shares issued for conversion of Preferred Series C shares	—	—	—	—
Preferred Series D stock subscriptions receivable paid for with cash	—	—	—	—
Options issued for Board member stipends	—	—	—	—
Options issued for executive compensation	—	—	—	—
Options issued for services, per Executives % Stock Option Grant Plan	—	—	—	—
Options issued for settlement of obligations	—	—	—	—
Net loss	—	—	—	—
BALANCE, DEC. 31, 2005 (restated)	—	—	—	—

Description	SHARES	AMOUNT	SERIES C	
			ADDITIONAL PAID-IN CAPITAL	STOCK SUBSCRIPTIONS RECEIVABLE
Balance, Dec. 31, 2002	—	—	—	—
Shares issued for services	—	—	—	—
Options issued for services	—	—	—	—
Shares issued for severance pay	—	—	—	—
Shares issued for extinguishment of debt	—	—	—	—
Options issued for extinguishment of debt	—	—	—	—
Shares issued for cash	—	—	—	—
Shares issued for loan collateral	—	—	—	—
Shares returned for loan collateral	—	—	—	—
Preferred Series A shares issued for cash and stock subscriptions receivable	—	—	—	—
Net loss	—	—	—	—
Balance, Dec. 31, 2003	—	—	—	—
Shares issued for options exercised	—	—	—	—
Shares issued to / for unconsolidated foreign subsidiary	—	—	—	—
Shares issued for services	—	—	—	—
Shares issued for Sanswire assets	—	—	—	—
Shares issued for Stratodyne assets	—	—	—	—
Preferred Series A shares issued for cash and stock subscriptions receivable	—	—	—	—
Preferred Series A shares issued for broker's fees	—	—	—	—
Shares issued for conversion of Preferred Series A shares	—	—	—	—
Preferred Series B shares issued for cash and stock subscriptions receivable	—	—	—	—
Preferred Series B shares issued for extinguishment of debt	—	—	—	—
Preferred Series B shares issued for broker's fees	—	—	—	—
Preferred Series C shares issued for cash and stock subscriptions receivable	1,000	1	999,999	—
Shares issued for conversions of Preferred Series C shares	(250)	—	(250,000)	—
Preferred Series D shares issued for cash	—	—	—	—
Options issued for Board member stipends	—	—	—	—
Options issued for services, per 2004 Stock Option Plan	—	—	—	—
	—	—	—	—

Options issued for services, per Executives % Stock Option Grant Plan				
Net loss	—	—	—	—
Balance, Dec. 31, 2004 (restated)	750	1	749,999	—
Shares issued for options exercised	—	—	—	—
Shares issued for services	—	—	—	—
Shares issued for convertible note payable and accrued interest	—	—	—	—
Shares issued for cash	—	—	—	—
Shares issued for brokers fees	—	—	—	—
Shares issued for severance pay	—	—	—	—
Conversion of amount due to unconsolidated subsidiary to equity per buy-back agreement	—	—	—	—
Shares issued for conversion of Preferred Series A shares	—	—	—	—
Preferred Series B stock subscriptions receivable paid for with cash and equipment	—	—	—	—
Shares issued for conversion of Preferred Series B shares	—	—	—	—
Shares issued for conversion of Preferred Series C shares	(750)	(1)	(749,999)	—
Preferred Series D stock subscriptions receivable paid for with cash	—	—	—	—
Options issued for Board member stipends	—	—	—	—
Options issued for executive compensation	—	—	—	—
Options issued for services, per Executives % Stock Option Grant Plan	—	—	—	—
Options issued for settlement of obligations	—	—	—	—
Net loss	—	—	—	—
BALANCE, DEC. 31, 2005 (restated)	—	—	—	—

Description	SHARES	AMOUNT	SERIES D		ACCUMULATED	TOTAL
			ADDITIONAL PAID-IN CAPITAL	STOCK SUBSCRIPTIONS RECEIVABLE		
Balance, Dec. 31, 2002	—	—	—	—	(20,291,641)	4,158,869
Shares issued for services	—	—	—	—	—	568,510
Options issued for services	—	—	—	—	—	10,000
Shares issued for severance pay	—	—	—	—	—	36,000
Shares issued for extinguishment of debt	—	—	—	—	—	1,431,084
Options issued for extinguishment of debt	—	—	—	—	—	1,016,468
Shares issued for cash	—	—	—	—	—	500,000
Shares issued for loan collateral	—	—	—	—	—	—
Shares returned for loan collateral	—	—	—	—	—	—
Preferred Series A shares issued for cash and stock subscriptions receivable	—	—	—	—	—	717,140
Net loss	—	—	—	—	(6,202,526)	(6,202,526)
Balance, Dec. 31, 2003	—	—	—	—	(26,494,167)	2,235,545
Shares issued for options exercised	—	—	—	—	—	—
Shares issued to / for unconsolidated foreign subsidiary	—	—	—	—	—	—
Shares issued for services	—	—	—	—	—	1,546,568
Shares issued for Sanswire assets	—	—	—	—	—	32,000
Shares issued for research and development	—	—	—	—	—	2,768,000
Shares issued for Stratodyne assets	—	—	—	—	—	—
Preferred Series A shares issued for cash and stock subscriptions receivable	—	—	—	—	—	1,432,500
Preferred Series A shares issued for broker's fees	—	—	—	—	—	—
Shares issued for conversion of Preferred Series A shares	—	—	—	—	—	—
	—	—	—	—	—	2,850,000

Preferred Series B shares issued for cash and stock subscriptions receivable						
Preferred Series B shares issued for extinguishment of debt	—	—	—	—	—	500,000
Preferred Series B shares issued for broker's fees	—	—	—	—	—	—
Preferred Series C shares issued for cash and stock subscriptions receivable	—	—	—	—	—	1,000,000
Shares issued for conversions of Preferred Series C shares	—	—	—	—	—	—
Preferred Series D shares issued for cash	1,000	1	999,999	(750,000)	—	250,000
Options issued for Board member stipends	—	—	—	—	—	145,313
Options issued for services, per 2004 Stock Option Plan	—	—	—	—	—	1,191,937
Options issued for services, per Executives % Stock Option Grant Plan	—	—	—	—	—	4,491,583
Net loss	—	—	—	—	(15,944,869)	(15,944,869)
Balance, Dec. 31, 2004 (restated)	1,000	1	999,999	(750,000)	(42,439,036)	2,498,577
Shares issued for options exercised	—	—	—	—	—	48,412
Shares issued for services	—	—	—	—	—	4,930,751
Shares issued for convertible note payable and accrued interest	—	—	—	—	—	6,368,026
Shares issued for cash	—	—	—	—	—	6,903,932
Shares issued for brokers fees	—	—	—	—	—	—
Shares issued for severance pay	—	—	—	—	—	177,397
Conversion of amount due to unconsolidated subsidiary to equity per buy-back agreement	—	—	—	—	—	1,568,524
Shares issued for conversion of Preferred Series A shares	—	—	—	—	—	—
Preferred Series B stock subscriptions receivable paid for with cash and	—	—	—	—	—	5,085,200

equipment						
Shares issued for conversion of Preferred Series B shares	—	—	—	—	—	—
Shares issued for conversion of Preferred Series C shares	—	—	—	—	—	—
Preferred Series D stock subscriptions receivable paid for with cash	—	—	—	250,000	—	250,000
Options issued for Board member stipends	—	—	—	—	—	85,575
Options issued for executive compensation	—	—	—	—	—	55,000
Options issued for services, per Executives % Stock Option Grant Plan	—	—	—	—	—	10,359,267
Options issued for settlement of obligations	—	—	—	—	—	1,256,873
Net loss	—	—	—	—	(39,082,945)	(39,082,944)
BALANCE, DEC. 31, 2005 (restated)	1,000	1	999,999	(500,000)	(81,521,980)	504,589



**GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**NATURE OF OPERATIONS**

GlobeTel Communications Corp. ("Globetel") is engaged in the business of providing telecommunications and financial services. GlobeTel operates business unites in stored value cards, as a certified MasterCard processor, the sale of Internet telephony using Voice over Internet Protocol ("VoIP") technology and equipment, and wireless communications both domestically and internationally, including Mexico and certain countries in South America, Europe and Asia. In addition, our subsidiary, Sanswire Networks, 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. Although through December 31, 2005, only the telecommunications activities produced revenues, all of our operations are considered to be of relatively equal importance, based on the anticipation of future revenue producing activities and substantial investment in assets related to all of our operations.

**ORGANIZATION AND CAPITALIZATION**

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 (pre-split) 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.

In May 2005, GlobeTel approved a reverse split of shares of common stock on a one for fifteen (1:15) basis and changed the number of shares authorized to 100,000,000. In the Company's annual shareholders meeting on August 1, 2005, the shareholders voted to increase the shares authorized from 100,000,000 to 150,000,000.

All common stock amounts in this report have been retroactively restated to account for the reverse stock split, unless otherwise noted.

**BASIS OF PRESENTATION**

The financial statements include the accounts of GlobeTel Communications Corp. and its wholly-owned subsidiaries: Sanswire Networks, LLC; GlobeTel Wireless Corp.; GlobeTel Wireless Europe GmbH, a German corporation, 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; High Valley Property Ltd., a British Virgin Islands corporation; as well as the accounts GTCC de Mexico, S.A. de C.V, which GlobeTel owns 99% of.

All material inter-company balances and transactions were eliminated in the consolidation.

#### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2003, the Financial Accounting Standards Board (FASB) issued a revised Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46R). FIN 46R addresses consolidation by business enterprises of variable interest entities and significantly changes the consolidation application of consolidation policies to variable interest entities and, thus improves comparability between enterprises engaged in similar activities when those activities are conducted through variable interest entities. The Company does not hold any variable interest entities as of December 31, 2005. The Company expects the adoption of this standard will have a material impact on its financial statements assuming variable interest entities are applicable in the future.

In November 2004, the FASB issued Statement No. 151, "Inventory Costs", to amend the guidance in Chapter 4, "Inventory Pricing", of FASB Accounting Research Bulletin (ARB) No. 43, "Restatement and Revision of Accounting Research Bulletins", which will become effective for the Company in fiscal year 2006. Statement 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The Statement requires that those items be recognized as current-period charges. Additionally, Statement 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. Management believes that the adoption of SFAS 151 will not affect the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment to Opinion No. 29, "Accounting for Nonmonetary Transactions." Statement No. 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2005. Management does not expect adoption of SFAS No. 153 to have any impact on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2005) "Share-Based Payments", 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". Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The new standard will be effective for the Company in the first interim or annual reporting period beginning after December 15, 2005. The Company expects the adoption of this standard will have a material impact on its financial statements assuming employee stock options are granted in the future.

The adoptions of these new pronouncements have not and, other than as noted above, are not expected to have a material effect on the Company's consolidated financial position or results of operations.

#### MOVE TO AMERICAN STOCK EXCHANGE

On May 6, 2005, the Board of Directors approved a reverse split of the Company's shares of common stock on a one for fifteen (1:15) basis, in anticipation of the Company's move to the American Stock Exchange (AMEX) on May 23, 2005. The AMEX granted approval for the Company to list its shares on the exchange and the Company began trading on the AMEX under the symbol GTE on May 23, 2005. On October 3, 2006 the Company was notified that the Amex would delist the stock from the Exchange. All common stock amounts in this report have been restated to account for the reverse stock split, unless otherwise noted.

#### RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation. There were no material changes in classifications made to previously issued financial statements.

#### CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The Company considers all highly liquid debt instruments with an original maturity of three months or less at the date of purchase to be cash equivalents. Restricted cash represents letters of credit to suppliers for MasterCard in the amount of \$1,000,000 in support of the Stored Value Card program, rental deposit for Los Angeles World Airport related to the Palmdale Hanger occupied by Sanswire Networks, LLC in the amount of \$72,000 and for a wholesale carrier in the amount of \$50,000.

The Company anticipates increased cash flows from 2006 sales activities; however, additional cash will still be needed to support operations. Management believes it can continue to raise capital from various funding sources, which when added to budgeted sales and current working capital, will be sufficient to sustain operations at its current level through January 1, 2007. However, if budgeted sales levels are not achieved and/or if significant unanticipated expenditures occur, or if we are unable to obtain the necessary funding, the company may have to modify its business plan, reduce or discontinue some of its operations or seek a buyer for all or part of its assets to continue as a going concern through 2006.

## 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 accounts that are ninety-days or more overdue. When accounts are deemed uncollectible, the account receivable is charged off and the allowance account is reduced accordingly. Bad debt expense for the years ended December 31, 2005, 2004 and 2003 were \$1,373,458, \$1,141,534, and \$1,409,994, respectively.

## INVENTORY

Inventory is recorded at lower-of-cost-or-market, first-in first-out (FIFO) basis. Inventory at December 31, 2005 consisted primarily of communications equipment and component parts related to our wireless operations. Inventory at December 31, 2004 consisted of IP (Internet Protocol) phones held for resale.

As of December 31, 2005, the Company wrote-off \$60,976 of IP phones inventory considered obsolete and charged this amount against costs of sales.

## PROPERTY AND EQUIPMENT

Property and equipment consists of primarily telecommunications equipment, computer and related equipment and office furniture and fixtures, which are stated at cost less depreciation and amortization. Depreciation is based on the estimated useful lives of the assets, ranging from seven years for office furniture and equipment to five years for telecommunications equipment, using the straight-line method. Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements are capitalized. Gains and losses on disposition of property and equipment are included in income as realized.

## REVENUE RECOGNITION

Revenues for voice, data, and other services to end-users are recognized in the month in which the service is provided. Amounts invoiced and collected in advance of services provided are recorded as deferred revenue. Revenues for carrier interconnection and access are recognized in the month in which the service is provided.

Sales of telecommunications networks are recognized when the networks are delivered and accepted by the customer. Sales of computer hardware, equipment, and installation are recognized when products are shipped to customers. Provisions for estimated returns and allowances are provided for in the same period the related sales are recorded. Revenues on service contracts are recognized ratably over applicable contract periods. Amounts billed and collected before services are performed are included in deferred revenues.

## INCOME TAXES

Income taxes are computed under the provisions of the Financial Accounting Standards Board (FASB) Statement No. 109 (SFAS 109), Accounting for Income Taxes. SFAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of the difference in events that have been recognized in the Company's financial statements compared to the tax returns.

## ADVERTISING AND MARKETING COSTS

Advertising and marketing costs are charged to operations in the period incurred. Advertising and marketing expense for the years ended December 31, 2005, 2004 and 2003, were \$265,283, \$19,160 and \$105,314, respectively, and are included in "Investor and public relations" in the consolidated statements of income (loss).

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments, including cash, receivables, securities, accounts payable, and notes payable are carried at amounts which reasonably approximate their fair value due to the short-term nature of these amounts or due to variable rates of interest which are consistent with market rates.

#### 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 \$1,098,802, \$562,760 (restated from Book to Bank) and \$224,994 as of December 31, 2005, 2004 and 2003, respectively, which are in excess of federally insured limit. As of December 31, 2005, 2004 and 2003, the Company had \$898,701, \$462,760 and \$124,994, 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.

The company anticipates increased cash flows from 2006 sales activities; however, additional cash will still be needed to support operations. Management believes it can raise capital from various funding sources, which when added to budgeted sales and current working capital, will be sufficient to sustain operations at its current level through January 1, 2007. However, if budgeted sales levels are not achieved and / or if significant unanticipated expenditures occur, or if we are unable to obtain the necessary funding, the company may have to modify its business plan, reduce or discontinue some of its operations or seek a buyer for all or part of its assets to continue as a going concern through 2006.

#### 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.

#### NET LOSS PER COMMON SHARE

Basic net loss per common share has been computed based upon the weighted average number of shares of common stock outstanding during each period. The basic net loss is computed by dividing the net loss by the weighted average number of common shares outstanding during each period. In periods where losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. Following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the year ended December 31, 2005:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic Net Loss per Share:			
Income (loss) available to common stockholders	\$ (39,082,945)	74,072,487	\$ (.52)
Effect of Dilutive Convertible Preferred Stock and Options	—	—	—
Diluted Net Income (loss) per Share:			
Income (loss) available to common stockholders plus, assumed Conversions and exercises	\$ (39,082,945)	74,072,487	\$ (.52)

Available stock options at December 31, 2005, 2004 and 2003, were anti-dilutive and therefore were excluded from the net income (loss) per common share calculation. If all outstanding options, warrants and convertible shares were to be converted or exercised as of the date of this report, the weighted average fully diluted shares outstanding would be 95,841,094.

#### IMPAIRMENT OF LONG-LIVED ASSETS

The Company follows FASB Statement No. 144 (SFAS 144), "Accounting for the Impairment of Long-Lived Assets." SFAS 144 requires that long-lived assets to be held and used are reviewed for impairment whenever events or changes

in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell.



## 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 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.

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.

Had compensation cost for the Company's stock option plans been 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 been adjusted as follows:

	2005	2004
Net loss for the year - as reported	\$ (39,082,945)	\$ (15,944,869)
Add: Total stock-based compensation expense included in Net loss, as reported determined under APB 25, net of related tax effects	10,499,842	5,828,833
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(14,429,334)	(5,323,319)
Net loss for the year - pro forma	\$ (43,012,437)	\$ (15,439,355)

The fair value of each option grant has been estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004	2003
Expected dividend yield	—	—	—
Expected stock price volatility	50%	300%	150%
Risk-free interest rate	5.0%	2.0%	2.0%
Expected life of options	2 years	2 years	3 years
Block discount applied	—	—	—

In December 2005, the FASB issued SFAS No. 123 (revised 2005), 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.

**NOTE 2.RESTATEMENT OF RESULTS**

We have determined that, in certain cases, we misinterpreted or misapplied Generally Accepted Accounting Principles (“GAAP”) in our 2004 and 2005 consolidated financial statements and, accordingly, we have restated our consolidated financial statements for the periods ended December 31, 2004 and 2005.

As discussed more fully below, the restatements involve, among other matters, revenue recognition issues related to reporting gross revenue versus net as per EITF Issue 99-19. In making these restatements, we have performed an internal analysis of our accounting policies, practices, procedures and disclosures for the affected periods.

*Summary of restatement items*

The following tables set forth the effects of the restatement adjustments discussed below on revenue; cost of sales; net loss; and loss per share as presented in our consolidated statements of operations for the years ended December 31, 2004 and 2005, and intangible assets. The restatement adjustments are discussed in the paragraphs following the tables.

	<b>Year ended December 31, 2005</b>				
	<b>Revenue</b>	<b>Cost of Sales</b>	<b>Net Loss</b>	<b>Loss per Share</b>	<b>Intangible Assets</b>
Previously reported	\$ 81,143,838	\$ 80,730,141	\$ (31,953,395)	\$ (0.426)	\$ 9,907,550
<b>Restatement Adjustments, net:</b>					
Net Revenue Adjustment	\$ (70,999,058)	\$ (70,999,058)	—	(0.00)	
2004 Purchase accounting	—	—	—	(0.00)	(2,778,000)
Purchase accounting	—	—	(7,129,550)	(0.00)	(7,129,550)
Net restatements	\$ (70,999,058)	\$ (70,999,058)	(7,129,550)	(0.00)	(9,907,550)
As restated	\$ 10,144,780	\$ 9,731,083	\$ (39,082,945)	\$ (0.52)	\$ —

## Year ended December 31, 2004

	Revenue	Cost of Sales	Net Loss	Loss per Share	Intangible Assets
Previously reported	\$ 28,996,213	\$ 29,187,414	\$ (13,166,869)	\$ (0.02)	\$ 2,778,000
<b>Restatement Adjustments, net:</b>					
Net Revenue Adjustment	\$ (17,686,837)	\$ (17,686,837)	—	(0.00)	
Purchase accounting	—	—	(2,778,000)	(0.00)	(2,778,000)
Net restatements	\$ (17,686,837)	\$ (17,686,837)	(2,778,000)	(0.00)	(2,778,000)
As restated	\$ 11,309,376	\$ 11,500,577	\$ (15,944,869)	\$ (0.02)	\$ —

**Net Revenue Adjustment**

In 2005, we engaged in transactions where we recorded our wholesale telecommunications revenues as Gross Revenue. After thorough review, we concluded that 2005 revenues equaling \$70,999,058 could not be supported and thus were reduced from previously reported revenues. The adjustments were offset against previously reported cost of sales by the same amount of \$70,999,058.

In 2004, we engaged in transactions where we recorded our wholesale telecommunications revenues as Gross Revenue. After thorough review, we concluded that 2004 revenues equaling \$11,190,902 could not be supported and thus were reduced from previously reported revenues. Also after applying the indicators, upon application of the EITF Issue 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," Accounting Principles Board Opinion No. 10 ("APB 10") "Revenue Recognition Principle," and Financial Accounting Standards Board Interpretation No. 39 ("FIN 39") "Offsetting of Amounts Related to Certain Contracts," we concluded that we should record only the net revenue from certain wholesale telecommunications due to the indicators not supporting the criteria for gross revenue which further reduced revenues \$6,495,935 for a total of \$17,686,837. The adjustments were offset against previously reported cost of sales by the same amount of \$17,686,837.

In our previously issued consolidated financial statements, we booked the gross consideration for all our wholesale telecommunications revenue without additional consideration to its characteristics. As part of our internal analysis of our accounting policies, practices and procedures in place in 2004 and 2005, we did not review the previous accounting model for recording our revenues.

**Purchase Accounting**

As described in Item 7, Financial Statements, Note 9 - Asset Acquisition - Hotzone, we found a discrepancy in the application of purchase accounting for the June 2, 2005 transaction and have recorded an adjustment to correct it in our restated consolidated financial statements.

*Intangible Assets.* We recorded restatement adjustments to the amounts allocated to the technology-in-place intangible assets acquired in the transaction. The effect of the adjustments to intangible assets in 2005 was a reduction of \$7,129,550 and subsequently an increase to research and development expense in 2005 of \$7,129,550.

As described in Item 7, Financial Statements, Note 8 - Asset Acquisition - Sanswire, we found a discrepancy in the application of purchase accounting for the April 15, 2004 transaction and have recorded an adjustment to correct it in our restated consolidated financial statements.



*Intangible Assets.* We recorded restatement adjustments to the amounts allocated to the technology-in-place intangible assets acquired in the transaction. The effect of the adjustments to intangible assets in 2004 was a reduction of \$2,778,000 and subsequently an increase to research and development expense in 2004 of \$2,778,000.

**NOTE 3. ACCOUNTS RECEIVABLE AND SALES - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK AND ECONOMIC DEPENDENCE**

Five customers, Prince Telekom, Teleworks Wholesale Services, LP, Dollar Phone, Andiamo, and Intelco Communications accounted for 83% of the Company's sales for 2005 and Three customers, Gatesway Online, Ltd., GTCC Qualnet Communications, Ltd., and Transglobal Ventures, Inc., accounted for 88% of the Company's sales for 2003, including 19% attributable to the Brazil network in 2004, 46% to the Mexico (including 42% related to our Mexico network and 4% unrelated to our network) in 2004, and 76% and 29% to the Philippine network in 2005 and 2004 respectively. Four of the customers for the international networks account for 92% of accounts receivable as of December 31, 2004.

Sales attributable to foreign operations for the year ended December 31, 2005 were \$9,183,407 or 91% of total sales; for December 31, 2004, were \$11,096,261 or 98% of total sales; and for December 31, 2003 were \$11,256,907 or 99% of total sales. The amounts include \$7,674,615 or 76% of totals sales for the Philippines. For prior years, revenues of \$2,147,119 or 7% for 2004 and \$2,923,981 or 26% for 2003 from Brazil and \$5,244,478 or 46% for 2004 and \$8,052,143 or 71% from Mexico. Revenue is attributable to these 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.

In connection with the Brazil network, \$1,903,264 and \$1,955,818 during years ended December 31, 2004 and 2003, respectively, was paid by our Brazilian network customer directly to a local provider of network termination services, and, accordingly, the accounts receivable due from the customer was reduced by the same amounts. There were no such transactions during 2005.

In connection with the Mexico network, \$4,485,030 and \$5,609,939 during the years ended December 31, 2004 and 2003, respectively, was paid by our Mexico network customer directly to a local provider of network termination services, and, accordingly, the accounts receivable due from the customer was reduced by the same amounts. There were no such transactions during 2005.

During the year ended December 31, 2005, the Company increased its allowance for doubtful accounts by \$1,373,458, predominantly for the receivables from the Mexico and Brazil networks, representing all of the amounts receivable, which have not been received as of the date of this report. The Company also charged off the accounts receivable and decreased its allowance account by \$2,374,304, related to the receivables from Mexico and Brazil, resulting in an allowance for doubtful accounts of \$409,100 as of December 31, 2005 primarily attributable to the portion of the Mexico receivables that are not considered uncollectible as of the date of this report.

**NOTE 4. PREPAID EXPENSES AND EXPENSE-RELATED PARTY**

**PREPAID EXPENSES**

Prepaid expenses include primarily \$117,678 of payments made to telecom carriers for prepaid minutes. For the 2004 the balance was for prepaid leases and prepayments to telecom carriers.

**PREPAID EXPENSE - RELATED PARTY - ISG JET, LLC**

On October 11, 2005, the company entered into an arrangement with ISG Jet, LLC for travel services. The agreement provides the Company with the ability to utilize executive air travel services at a reduced rate over a two-year period. The Company made a payment of \$185,960, which includes \$60,960 in cash and 81,168 shares of the company's common stock, which was valued at \$125,000 (valued at \$1.54 per share). The Company maintains a prepaid balance that is being reduced over the term of the agreement, which ends in September 2007. The Parent company of ISG Jet, LLC is owned by Investor Source Group, LLC, which is owned 100% by Steven King, Executive Vice President of GlobeTel.

#### LOANS TO EMPLOYEES

This represents advances made by the Company to non-officer employees for payment of payroll taxes on stock options exercised during 2005. The company will recover this amount from the employees during the first quarter of 2006.

#### NOTE 5. DEPOSITS ON EQUIPMENT PURCHASES

This represent payments made for the new MasterCard Switch for \$124,993 as of December 31, 2005, as compared to \$88,994 as of December 31, 2004.

**NOTE 6. PROPERTY AND EQUIPMENT**

PROPERTY AND EQUIPMENT CONSISTED OF THE FOLLOWING:	2005	2004
Telecommunications equipment	\$ 1,356,966	\$ 566,226
Assets not yet placed in service	5,267,526	- 0 -
Computer and related equipment	468,916	143,802
Office furniture and fixtures	531,972	5,730
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>7,625,380</b>	<b>715,758</b>
Accumulated depreciation	(596,958)	(270,002)
Property and equipment, net book value	\$ 7,028,422	\$ 445,756

Depreciation expense for the years ended December 31, 2005, 2004 and 2003, amounted to \$236,018, \$53,586 and \$44,370, respectively, as reflected in the Consolidated Statement of Operations. Depreciation expense included in cost of sales was \$95,525 in 2005, \$116,435 in 2004 and \$182,774 in 2003.

The total assets above include \$5,267,526 of assets not yet placed into service as of December 31, 2005, primarily consisting of telecommunications equipment for our Stored Value activities, and, accordingly, no depreciation was recorded for these assets. These assets are expected to be placed into service during 2006, at which time depreciation will begin to be recognized.

**NOTE 7 - INVESTMENT IN AND LOSS ON DISPOSITION OF UNCONSOLIDATED FOREIGN SUBSIDIARY - CGI**

In September 2003, the Company entered into an agreement with Advantage Telecommunications Ltd. (ATC), n/k/a Consolidated Global Investments, Ltd. (CGI) an Australian telecommunications corporation where, for a strategic investment of \$1.2 million, the Company would own up to 50% of the stock of CGI, and would have control of the board of directors of CGI. CGI had operations in England and Hong Kong and had points of presence in over 15 countries. The agreement was subsequently modified to where our investment of \$1.2 million would be for purchase of the CGI's telecommunication equipment and network operations in Hong Kong and England. Subsequently, CGI deconsolidated its subsidiaries and suspended operations.

As of December 31, 2003, the Company had remitted \$302,300 to CGI and CGI's assignee. The Company remitted an additional \$25,000 in February and \$25,000 in March 2004 for a total of \$352,300 and as of December 31, 2004 as partial payment towards the completion of the transaction.

Pursuant to additional modifications of the agreement, the Company issued 1,100,000 (16,500,000 pre-split) restricted shares of the Company's common stock to CGI to complete the transaction as follows: (a) 666,667 (10,000,000 pre-split) shares, valued at \$847,700, were issued to bring the investment balance to \$1.2 million, and (b) an additional 433,333 (6,500,000 pre-split) shares, valued at \$520,000 were issued to bring the investment balance to \$1,720,000. These amounts were agreed to by the Company and CGI.

The investment was structured by the parties and recorded by CGI as a secured convertible note payable to the Company, bearing interest at a rate of 12%, convertible, at the option of the Company, at a conversion rate of AUD\$ 0.005 per share. However, as agreed by the parties, neither the Company nor CGI received or paid, respectively, nor accrued such interest.

In May 2004, ATC changed its name to Consolidated Global Investments, Ltd. (CGI) and all reports and filings were under the name of Consolidated Global Investments, Ltd., thereafter.



On June 30, 2004, the Company exercised its option to convert the note and was issued 467,327,745 shares of CGI stock. In addition, the Company took an assignment from CGI of a note payable to a CGI bank creditor in the amount of approximately AUD\$ 750,000 (US \$518,000) for a purchase price of 233,334 (3,500,000 pre-split) restricted shares of the Company's stock, in full payment of the balance due. Pursuant to an agreement between the Company and CGI, the Company converted the balance to CGI shares, at a conversion rate of AUD\$.005 and on June 30, 2004, the Company was issued 147,968,635 shares of CGI stock.

As a result of the conversions, the Company held a total of 615,296,380 shares representing an ownership interest in CGI of 73.15%. In addition, as a result of and pursuant to the terms of conversion, the Company received options to acquire an additional 467,327,809 shares by June 30, 2007, at AUD\$ 0.005 per share.

Notwithstanding the Company's 73.15% ownership interest and control of CGI's Board of Directors, the Company did not consolidate 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 December 31, 2004, consisted of the 16.5 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 described above were recorded at par value, and the carrying value of the Company's investment in the unconsolidated foreign subsidiary is \$352,300, representing the sum of cash advanced by the Company to CGI through December 31, 2004.

As of December 31, 2005 and 2004, and CGI's shares were not trading on the Australian Stock Exchange, or any other exchange. As of December 31, 2004, the Company was advised that CGI expected the shares to be relisted in the near-term. The Company intended 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 planned to 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 had agreed with the Liquidator of CGI's former UK subsidiary to acquire telecommunication equipment owned by that former subsidiary valued by the Company at \$128,210. Such agreement was nullified upon the divestiture described below.

During 2005, CGI sold a total of 610,000 (9,150,000 pre-split) of the GlobeTel shares it owned, and, from the proceeds, CGI advanced to GlobeTel a net of \$1,449,509 (\$1,607,174, less repayments of \$157,665) for Sanswire licensing rights. In consideration of its movement to the American Stock Exchange, the Company decided to not proceed with its goals to list a company on the Australian Stock Exchange and decided to divest itself of its interests in CGI.

In December 2005, the parties agreed that: (1) GlobeTel would return all shares and warrants it held in CGI to CGI, resulting in complete elimination of any ownership interest in CGI; (2) GlobeTel would not be required to return the \$1,449,509 advanced from CGI; (3) CGI would retain 333,334 (5,000,000 pre-split) shares of GlobeTel common stock; and (4) CGI would return to GlobeTel 280,000 (4,200,000 pre-split) shares of GlobeTel common stock. As of the date of this report, a total of 256,666 shares were received from CGI. The Company is expected to receive the remaining 23,334 shares from CGI during 2006. The shares returned are to be utilized to satisfy the obligation with CSI (see Note 11).

During 2005, the Company recorded a loss of \$352,300 upon disposition of the former unconsolidated foreign subsidiary, representing the cash invested in CGI through December 31, 2004. The \$1,449,509 retained by the Company was reclassified to additional paid-in capital, because it represents monies derived from the sale of the Company stock.

#### **NOTE 8 - ASSET ACQUISITION AND INTANGIBLE ASSETS - SANSWIRE (RESTATED)**

##### **Asset Purchase Agreement -Sanswire Technologies, Inc.**

In March 2004, the Company entered into a binding letter of intent to purchase certain assets of Sanswire Technologies, Inc. and its subsidiary, Sanswire, Inc. (collectively, "Sanswire"), a company that 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. The definitive purchase agreement was signed and effective on April 15, 2004.

**Asset Purchase Agreement - Stratodyne, Inc. (restated)**

The Company entered into a purchase agreement, effective August 23, 2004, with Sanswire, Stratodyne, Inc. and its principal shareholder, Vern Koenig, for certain assets of Stratodyne and under substantially the same terms, conditions and consideration as the original Sanswire purchase agreement. The "Stratodyne" agreement supplements the original "Sanswire" agreement. Stratodyne was the primary contractor for Sanswire.

The assets acquired under the Sanswire and Stratodyne agreements consist primarily of intellectual property and proprietary rights in intellectual property. The Stratellite is similar to a satellite, but it is stationed in the stratosphere rather than in orbit. As of September 30, 2004, the Company had placed all of Sanswire's and Stratodyne's assets into Sanswire Networks, LLC, its Florida-based, wholly-owned subsidiary ("Sanswire-FL").

As consideration for the purchase, the Company issued 28 million shares of its common stock to Sanswire. In November 2004 all the final documents were delivered and the relationship was consummated. In September 2004, pursuant to the Stratodyne agreement, 2 million shares of the Company's common stock were issued directly to Stratodyne's principal shareholder. These shares are included in the 28 million shares originally issued to Sanswire, and, accordingly, the Sanswire shareholders will retain only 26 million shares issued and return 2 million of the previously issued shares to the Company. On February 5, 2005 GlobeTel filed a registration statement to register shares associated with these agreements.

### **Contingent Consideration**

In accordance with the Sanswire agreement, an additional 200 million 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 of the 200 million additional shares will be issued to Stratodyne or its assignee(s) and the remaining 150 million 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.

The Stratodyne 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.

### **Accounting for Purchase Price (restated)**

The purchase price for the assets acquired was \$2,800,000, based on a value of \$ .10 per share for the 28 million Company shares issued in the transaction. The Company allocated the purchase price based on the estimated fair market value of the asset acquired as follows: (a) Sanswire equipment - \$32,000; and (b) Sanswire and Stratodyne research and development expense - \$2,768,000. In addition, the Company recorded an additional \$10,000 to the purchase price to account for estimated cost of issuing and registering the shares for public sale in connection with this transaction. Sanswire-FL's assets, liabilities, results of operations and cash flows are consolidated in these financial statements.

Since it is presently unknown whether or not Sanswire and Stratodyne will achieve the above referenced results required to be entitled to the contingent consideration, no amount for such contingent consideration was recorded as a liability or included in the allocation of the purchase price. The Company will record the 200 million contingent shares at fair value upon issuance of the shares or at such time that the Company may determine that the issuance of the shares is probable and the value ascribable to the shares is estimable.

Previously the Company reported the transaction with intangible assets that included technology-based, marketing-related, and contract-related assets. The Company determined that the intangible assets have an indefinite life, and, accordingly, was not subject to amortization. Instead, the Company would test the asset for impairment at each reporting period, and upon the occurrence of any significant event that may affect the carrying value of the assets. The Company tested the assets for impairment and determined that no impairment existed and no adjustment to the carrying value was required as of December 31, 2004. As noted in Note 2 - Restatements, the Company has adjusted the transaction to not include any intangible assets and instead chose to charge the \$2,778,000 as a research and development expense in 2004.

The results of operations Sanswire-FL for the year ended December 31, 2004, which are consolidated in the Company's results of operations, included expenses of \$746,826 with no sales or costs of sales.

#### **Stratellite Build-Out Memorandum of Agreement (“MOA”) and Advances to Sanswire**

An MOA between the Company and Mr. Koenig dated August 23, 2004, stated the following: Mr. Koenig agreed to resume and expedite the build-out of the prototype of the Stratellite; the Stratellite is a proprietary technology acquired by the Company as part of the asset purchase agreement with Sanswire; when completed, the prototype will be used for demonstration and testing for commercial use; the original expected completion of the build-out agreement was January 15, 2005; the Company agreed to provide funding to complete the build-out process of the Stratellite prototype; and the Company provided a total of \$200,000.

The Company has provided amounts to or on behalf of Sanswire-FL in excess of the above amounts, including approximately \$600,000 through December 31, 2004, and at total of approximately \$1,000,000 through the date of this report.

### **Employment Agreements**

In connection with the Sanswire asset purchase agreement, the Company also entered into three-year employment agreements with five former Sanswire Technology, Inc. executives. Michael Molen, Jairo Rivera, Brian Keith, Keith Sistrunk and Jane Molen were to serve as the Chief Executive Officer, Chief Financial Officer; Chief Operating Officer, Chief Technology Officer and Comptroller of Sanswire-FL, respectively. Mr. Molen was to receive an earn-out based on value of Sanswire-FL compared to the Company (exclusive of Sanswire-FL). If the value of Sanswire-FL was less than 24% of the value of the Company, Mr. Molen would be entitled to receive stock equal to 10% of GlobeTel common stock outstanding on the date of valuation. Mr. Molen had the right to select the valuation date and a mutually agreeable third party will evaluate the value of Sanswire-FL compared to GlobeTel.

As of September 30, 2004, the Company decided to restructure the operations of Sanswire, LLC and eliminate redundant positions. As a result, Mr. Molen has accepted the appointment as Chairman of Sanswire, LLC and a member of GlobeTel's Board of Directors and stepped down as CEO of Sanswire, LLC. The Company closed the Sanswire, Inc. offices in Atlanta and Mr. Sistrunk and Ms. Molen have separated from the Company.

In connection with the Stratodyne agreement, the Company entered into a three-year key employment agreement with Vernon Koenig, Stratodyne's principal shareholder, to perform services including, but not limited to, telecommunications services and other services that Mr. Koenig serves as Sanswire-FL's Chief Design Engineer, and is responsible for development of the Stratellite. Mr. Koenig will receive a salary of no less than \$75,000 per year, plus grants of stock options based on performance evaluations given annually by the Company.

### **Independent Contractor Agreement**

In September 2004, the Company entered into an agreement with Hotzone Wireless, LLC, a service provider for consulting/engineering services related to the Sanswire Stratellite project. The non-exclusive service provider will provide engineering / consulting services, transmission equipment, and installation and testing of equipment.

The term of the agreement is for six (6) months and shall automatically renew for additional one (1) year terms after the initial term unless terminated by either party. As initial compensation, Company will pay the service provider \$10,000 per month.

### **NOTE 9 - ASSET ACQUISITION AND INTANGIBLE ASSETS - HOTZONE (RESTATED)**

In September 2004, the Company entered into an independent contractor agreement with Hotzone Wireless, LLC (HotZone), a service provider for consulting/engineering services related to the Sanswire Stratellite project. The non-exclusive service provider provided engineering / consulting services, transmission equipment, and installation and testing of equipment. The term of the agreement was for six (6) months and was automatically renewable for additional one (1) year terms after the initial term unless terminated by either party. As initial compensation, Company paid the service provider \$10,000 per month. This agreement was terminated during fiscal year 2005.

On June 2, 2005, the Company entered into an agreement to acquire assets of HotZone, an advanced developer of WIMAX and extended range WIFI Systems with operations in the United States and Europe. The acquisition transaction, which closed during the three months ended September 30, 2005, was paid with \$27,000 cash and provides for a total of 2 million (post split) shares of the Company's common stock to be issued in increments of 666,667 shares on each of the first, second, and third anniversary dates of the agreement, assuming that certain

milestones are achieved. Additionally, the HotZone staff is entering into employment agreements with the Company.

The assets acquired under the HotZone agreement consist primarily of intellectual property and proprietary rights in intellectual property. As of September 30, 2005, the Company had placed all of HotZone's tangible assets into GlobeTel Wireless Corp. (GlobeTel Wireless), its Florida-based, wholly-owned subsidiary.

#### ACCOUNTING FOR PURCHASE PRICE AND INTANGIBLE ASSETS

Whereas the milestones for the first year were defined, and the Company believed that achievement of such milestones for the first year are probable and the amount payable (with GlobeTel common stock) is measurable, the Company recorded the amounts during the three months ended September 30, 2005. The purchase price for the assets acquired was recorded at \$2,280,334 based on the \$27,000 paid in cash, plus \$2,253,334, which represents the value of 666,667 (post split) shares of common stock payable on the first anniversary date. The shares were valued at \$ 3.38 per share, based on the value of the Company's free-trading stock on the agreement date. The Company allocated the purchase price based on the estimated fair market value of the asset acquired as follows: (a) HotZone tangible assets \$55,910; and (b) HotZone research and development expense - \$2,224,424.

Initially, since the milestones to be achieved for the second and third years of the contract were undefined and it is unknown whether or not such milestones, even if defined, will be achieved, the Company had not recorded the additional consideration totaling 1,333,333 (post-split) shares issuable after year one of the agreement (666,667 issuable for each of years two and three).

Subsequently and as of December 31, 2005, the Company and HotZone agreed that any and all milestones, previously undefined, were in fact achieved. The Company recorded the additional contingent shares at fair value upon, since the Company has determine that the issuance of the shares is probable and the value ascribable to the shares is measurable. Accordingly, as of December 31, 2005, the Company recorded the additional 1,333,334 (post-split) shares payable, which were valued at \$4,909,665, which represents a based share of 1,333,334 (post-split) shares, value at \$3.68 per share, based on the value of the Company's free-trading stock as of December 31, 2005, and increased the HotZone intangible asset value accordingly. As of the date of this report, none of the shares payable to HotZone have been issued. The first tranche of shares were delivered in June 2006 and the remainder of the shares were delivered in May 2007.

Previously the Company reported the transaction with intangible assets that included technology-based, marketing-related, and contract-related assets. The Company determined that the intangible assets have an indefinite life, and, accordingly, was not subject to amortization. Instead, the Company would test the asset for impairment at each reporting period, and upon the occurrence of any significant event that may affect the carrying value of the assets. The Company tested the assets for impairment and determined that no impairment existed and no adjustment to the carrying value was required as of December 31, 2005. As noted in Note 2 - Restatements, the Company has adjusted the transaction to not include any intangible assets and instead chose to charge the \$7,129,550 as a research and development expense in 2005.

#### **NOTE 10 - NON-READILY MARKETABLE AVAILABLE-FOR-SALE EQUITY SECURITIES**

##### **NETWORK SALES - CHARTERHOUSE INVESTMENT HOLDINGS, LTD.**

In May 2002, the Company entered into a Network Purchase Agreement with IP World Ltd., (IPW) an Australian corporation to build as many as five (5) networks to be located in different countries throughout the world. As payment for each network the Company agreed to accept 64 million shares of IPW stock, at an agreed-upon value of \$ .10 (US) per share, in full payment of the promissory note for the Brazil and Philippines networks. The IPW shares were not listed for sale on the Australian Stock Exchange (ASX) or any other domestic or international securities exchange. At the time, the Company was informed that such listing was imminent, and the Company would be able to sell all or a portion of the IPW shares.

The above agreements and transactions were facilitated by and through Charterhouse Consultancy Service, Ltd, a Nevis corporation, and its successor corporation, Charterhouse Investment Holdings Ltd., a Malaysian corporation (collectively known as "Charterhouse"), and Global VoIP (GVoIP), a Delaware Corporation, of which Timothy Huff, the Company's current CEO was a 99% owner and officer. Although Mr. Huff, by and through GVoIP, originally functioned as consultant to Charterhouse, neither Mr. Huff nor GVoIP were directly compensated for participating in the agreements and transactions described above and below. Instead, Mr. Huff became an officer and a Director of the Company and assigned any and all interest GVoIP had to the Company without compensation. GVoIP was dissolved immediately thereafter.

In connection with agreements between Charterhouse and the Company, Charterhouse paid for the two networks sold to date by the transfer of shares in IPW to the Company. In that connection, Charterhouse maintained 70 million IPW shares in escrow for the Company, and, accordingly, the Company was deemed the beneficial owner of the shares.



As of June 30, 2003, the Company had included in its current assets, \$1,600,000 in non-readily marketable, available-for-sale equity securities, which represent 16 million shares of IP World (IPW) unrestricted stock, valued at \$.10 per share, held in the Company's name and \$4,301,500 in non-readily marketable, available for sale equity securities, due from a related party, Charterhouse, which represent 70 million shares of IPW restricted stock valued at \$.06145 per share, held by Charterhouse on the Company's behalf.

As of September 30, 2003, IP World Ltd. was in liquidation and was no longer listed in the Australian Exchange. The Company is no longer transacting with IPW to move out of liquidation and be relisted in the Australian Exchange. Therefore, the Company charged off \$4,301,500 in stock receivable as well as the \$1,600,000 in stock it had in its name during the three months ended September 30, 2003. As of December 31, 2004, the Company believes that the likelihood of recovering any such amounts is remote.

## SERVICE AND INSTALLATION AGREEMENTS

In June 2002, the Company entered into a one-year service agreement with IP World Ltd. for \$240,000, related to servicing the Brazil network, the revenues from which are recognized ratably over the term of the agreement, beginning in July 2002. Revenue of \$120,000 was initially recognized in connection with this agreement.

In July 2002, the Company also entered into an installation and one-year service agreement with IP World Ltd. for \$300,000 (\$60,000 for installation and \$240,000 for maintenance), related to the Philippines network. The revenues from installation were recorded during 2002. The revenues from maintenance services were recognized ratably over the term of the agreement, beginning in October 2002. Revenue of \$60,000 for maintenance services was initially recognized during 2002.

In 2003, the Company continued to report revenues for the agreement for the first and second quarter of the year. Upon writing off the receivable as discussed above, no further revenue was recognized by the Company.

## NOTE 11 - LOANS AND ACCOUNTS PAYABLE TO RELATED PARTY - CHARTERHOUSE

In October 2002, the holders of two promissory notes agreed that in lieu of payment of principal and interest under the loans, each to accept six (6) million shares (400,000 post-split) of common stock of GlobeTel as payment, which were paid to the note holders directly by the Company's primary customer during 2002, who was also a consultant (Charterhouse). Accordingly, the Company recorded the \$300,000, plus interest of \$11,960, as a loan payable to Charterhouse. In January 2003 Charterhouse loaned an additional \$50,000, for total loans payable of \$361,960. As of December 31, 2004, these amounts, as well as \$135,000 payable for consultancy services rendered in 2002, were settled for Series B preferred stock. See Note 26 below.

## NOTE 12 - CENTERLINE COMMUNICATIONS, LLC AND DUE TO RELATED PARTY - CSI

### CENTERLINE COMMUNICATIONS, LLC.

On June 30, 2004, the Company entered into an operating agreement with Carrier Services, Inc. ("CSI") a Nevada corporation, also a telecommunications company, to operate Centerline Communications, LLC, a wholly-owned subsidiary of the Company.

The purposes of Centerline and its subsidiaries are to build telecommunications revenue and client base, utilizing each party's network and financial resources and to engage in any other business or activity that is necessary and proper to accomplish the above purposes.

Pursuant to the agreement, the Company was responsible for all costs associated with the operation and maintenance of the Prepaid Calling Card Platform, all expenses related to funding, staffing, technical support, customer service, equipment, and credit facilities. CSI was responsible for all costs and responsibilities associated with operation of the termination network, providing network facilities for the termination of carrier traffic, administer and operate the termination network, including subscriber accounts and tracking of minutes, all training and salary expenses of its sales personnel, all marketing expenses connected with the sale of the calling services and all other organizations related expense in any foreign base operation in which the LLC is operating.

The agreement provided for minimum selling requirements of \$50 million per year in revenues for the LLC. If the LLC brought in \$50 million in revenues at the end of the first year of operation, CSI will receive \$1 million of the Company's publicly traded stock. If CSI repeats the \$50 million in revenues in year two, CSI would receive another \$1 million of the Company's publicly traded stock. The initial term of the agreement was for two years and automatically renewable for another two years.

The parties subsequently modified the agreement to provide for minimum selling requirements of \$25 million in revenues for the LLC. Upon the LLC achieving in \$25 million in revenues, CSI will receive 333,333 (5 million pre-split) shares of the Company's publicly traded stock.

"PARTNER INCENTIVE AND FINANCING AGREEMENTS"

The Company uses the term "partner" in a sense different than the strict legal definition. Herein, the term "partner" is equivalent to "business associate." During 2004, the Company, Centerline Communications ("Centerline") and its subsidiaries entered in "Partner Incentive and Financing Agreements" with various parties ("Partners") in the business of providing the transmission of wholesale voice and/or data communications services to domestic and international destinations utilizing a proprietary call processing platform, technologies, software and other equipment ("Calling Services") to produce profitable revenues utilizing the Calling Services of the partners for an initial term of two (2) years.

The "Partners" were to be compensated on a semi-annual basis with a grant of equity and cash commissions. These grants and commissions were to be paid out by Centerline, utilizing cash generated by the operations and stock given by the Company as part of the original agreement between CSI and the Company, based on reaching certain revenue and profitability milestones. Upon cessation of the prior joint business operations of the Company and CSI in February 2005, the Partner Incentive and Financing Agreements were terminated and no amounts were paid, due or owing by the Company in connection with these agreements.

#### DUE TO RELATED PARTY - CSI

The required revenues of \$25 million were achieved in January 2005 and CSI became entitled to the 333,333 (5 million pre-split) shares. As of December 31, 2004, the Company recorded \$404,707 due to CSI, computed by applying a ratio, based on the revenues achieved through December 2004 (approximately \$18.4 million) compared to the required \$25 million, to the number of shares to be issued recorded at a price \$1.65 (\$.11 pre-split) per share, the closing market value of the Company's stock as of December 31, 2004.

CSI owed the Company a total of \$401,723 as of December 31, 2004, consisting of the amounts due for accounts receivable collected by CSI on behalf of the LLC 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. The Company offset the \$404,707 due to CSI against the \$401,723 due from CSI, to result in a net amount due to CSI of \$3,024 as of December 31, 2004, which was included in accounts payable.

In February 2005, the Company received \$516,093 from proceeds of the sales of 3 million pre-split shares (200,000 post split) of the Company's common stock which was sold by CGI and advanced to GlobeTel (see Note 5 above), from which \$100,000 was paid to CSI and the remaining amounts were held by the Company to collateralize the amounts due to the Company from CSI. Subsequently, the Company and CSI agreed to offset the \$401,723 owed to GlobeTel against the shares owed by GlobeTel to CSI.

The Company and CSI mutually decided to conclude and restructure their joint business operations as of February 6, 2005. Upon completion of the parties reconciling and agreeing upon the final amount due from CSI, CSI and the Company agreed that the remaining amount due to CSI will be paid by the Company with remaining 133,334 (2 million pre-split) shares due to CSI, and the parties entered into new agreements.

In addition, the Company agreed to issue a total 66,667 (1 million pre-split) additional shares to CSI for additional revenues of approximately \$10 million generated during the three months ended March 31, 2005. Commissions in the amount of \$162,335 were recorded, based on the value of the Company's free-trading stock on the dates of issuance of the shares.

The Company entered into two asset purchase agreements with CSI to acquire telecommunication equipment totaling \$837,836. The parties agreed that the purchase price for this equipment would be paid with (1) 233,333 (3,500,000 pre-split) shares of GlobeTel's common stock; and (2) \$286,136 in cash. In addition, the purchase agreement also required GlobeTel to provide \$150,000 for the reconstruction and establishment of a new telecom switch site in Los Angeles, CA. GlobeTel has complied with this provision.

The Company also acquired from CSI additional telecommunications equipment valued at \$58,206 and paid with 38,730 (580,950 pre-split) shares of GlobeTel's common stock.

As partial payment for the above shares, in December 2005, the Company received \$111,325 from proceeds of the sales of 30,000 (450,000 pre-split) shares of the Company's common stock which was sold by CGI and advanced to GlobeTel (see Note 5 above), which was in turn paid to CSI.

Based on the above transactions, as of December 31, 2005 the balance owed to CSI includes (1) 336,667 (5,050,000 pre-split) shares of GlobeTel common stock; and (2) \$106,231, related to the asset purchase agreements.

Subsequent to December 31, 2005, and as of the date of this report, the \$106,231 cash balance was paid in full, and 226,666 (3,400,000 pre-split) shares of GlobeTel stock were transferred to CSI (from the GlobeTel shares returned by CGI; see Note 5 above), and 110,001 (1,650,000 pre-split) shares are currently owed.

In connection with these CSI arrangements, the Company recorded commission expenses of \$848,880 and \$404,747, respectively, for 2005 and 2004.

In 2007, the Company issued 1,800,000 common shares to Monterosso for the remainders due on the Asset Purchase Agreement and 92,000 shares were paid to CSI with regard to the revenue related agreements

During a period of this contract, Mr. Joseph Monterosso was a principal of CSI and was an officer of GlobeTel Communications.

Based upon the recent lawsuit filed the Securities and Exchange Commission the Company is currently reevaluating the amounts paid under the above referenced contracts to determine whether or not such milestones were met by the use of fraudulently created invoices. Should the Company determine this to be the case it will seek to recover the shares and any other applicable damages and seek whatever appropriate remedies are available to the Company.

**NOTE 13 - DUE TO FORMER EMPLOYEE IN GTE STOCK**

In September 2005, the Company issued a total of 98,983 shares pursuant to a severance and settlement agreement with a former employee, valued at \$177,400, based on \$1.79 per share, the closing price of the shares on the date of the agreement and registration of the shares. An additional \$237,600 of shares are issuable pursuant to the agreement of which \$118,800 is due January 4, 2006 (and was paid as agreed) and \$118,800 is due August 1, 2006. The former employee also received cash of \$55,000 pursuant to the agreement.

**NOTE 14 - ACCRUED OFFICERS' SALARIES AND BONUSES**

Effective January 1, 2002, GlobeTel entered into three-year employment agreements with its key management. For the year 2002, the agreements provide for annual compensation of \$150,000 for its Chief Executive Officer (CEO), \$125,000 each for its Chief Financial Officer (CFO) and Chief Operating Officer (COO) and \$75,000 each for its Chief Administrative Officer (CAO) and VP of Network Operations. Further, there remained an employment contract with its President, as described below, which calls for annual salaries of \$100,000 per annum. In addition to the base compensation, the employment agreements provide for payment of bonuses that at a minimum equal the executives' base compensation. As of December 31, 2002, the executives all agreed not to receive bonuses to which they were entitled pursuant to the employment agreement.

In 2003, the base compensation increased to \$175,000 for its CEO, \$150,000 each for its CFO and COO, \$90,000 each for its CAO and VP of Network Operations. In 2005, the base compensation increases to \$200,000 for its CEO, \$175,000 each for its CFO and COO, \$120,000 for its CAO and \$110,000 for its VP of Network Operations. Bonuses for each year will also be equal to the base salaries as a minimum, unless otherwise agreed to by the executives.

From October 1, 1996, through December 31, 2003, the Company had an employment agreement with its President wherein the Company agreed to pay compensation of \$100,000 annually. In September 2003, the Company's president resigned effective December 31, 2003, but remained as a member of the board of directors of the Company throughout 2005.

In September 2003, the officers agreed to forego their accrued salaries in exchange for stock options at \$.225 (0.015 pre-split) per share or 50% of the market price as of the exercise date. The officers subsequently exercised their stock options in January 2004.

As of December 31, 2003, the Company recorded accrued officers' salaries totaling \$245,000. The officers again agreed to forego their accrued salaries in exchange for stock options at \$.225 (0.015 pre-split) per share or 50% of the market price as of the exercise date. The officers subsequently exercised their stock options in January 2004.

As of December 31, 2005, the Company recorded accrued officers' salaries totaling \$97,382 compared to \$198,333 for year ending December 31, 2004, which were subsequently paid in January 2006 and 2005, respectively.

**NOTE 15 - ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consisted of the following:

	2005	2004
--	------	------

Interest	3,105	3,436
Payroll Liabilities	238,243	-0-
Rent	22,467	-0-
Professional Fees	281,821	90,000
<b>ACCRUED EXPENSES AND OTHER LIABILITIES</b>	<b>545,636</b>	<b>93,436</b>

**NOTE 16 - CAPITAL AND OPERATING EQUIPMENT LEASE OBLIGATIONS**

Capital lease obligations as of December 31, 2003, consisted of an amount payable for telecommunications equipment, which was abandoned prior to 2003, and the liability was subsequently written off in 2004. See Note 21 below regarding disposition of this obligation.

In March 2005, the Company entered into a lease agreement for office equipment, under which the Company must pay \$279 per month, plus sales tax, for a period of 39 months. The Company expects to have use of the equipment for the substantial portion of its useful life and the lease provides for a bargain purchase option, wherein the Company may acquire ownership of the asset at the end of the lease for 10% of its fair market value. Accordingly, the lease transaction was recorded as a capital lease obligation and ascribed an initial value to the asset and principal amount due on the lease of \$9,554, based on the present value of the monthly payments with an imputed interest rate of 8%. The balance on this obligation had been paid by the Company and there were no lease obligations recorded as payable as of December 31, 2005.

Interest expense recorded on all capital lease obligations of the Company amounted to \$480, \$2,561 and \$15,924 for the years ended December 31, 2005, 2004 and 2003, respectively.

In July 2004, the Company entered into a lease agreement for telecommunications collocation equipment, under which they made a down payment and other fees totaling \$37,635 and must pay \$3,778 for 24 months. Since the transaction does not qualify as a capital lease, the company charges the monthly payments to cost of sales and amortizes the prepayment to cost of sales over the period of the lease.

#### **NOTE 17 - NOTES AND LOANS PAYABLE**

In January 2003, the Company received a \$50,000 loan from Charterhouse. This loan payable, as well a previous loan of \$311,960 was unsecured, non-interest bearing and have no formal repayment terms. In addition, the Company had an outstanding account payable to Charterhouse for \$135,000 in connection with consulting services provided in 2002. During 2004, all of the amounts owing to Charterhouse were paid in full with the issuance of \$500,000 of Series B preferred stock. The \$3,040 difference between the total amounts payable and amount representing the preferred stock issued was expensed in 2004.

#### **CONVERTIBLE SUBORDINATED NOTES**

On August 21, 2002, the Company executed a \$125,000 convertible subordinated promissory note payable to an unrelated third party, due August 21, 2003, with interest payable monthly at a rate of 12% per annum. The note is collateralized with 500,000 post-split (7.5 million - pre-split) shares of the Company's common stock, which were issued by the Company and held in escrow under the agreement. The Company recorded the issuance of these shares at par value. The note is convertible into shares of the Company's common stock at the option of the holder in whole or in part, in accordance with the terms of the note. The conversion price for this note in effect on any conversion date shall be the lesser of \$3.75 post-split (\$.25 pre-split) or 75% of the per share market value price as of the close of business on the conversion date. Any conversion pursuant to this agreement shall be for a minimum principal of \$10,000 and until the first day of the month preceding the maturity date of this note, the holder may not, during any 30-day period, convert more than the greater of \$100,000 of the principal amount of this note, or 10% of the preceding month's trading value of the common stock as reported by the principal market in which the common stock is traded.

In July 2003, the holder exercised his right to convert the debt into shares of the Company's common stock in accordance with the terms of the note. The conversion rate was determined to be \$0.6 post-split (\$.04 pre-split) and accordingly, the holder retained / 203,704 (3,055,556 pre-split) shares and returned 296,297 (4,444,444 pre-split) to the Company.

On August 27, 2002, the Company executed a \$125,000 convertible subordinated promissory note payable to an unrelated third party, due August 27, 2003, with interest payable monthly at a rate of 12% per annum. The note is collateralized with 500,000 (7.5 million - pre-split) shares of the Company's common stock, which were issued by the Company and held in escrow under the agreement. The Company recorded the issuance of these shares at par value. The note is convertible into shares of the company's common stock at the option of the holder in whole or in part, in



accordance with the terms of the note. The conversion price for this note in effect on any conversion date shall be the lesser of \$3.75 post-split (\$.25 pre-split) or 75% of the per share market value price as of the close of business on the conversion date. Any conversion pursuant to this agreement shall be for a minimum principal of \$10,000 and until the first day of the month preceding the maturity date of this note, the holder may not, during any 30-day period, convert more than the greater of \$100,000 of the principal amount of this note, or 10% of the preceding month's trading value of the common stock as reported by the principal market in which the common stock is traded.

In December 2003, the holder exercised his right to convert the debt into shares of the Company's common stock in accordance with the terms of the note. The conversion rate was determined to be \$0.525 (\$.035 pre-split) and accordingly, the holder retained 233,333 (3,500,000 pre-split) shares and returned 266,667 (4,000,000 pre-split) shares to the Company.

On October 22, 2002, the Company executed a \$125,000 convertible subordinated promissory note payable to an unrelated third party, due October 22, 2003, with interest payable monthly at a rate of 12% per annum. The note is collateralized with 1 million post-split / 15 million pre-split shares of the Company's common stock, which were issued by the Company and held in escrow under the agreement. The Company recorded the issuance of these shares at par value. The note is convertible into shares of the Company's common stock at the option of the holder in whole or in part, in accordance with the terms of the note. The conversion price for this note in effect on any conversion date shall be the lesser of \$3.00 post-split / (\$.20 pre-split) or 75% of the per share market value price as of the close of business on the conversion date. Any conversion pursuant to this agreement shall be for a minimum principal of \$10,000 and until the first day of the month preceding the maturity date of this note, the holder may not, during any 30-day period, convert more than the greater of \$100,000 of the principal amount of this note, or 10% of the preceding month's trading value of the common stock as reported by the principal market in which the common stock is traded.

On November 18, 2002, the Company executed a \$125,000 convertible subordinated promissory note payable to an unrelated third party, due November 18, 2003, with interest payable monthly at a rate of 12% per annum. The note is collateralized with 1 million (15 million pre-split) shares of the Company's common stock, which were issued by the Company and held in escrow under the agreement. The Company recorded the issuance of these shares at par value. The note is convertible into shares of the Company's common stock at the option of the holder in whole or in part, in accordance with the terms of the note. The conversion price for this note in effect on any conversion date shall be the lesser of \$3.00 (\$.20 pre-split) or 75% of the per share market value price as of the close of business on the conversion date. Any conversion pursuant to this agreement shall be for a minimum principal of \$10,000 and until the first day of the month preceding the maturity date of this note, the holder may not, during any 30-day period, convert more than the greater of \$100,000 of the principal amount of this note, or 10% of the preceding month's trading value of the common stock as reported by the principal market in which the common stock is traded.

The October 22 and November 18 notes were from the same investor, and in July 2003, the holder exercised the right to convert the debt into shares of the Company's common stock in accordance with the terms of the note. The conversion rate was determined to be \$.36 (\$.024 pre-split) and accordingly, the holder retained 694,444 (10,416,666 pre-split) shares and returned 1,305,556 (19,583,334 pre-split) shares to the Company.

On November 25, 2002, the Company executed a \$125,000 convertible subordinated promissory note payable to an unrelated third party, due November 25, 2003, with interest payable monthly at a rate of 12% per annum. The note is collateralized with 1 million (15 million pre-split) shares of the Company's common stock, which were issued by the Company and held in escrow under the agreement. The Company recorded the issuance of these shares at par value. The note is convertible into shares of the Company's common stock at the option of the holder in whole or in part, in accordance with the terms of the note. The conversion price for this note in effect on any conversion date shall be the lesser of \$3.00 (\$.20 pre-split) or 75% of the per share market value price as of the close of business on the conversion date. Any conversion pursuant to this agreement shall be for a minimum principal of \$10,000 and until the first day of the month preceding the maturity date of this note, the holder may not, during any 30-day period, convert more than the greater of \$100,000 of the principal amount of this note, or 10% of the preceding month's trading value of the common stock as reported by the principal market in which the common stock is traded.

Also on November 25, 2002, the Company executed a second \$125,000 convertible subordinated promissory note payable to an unrelated third party, due November 25, 2003, with interest payable monthly at a rate of 12% per annum. The note is collateralized with 1 million (15 million pre-split) shares of the company's common stock, which were issued by the Company and held in escrow under the agreement. The company recorded the issuance of these shares at par value. The note is convertible into shares of the company's common stock at the option of the holder in whole or in part, in accordance with the terms of the note. The conversion price for this note in effect on any conversion date shall be the lesser of \$3.00 (\$.20 pre-split) or 75% of the per share market value price as of the close of business on the conversion date. Any conversion pursuant to this agreement shall be for a minimum principal of

\$10,000 and until the first day of the month preceding the maturity date of this note, the holder may not, during any 30-day period, convert more than the greater of \$100,000 of the principal amount of this note, or 10% of the preceding month's trading value of the common stock as reported by the principal market in which the common stock is traded.

Both notes dated November 25, 2002 were from the same investor, and in July 2003, the holder exercised the right to convert the debt into shares of the Company's common stock in accordance with the terms of the note. The conversion rate was determined to be \$0.33 (\$.022 pre-split) and accordingly, the holder retained 740,741 (11,111,112 pre-split) shares and returned 1,259,259 (18,888,888 pre-split) shares to the Company.

On November 5, 2002, the Company executed a second \$125,000 convertible subordinated promissory note payable to an unrelated third party, due November 5, 2003, with interest payable monthly at a rate of 12% per annum. The note is collateralized with 1 million (15 million pre-split) shares of the Company's common stock, which were issued by the Company and held in escrow under the agreement. The Company recorded the issuance of these shares at par value. The note is convertible into shares of the Company's common stock at the option of the holder in whole or in part, in accordance with the terms of the note. The conversion price for this note is of \$0.375 (\$.025 pre-split) per share. The note holder also received a common stock purchase warrant giving them the right to purchase 5 million shares of the Company's common stock at the price of \$0.45 (\$.03 pre-split) per share. Subsequent to the execution of this note, additional amounts of \$85,528 were received from the note holder, bringing the total balance to \$210,528.

In May 2003, the holder and the Company agreed that the balance of \$210,528 be converted into shares of the Company's common stock and as a result the collateralized shares were then issued to the holder. In addition, it was agreed upon that the holder's 15 million shares are non-dilutable for 18 months from April 1, 2003. Further, the holder of the note is comprised of three (3) owners, one of whom is Timothy M. Huff who owns 40% of the entity. Timothy Huff is the CEO of the Company.

#### UNSECURED LOANS AND NOTES PAYABLE

In February 2003, the Company executed two unsecured promissory notes payable, each for \$100,000 (to fund operations and pay operating expenses), to an unrelated third party, which is also a secured promissory note holder. Each note was originally due in May 2003, and included interest payable monthly at a rate of 25% per annum. The Company and the note holder subsequently agreed to extend due dates of the loans on a month-to-month basis under the same interest rate. In February 2005, the Company paid both notes.

In February 2003, the Company executed a \$40,000 promissory note payable to another party, due on demand with interest payable at 2.5% per annum. The Company repaid its \$40,000 note payable during 2003.

In June 2003, the Company executed a \$200,000 promissory note payable to Commercebank, N.A., due in June 2005, with interest payable at a rate of one percent over the prime rate, currently 4%. In August 2005, the Company repaid its \$200,000 loan with Commercebank, N.A. in full.

#### LETTER OF CREDIT AND BANK LOAN PAYABLE

As of December 31, 2002, the Company had a \$500,000 letter of credit with Commercebank, N.A., guaranteed by Florida Export Finance Corporation (FEFC) and \$200,000 letter of credit was issued to the Mexican telecom provider that provides local connectivity. In March 2003, the Company issued another \$100,000 to the same Mexican telecom provider. The remaining \$200,000 was used by the Company as collateral for its \$200,000 loan with Commercebank, N.A., the funds of which were used to purchase the telecom equipment used in the Brazil operations. The letters of credit issued to the Mexican telecom provider have been cancelled by the provider and have been returned.

The Company presently does not have any existing letters of credit but has the option of reopening the letter of credit with Commercebank, N.A. should the needs for it arise.

#### **NOTE 18 - CONVERTIBLE DEBT AND PRIVATE PLACEMENTS**

##### 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 \$1.20 (\$.08 pre-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 (187,500,000 pre-split) exercisable at \$1.80 (\$.12 pre-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 \$1.65 (\$.11 pre-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 1,538,308 (or 23,074,615 pre-split) including 33,333 (500,000 pre-split) shares as commission to a promoter.

At the same time in February 2005, the 12,500,000 Class A Warrants were exercised at \$1.65 (\$ .11 pre-split) per share, except for one million shares at \$1.84 (\$ .1227 pre-split) as agreed by the parties. Total net 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 \$2.85 (\$ .19 pre-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 additional shares totaling 75% of the underlying convertible notes and warrants to ensure that shares are available for conversion under all contingencies.

In addition, on August 31, 2005 the Company entered into subscription agreements with other investors for 5% convertible notes payable totaling \$4.5 million, with 3 year Class A Warrants to purchase up to an additional \$6,818,181 in common stock. Net proceeds of \$4,150,730 were received, after deducting costs and expenses related to the transaction. The notes amortize at 12.5% per quarter through September 2007, payable each quarter in cash or common shares.

Under the agreements the notes are convertible into common stock of the Company at \$ 1.65 per share (post-split). Prior to any notice of conversion, the Company had the right to redeem the note(s) at a premium for cash, subject to a 5-day right to convert by the investor. The Investors also received one Class A Warrant to purchase one share of common stock for each share that the notes would be convertible into had they been converted on the closing date (August 31, 2005) (a total of 2,727,273 shares). The per share exercise price of the Warrants is \$2.50.

In December 2005, the note holders elected to convert all of the notes in the amount of \$4.5 million, plus accrued interest of \$62,029. Pursuant to the conversion, total shares issued were 2,764,883 (post-split). Also in December 2005, the investors exercised outstanding warrants to acquire a total of 272,727 common shares at \$2.50 per share for proceeds of \$681,818.

#### PRIVATE PLACEMENTS

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 of our common shares at a price of \$ 2.886 (\$ .1924 pre-split), with warrants to purchase up to an additional 571,924 (8,578,856 pre-split) shares of common stock at an exercise price of \$ 5.0925 (\$ .3395 pre-split). However, the subscription agreement with the investors allows for the price of the warrant to be adjusted should the Company offer equity securities at a lower price prior to the Warrants being exercised. As stated below the Company has entered into such an agreement and will be obligated to adjust the Warrant exercise price. The Company subsequently registered those shares on Form S-3 which has been declared effective by the Securities and Exchange Commission.

On May 23, 2005, the Company accepted an additional subscription from one of the initial investors increasing their investment by \$250,000 on the same terms and conditions as all the other investors.

The Company received net proceeds of \$2,328,489 from the above transactions, after fees and costs of \$279,471 related to the issuance.

In November and December 2005, the investors exercised outstanding warrants to acquire a total of 702,108 common shares at \$1.65 per share for proceeds of \$1,158,478.

Also, in May 2005, the Company issued an additional 291,317 (4,369,748 pre-split) unrestricted shares to an institutional investor that received shares for cash in private placements during 2004, pursuant to an anti-dilutive provision in the original agreement. These shares were recorded at par value. As previously disclosed, Timothy M. Huff, CEO of GlobeTel, held a 40% interest in this investment, and accordingly received 116,526 (1,747,899 pre-split) shares.

#### NOTE 19 - AGREEMENTS

##### CONSULTING, INVESTMENT ADVISORY AND INVESTMENT BANKING AGREEMENTS

On August 15, 2002, the Company entered into an agreement with Charles Morgan Securities, Inc. ("Charles Morgan") to provide consulting services for a period of 12 months, including arranging for funding, assisting with corporate and business planning, advice regarding potential mergers and acquisitions, private placements of the Company's stock, and other related services.

The agreement provided that the Company pay Charles Morgan a monthly fee of \$5,000 from August to January 2003, and \$10,000 thereafter for the next six months. The Company also paid an engagement fee of \$30,000 upon initial funding.

In accordance with the agreement, the Company also paid Charles Morgan a total of 2.7 million shares of common stock of the Company for services provided in fiscal 2002 and 1.3 million shares in fiscal 2003, for a total of 4 million shares.

In addition to the shares described above, in August 2002, Charles Morgan received 180,000 (12.5 million pre-split) restricted shares (Rule 144) in connection with arranging for the convertible subordinated notes payable above. The Company valued the shares at \$250,000, based on one-half of the closing bid price of the Company's shares on the date of issuance and charged this amount to consulting expense. Pursuant to the agreement, Charles Morgan received an additional 833,333 (12.5 million pre-split) restricted shares (Rule 144) for arranging additional financing of \$500,000 during the quarter ending December 31, 2002.

During the third quarter 2002, Global VoIP, a principal customer and related party to the Company, paid Charles Morgan \$35,000 for the initial monthly fee of \$5,000 and the engagement fee of \$30,000. This amount was offset against the remaining accounts receivable balance owed by Global VoIP to the Company.

In January 2003, Fordham Financial Management, Inc. (Fordham Financial), an investment banking firm, based in New York City, assumed all functions and responsibilities of Charles Morgan Securities to provide consulting services. Under the agreement, the Company was obliged to pay a monthly fee of \$10,000. In June 2003, the firm and the Company agreed to suspend the monthly fee until both parties agree it should resume. The Company paid total fees of \$40,000 during the six months ended June 30, 2003. Pursuant to agreement, the Company issued 4.9 million restricted shares of the Company's common stock as payment for services rendered. The Company charged \$51,250 to expense during the three months ended September 30, 2003, based on an amount equal to one-half of the average bid and asked price of the Company's shares on the date of issuance. No further payments were made in the fourth quarter of 2003 as it relates to this investment banking agreement.

In October 2003, the Company entered into an agreement with Fordham Financial to raise \$2,500,000 resulting in issuance of circular offering dated October 17, 2003 (Preferred Stock, Series A). Fordham Financial agreed to receive 10% commission for the raising of the investments. In addition to the commissions totaling \$250,000, Fordham Financial also received 57,500 Preferred Stock, Series A as additional compensation. Fordham Financial had arranged for subscriptions of \$1,092,140 as of December 31, 2003 and had raised the full \$2,500,000 as of January 31, 2004.

On August 16, 2004, the Company entered into an investment advisory agreement with Charles Morgan Securities, Inc. (CMS) for term ending on December 31, 2005. CMS would render consulting services related to business development, corporate planning, investment and securities matters, including the Company's applying for trading on a higher listed exchange. As compensation for services, the Company will pay a one-time fee of 500 shares of Preferred Class C stock, convertible into 1% of the common shares of the Company after a one year holding period. Pursuant to the agreement, the compensation is not considered earned until when and if the advisor accomplishes the moving of the Company's stock from trading on the OTCBB to another trading board of higher standing by December 31, 2005. In May 2005, the Company did in fact move to a trading board of higher standing - the American Stock Exchange (AMEX).

During 2005, the Company issued a total of 820,000 (post-split) shares valued at \$1,230,000 in connection with its arrangements with CMS.

#### STORED VALUE, STRATELLITES, WIRELESS SERVICES AND OTHER TELECOMMUNICATIONS PROGRAMS AGREEMENTS

In June 2004, the Company entered into an agreement with Bankcard Inc., a member of the RCBC Group, one of the largest private commercial bank and financial institutions in the Philippines to introduce a stored value card program for domestic and international use. Bankcard will be able to issue a Visa and MasterCard card program that will offer Overseas Filipino Workers and Filipinos in foreign countries, convenient, risk free and low cost international funds transfer and discounted long distance calling services. This agreement was facilitated by Four Star Consulting, a Manila, Philippine-based consulting group who was paid a fee of \$10,000.

#### JOINT VENTURE AGREEMENT - ENGLEWOOD CORPORATION

On May 3, 2004, the Company entered into a joint venture agreement and stock option plan with Englewood Corporation ("Englewood") and respectively with Joseph Seroussi, an individual ("the 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; 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 \$.30 (\$.02 pre-split) per share 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 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.

During 2005 and as of the date of this report, no transactions have occurred that would require recording or disclosure in the Company's financial statements related to these agreements other than 3 million restricted shares of the Company's common stock issued for consulting services, valued at \$135,000, based on one-half of the closing price of the stock on date of issuance, and recorded in 2004.

#### GLOBETEL WIRELESS NETWORK, PILOT PROGRAM

On August 7, 2005, the Company entered into an agreement to provide a wireless communication network for a pilot program in Shenzhen, China with Guangdong Tietong South Communication Co. Ltd, a group company of China Tietong Telecom

Corporation, one of only 6 licensed telecom operators in China. Upon successful completion of the pilot program, GlobeTel Wireless and its local Chinese partners will commence a roll out of wireless communication networks throughout China to deliver voice, data and video applications. The agreement was reached with Nessociet Inc., an organization working towards the development of next generation wireless telephony services and NGN Telecom Corporation, the partner to Guangdong Tietong South Communication Co. Ltd., in marketing VoIP services in China. The Company will also utilize Nessociet Inc. who has become a reseller of GlobeTel Wireless networks and equipment in Asia. The Company is planning on initiating a test pilot in the region in the second quarter of 2006.

During 2005 and as of the date of this report, no transactions have occurred that would require recording or disclosure in the Company's financial statements related to this agreement.

#### JOINT VENTURE AGREEMENT - LEO A. DALY III AND J. RANDOLPH DUMAS

On July 7, 2005, the Company entered into a joint venture agreement that will lead to the deployment of the Company's Stratellites(TM), throughout Europe, the Middle East, Africa, and the countries of the former Soviet Union. The joint venture is between Sanswire Networks LLC, a wholly-owned subsidiary of GlobeTel, and a venture headed by Leo A. Daly III and J. Randolph Dumas, noted international businessmen. Sanswire Networks, LLC will own 55% of the joint venture entity. In September 2005, Mr. Dumas joined the Company's Board of Directors.

During 2005 and as of the date of this report, no transactions have occurred that would require recording or disclosure in the Company's financial statements related to this agreement.

#### JOINT VENTURE AGREEMENT - APOGEO ENTERPRISES CORPORATION

On July 14, 2005, the Company's wholly-owned subsidiary, Sanswire Networks, LLC had entered into a joint venture agreement to deploy Stratellites(TM) throughout the country of Colombia. The agreement with Florida-based Apogeo Enterprises Corporation calls for a total of five Stratellites to be launched over the Latin American country to build a wireless broadband network that would be the first of its kind in the world.

The Joint Venture Agreement, signed on July 14, 2005, had a due date 90 days after signature. Within this timeframe, Apogeo was to provide Sanswire Networks, LLC with proof of funds. The company presented proof of funds after the 90 day period. Based on their efforts, Sanswire Networks, LLC decided to maintain a business relationship with Apogeo by signing a new Joint Venture Agreement on January 20, 2006. On February 17, 2006, the parties executed an addendum to this Agreement which states that Apogeo and Sanswire Networks, LLC will agree on the price per Stratellite to be paid by Apogeo upon execution of a letter of credit in the amount of no less than \$15,000,000.

During 2005 and as of the date of this report, no transactions have occurred that would require recording or disclosure in the Company's financial statements related to this agreement.

#### LICENSING AGREEMENT - RAPIDMONEY(R) CORPORATION

On July 7, 2005, the Company entered into a licensing agreement with RapidMoney(R) Corporation that allows us to use and modify the RapidMoney(R) system. GlobeTel, along with its venture partner, Grupo Ingedigit ("GI") of Caracas, Venezuela, will incorporate the current RapidMoney(R) funds transfer software applications for merchant Point of Sale ("POS") terminals into the Company's Stored Value international remittance services. Furthermore, this license allows GlobeTel and GI to develop additional applications based on the RapidMoney(R) system that will be deployed in the retail locations which are offering their Stored Value Card Program services.

During 2005 and as of the date of this report, no transactions have occurred that would require recording or disclosure in the Company's financial statements related to this agreement.

#### ALTVATER GMBH OF GERMANY, ASSET ACQUISITION

On July 7, 2005, GlobeTel entered into a letter of intent to acquire the assets and operations of Altvater GmbH of Germany (Altvater). Subsequently, an agreement was signed, but the acquisition has not yet closed as of the date of this report. Altvater is a wireless communications systems integrator for HotZone systems in Europe, with core operations in Germany. Altvater GmbH has existing sales partner relationships in Europe and North Africa. On September 15, 2005, GlobeTel Wireless Corp., through the acquisition of Altvater, formed a new division, Total investment by Globetel Wireless Corp was \$291,476 as of December 31, 2005. GlobeTel Wireless Europe GmbH financial statements, as of December 31, 2005 have been included in the consolidated results of the Company's operations.

#### GLOBETEL WIRELESS, GERMANY CONTRACT

The Company, through GlobeTel Wireless, is utilizing the HotZone assets and technology in developing WIMAX wireless systems for deployment in areas the Company identifies and markets to. Future considerations include the use of the Company's Stratellites(TM), which will provide radio technology for the wireless communications that will cover significant geographic areas up to 120,000 square miles, and, in addition, provide advanced wireless products and services for terrestrial wide area networks covering rural and city areas. Upon deployment of the Stratellite(TM), on a region-by-region and country-by-country basis the communications technology will deliver high speed voice, data and rich streaming content, as well as other communications possibilities. The Company has negotiated several contracts for the deployment of WIMAX wireless systems (See Globetel Wireless Germany Contract and Russian Joint Venture below).

#### COOPERATIVE RESEARCH AND DEVELOPMENT AGREEMENT

On July 13, 2005, the Company announced that Sanswire Networks, LLC had signed a Cooperative Research and Development Agreement (CRDA) with Proton Energy Systems, Inc., a subsidiary of Distributed Energy Systems Corp. Pursuant to the agreement, Proton will provide assistance in developing a regenerative fuel cell energy storage system for our high altitude Remotely Operated Airship (ROA), or Stratellite. Under the agreement, Proton will provide prototype regenerative fuel cell (RFC) equipment and specialized technical support to Sanswire for our development and flight-testing of the Stratellite via a series of task agreements. Sanswire will provide the airship platform for testing and engineering inputs to tailor the RFC solution.

#### GLOBETEL WIRELESS, GERMANY CONTRACT

On August 1, 2005, GlobeTel Wireless announced that it would install wireless networks in three German cities. GlobeTel Wireless will provide high-speed wireless networks for internet connectivity starting with the town of Kaiserslautern, and continuing with nearby communities. Kaiserslautern is a city of 100,000 people, located 100 miles South West of Frankfurt. Construction of the project is scheduled to begin in the 2nd quarter 2006. GlobeTel Wireless is installing these first Wireless Networks in Germany as part of the roll out plan to deploy wireless communication networks to non-DSL communities, in identified geographic markets.

During 2005 and as of the date of this report, no transactions have occurred that would require recording or disclosure in the Company's financial statements related to this agreement.

#### SERVICES AGREEMENT - GLOBAL CROSSING, LTD. (NASDAQ: GLBC)

On October 6, 2005, Global Crossing announced that GlobeTel had selected its integrated, global IP-based network to offer international cable companies and Internet Service Providers ("ISPs") a completely customizable VoIP solution for clients located in Latin America and the Caribbean. As of the date of this report no transactions have occurred that would require recording or disclosure in the Company's financial statements.

COOPERATIVE TECHNOLOGIES AGREEMENT - UNIVERSITY OF STUTTGART, GERMANY

On October 12, 2005, the Company announced that Sanswire Networks LLC had signed an agreement with TAO-Technologies in cooperation with the University of Stuttgart in Germany. The agreement states that TAO-Technologies, in cooperation with the University of Stuttgart, will design several next-generation airships intended for multiple uses. As of the date of this report no transactions have occurred that would require recording or disclosure in the Company's financial statements.

## GLOBETEL WIRELESS, RUSSIAN JOINT VENTURE AGREEMENT

As of December 30, 2005, GlobeTel Wireless Corp. ("GTEW") has entered into a binding agreement to install wireless communications networks in 30 cities throughout the Russian Federation, providing broadband, VOIP and DECT technologies. GTEW has entered into an agreement with LLC Internafta ("Internafta") of Moscow, Russia, whereby Internafta will pay to GTEW a series of four construction payments totaling US\$600 million for the installation of an array of proprietary networks to be installed in Russia's 30 largest cities, starting with Moscow and St. Petersburg. GTEW will both manage the completed network and will retain an ongoing 50% shareholding in the operations of the network, allowing the Company to enjoy the significant benefits of the recurring revenue stream. GlobeTel plans to roll out the network in 3 stages, comprising 10 cities each, over the next 27 months.

On March 2, 2006 the Company announced that Internafta had requested an additional delay in the closing of the funding until the week of March 6, 2006. The Company has provided Internafta and its banks with a significantly expanded business plan outlining, in detail, the company's program for equipment manufacturing, delivery, installation, testing, monitoring, staffing, progress payment requirements, and other pertinent information. Internafta advised the Company that its funding has been approved by its bank syndicate, subject only to the bank's final review and analysis of the business plan.

Internafta has informed GlobeTel that its bank recommends that smaller, more frequent, progress payments be established so that the necessary staged payments can be delivered to GlobeTel as and when the network is delivered and installed. These smaller, more frequent, staged payments do not reduce the total capital value of the agreement with GlobeTel Wireless or change any other terms of the agreement. GlobeTel will still receive \$600 million for deployment of the network. The exact amount of the new proposed initial deposit, and the size and timing of the new proposed progress payments, will be discussed and agreed with GlobeTel once the bank has completed its due diligence and when the bank group formally accepts the terms of Internafta's proposed banking instrument.

On March 17, 2006, the Company announced that based upon differences between the Company and Internafta on the financing process, the parties have agreed to revise their agreement to more accurately reflect the timing of payments GlobeTel expects to receive for the build out of the 30 city wireless network in Russia and allow Internafta additional time to begin making payments.

On April 30, 2006 the Company notified Internafta that it was terminating the transaction.

During 2005, and as of the date of this report, no transactions have occurred that would require recording or disclosure in the Company's financial statements related to this agreement.

## AGREEMENT WITH FINANCIAL SOFTWARE & SYSTEMS IN INDIA

On November 9, 2005, the Company signed an agreement with Financial Software & Systems (P) Ltd. ("FSS") based in Chennai, India. The purpose of the agreement is to establish a commercial relationship between GlobeTel and FSS that will enable the parties to work together to market stored value and money remittance programs, targeting tens of millions of existing banking customers in the \$12 billion Indian remittance market.

FSS focuses its business in Electronic Funds Transfer ("EFT") solutions and outsourced services which power the majority of ATMs and Point-of-Sale ("POS") terminals in India, controlling most of the Electronic Funds Transfers in the country. FSS also provides third-party processing as an outsourced application services for many of the largest banks in India.

The Company believes that its relationship with FSS will bring cutting edge technology solutions to banks and financial institutions in India and across the globe. FSS is leveraging its extensive domain knowledge in payment

processing and transaction switching across various touch points with highly skilled software development and implementation resources, world-class IT infrastructure, and global partnerships.

The Company is currently in the process of establishing an Indian company and setting up the operations. As of the date of this report, no transactions have occurred that would require recording or disclosure in the Company's financial statements related to this agreement.

#### OTHER AGREEMENTS

Several other agreements, letters of intent, and memorandums of understanding regarding stored value cards and other telecommunications programs, as well as the Sanswire project, were entered into during 2005 and through the date of this report, none of which require the recording of any assets, liabilities, revenues or expenses.

## **NOTE 20 - COMMITMENTS AND CONTINGENCIES**

### **MEXICO ASSOCIATE AND CUSTOMER LITIGATION**

The Company has a legal action 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 the Company. The Company filed a motion in the Mexican courts which was necessary to formally request that the Company 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 were to be paid totally to GlobeTel, including the customer's portion of the profit sharing, until the amount owed has been fully paid. Upon full payment, the Company will begin the sharing profits again in accordance with the contract.

The Company received a judgment on February 14, 2005 in the amount of \$330,000. It is not certain of the amounts that, ultimately, will be realized from the Mexico associate.

This situation with our customer has caused us to record an allowance for bad debt expense for the fiscal year ending 2004 in the amount of \$938,782 and record an allowance for bad debt expense for the fiscal year ending 2005 in the amount of \$625,855 and an allowance for bad debt expense for the fiscal year ending 2005 for a Mexican Tax Refund in the amount of \$382,160.

### **FORMER CONSULTANTS LITIGATION**

The Company is 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 pre-split 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 had been repaid.

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, which has since been paid. The rest of the plaintiff's motion was denied. The court did not order the delivery of 24,526,000 pre-split 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.

However, an outcome cannot be projected with any certainty. The Company has not entered into any settlement negotiations with Mr. Milo and Mr. Quattrocchi and does not believe that we will be materially adversely affected by the outcome of this proceeding.



Presently, the Company is continuing its defense and counterclaims in this matter. A jury was selected on March 3, 2006 in anticipation for a trial; however, the parties entered into an agreement to proceed before a Judicial Hearing Officer for a non-jury trial. This case is expected to be assigned to a Judicial Hearing Officer on or before March 31, 2006 and a new hearing date will be set at that time.

#### PATENT INFRINGEMENT LAWSUIT

A case was filed against the Company for patent infringement. On or about September 1, 2004, Alexsam, Inc. (Alexsam) filed an action for patent infringement against us alleging the stored value card and service the Company is 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 and Alexsam have subsequently settled our dispute. In exchange for granting a non-exclusive license to GlobeTel for the Patents, GlobeTel withdrew its motion for attorneys' fees in the Texas Lawsuit and dismissed the Florida Lawsuit. The License Agreement was made and entered into in September 2005. The license taken by us extends further to our customers, bank partners, third party financial processors and cardholders, and all those in privity with any of them, but only to the extent those entities' activities relate to us and its license.

#### SERVICE PROVIDER AGREEMENT - BRAZIL NETWORK

On March 23, 2002, GlobeTel signed a memorandum of understanding with a company called Trans Global Ventures, Inc. (TGV), a company based in Miami, to form a joint venture to be registered as an LLC (Limited Liability Company) in the State of Florida to build out a VoIP network in Brazil offering call origination including but not limited to prepaid calling and 800 number calling as well as access to GlobeTel's Enhanced Services Platform technology. Initially, the venture was to be based on a 50/50 ownership between the two companies. Subsequently, the memorandum of understanding was modified to give GlobeTel 80% ownership, a percentage determined based on the investments to be made by the Company in the venture. Ultimately, however, both companies determined that TGV acting as a service provider would best serve the needs of each company, and therefore both companies agreed to terminate the memorandum of understanding and accordingly, the LLC was never formed.

Under the service provider agreement, for service provided, TGV shall be 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).

In connection with the Brazilian network operations, the Company recognized revenues of \$136,937, \$2,147,119 and \$2,923,981 for years ended December 31, 2005, 2004 and 2003, respectively. The cost of sales, substantially all of which was paid directly to third-party suppliers, was \$165,205, \$1,996,635 and \$1,993,737, respectively, in 2005, 2004 and 2003.

In June 2005, the Company and TGV discontinued the network operations and do not intend to recommence such operations in the near term.

#### SERVICE PROVIDER AGREEMENT - MEXICO NETWORK

On June 26, 2002, GlobeTel signed a memorandum of understanding with Qualnet Telecom, LLC for a joint venture to be known as GlobeTel Qualnet LLC, to be registered as an LLC (Limited Liability Company) in the State of Florida. The purpose of the venture was to build out a VoIP network in Mexico for call termination throughout the country that will have initial capacity to transport 8 million minutes per month. Qualnet had been operating in Mexico for several years and had contracts with various Mexican telecom companies. GlobeTel's role in the agreement was to provide financing and equipment to build the network. The agreement was for GlobeTel to have 80% ownership of the venture and Qualnet 20%, and accordingly GlobeTel committed 80% of the funding of the venture in the form of working capital, equipment and guarantees for the issuance of letters of credit as required by the Mexican telecom companies. Since Qualnet already had points of presence in several cities in Mexico had an established customer base, installation of the equipment and ramping up of the traffic required substantially less time than if the network was to

be built from the ground up. As a result, the venture was able to operate within several weeks and was able to fill the network near capacity.

The network continued to operate at capacity throughout the year and it was subsequently determined that each party would be better served by continuing to do business with Qualnet as a service provider. Both parties agreed not to proceed with the joint venture, and accordingly, the LLC was never formed and the parties signed an agreement not to pursue the joint venture agreement as contemplate in the memorandum of agreement dated June 26 2002. Under the service provider agreement, for services provided, Qualnet shall be 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 recognized revenues of \$4,774,657 and \$8,052,143, respectively, for the years ended December 31, 2004 and 2003. The cost of sales substantially all of which was paid directly to third-party suppliers were \$4,556,912 in 2004 and \$6,159,401 in 2003. There were no activities in connection with the Mexico network in 2005 and through the date of this report.

#### JOINT VENTURE AGREEMENT - TRUESPEED WIRELESS

On September 19, 2002, the Company entered into a joint venture agreement with TrueSpeed Wireless, Inc., a Nevada corporation based in Aliso Viejo, California. The venture is incorporated in Nevada as TrueSpeed Wireless International, Inc. and the structure of the joint venture is based on 50% ownership by GlobeTel and 50% ownership by TrueSpeed Wireless, Inc. The purpose of the joint venture shall be for the deployment of the wireless technology services currently being deployed by TrueSpeed Wireless, Inc. and to market and distribute high-speed wireless data communications. The venture had not been able to secure contracts in targeted countries and as of December 2003, both companies agreed to dissolve the joint venture. No revenues or expenses were ever generated from the joint venture, nor were there any asset, liability, or equity transactions requiring recording in the financial statements during the existence of the joint venture.

#### 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, bring the total monthly rent to \$9,186.

In June 2005, we negotiated with the landlord to lease an additional 5,000 square feet office on the second floor of our present facility, 9050 Pines Blvd., Pembroke Pines, Florida 33024. The Company will begin occupancy of this office in April 2006 and the lease expires in June 2009 with a monthly rent of \$9,186 (including sales tax). GlobeTel vacated the premises in March 2006, having turned over the space to Gotham Financial as part of the sale of the Magic Money division to Gotham.

GlobeTel's corporate offices are not located at 101 NE 3<sup>rd</sup> Ave., Suite 1500, Fort Lauderdale, FL 33301. Base rent is \$13,000 per month plus the cost of services used by GlobeTel. The lease is for a period of 6 months.

GlobeTel formerly leased facilities at 444 Brickell Avenue, Suite 522, Miami, Florida 33131. The Company was under a five-year lease expiring April 2005, with a monthly rent of \$3,463. In January of 2005 the Company satisfied its lease obligation related to this office.

In January 2005, GlobeTel signed a lease agreement with the San Bernardino International Airport Authority for hangar 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 we do intend to remain in the space for the near term.

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

Effective November 2001, the Company signed a sub-lease agreement for the Jersey City facility with a customer/consultant of the Company. Pursuant to the sublease agreement, the customer/consultant has maintained the obligation of the monthly rent of \$1,600, and at January 31, 2003, the lease expired and the Company has no further obligation to the lessee.

Future minimum rental payments required under the above operating leases subsequent to the year ended December 31, 2005 are as follows:

2006	\$ 515,022
2007	415,520
2008	427,486
2009	377,454
2010 and thereafter	276,969
	\$ 2,012,451

Rent expense for 2005, 2004 and 2003 were \$480,995, \$126,424 and \$48,607, respectively.

#### **NOTE 21 - RELATED PARTY TRANSACTIONS**

Related party transactions, other than those discussed in the notes above and below, include the following.

##### **RELATED PARTY PAYABLES**

As of December 31, 2005 and 2004, related party payables were \$57,500 and \$117,500, respectively. The balances represent short-term, non-interest bearing loans by officers of the Company, due on demand.

##### **NOTES PAYABLE - STOCKHOLDER**

As of December 31, 2002, the Company was obligated under a convertible promissory note payable to a stockholder and former director for \$55,000, principally representing advances to the Company. In 2003, the Company issued 266,667 (4 million pre-split) shares in complete settlement of the balance due.

##### **SETTLEMENT WITH FORMER OFFICER AND DIRECTOR**

In September 2005, the Company issued a total of 82,887 (1,243,305 pre-split) shares pursuant to a severance agreement with Leigh Coleman, a former President and Director, valued at \$123,750, based on the closing price of the shares on the dates of issuance. In addition, a total of 81,481 options to purchase common shares, valued at \$55,000 based on the option exercise price (adjusted for 1:15 reverse stock split) per the 2004 Employee Stock Bonus Plan.

##### **LOSS ON SETTLEMENT WITH FORMER AFFILIATE**

In September 2005, the Company entered into a settlement agreement with Sky China, Ltd., an Australian company that Mr. Coleman is affiliated with. Mr. Coleman was a former President and member of the Board of Directors for Globetel. The Company and Sky China, Ltd. entered into an agreement in 2004 to joint venture with the company for telecommunications services in Australia and Asia, and, in 2004, issued 200,000 (3 million pre-split) shares of common stock valued at \$135,000. Pursuant to the settlement, the Company granted Sky China Ltd. options to acquire 1,543,176 (post-split) shares valued at \$1,256,873, based on \$0.8150 per share, the intrinsic value of the option share on the date of the agreement.

#### **NOTE 22 - NET GAINS ON SETTLEMENT OF LIABILITIES AND DISCONTINUED OPERATIONS**

During the years ended December 31, 2004 and 2003 the Company recorded net gains on settlement of debts totaling \$268,397 and \$26,274, respectively, as discussed below. There were no similar material transactions recorded in 2005.

##### **EQUIPMENT VENDOR**

At December 2003, the Company settled with one its vendors to pay a lesser amount for the purchase of equipment that ultimately did not function as purported. Likewise, the Company wrote off other long-term outstanding liabilities for purchase of equipment that also did not function properly. The settlement and write-off resulted in a gain of \$26,274 in 2003.

##### **ACCOUNTS PAYABLE**

During 2004, the Company had included in accounts payable certain disputed amounts payable to creditors totaling \$14,823. The Company does not believe it has obligations to pay the recorded balances, and the vendors have not

sought collection from the Company for over one year, and, accordingly, recognized a gain in 2004.

**PROFESSIONAL SERVICES PROVIDER AND NOTE HOLDER**

In addition, the Company has recorded accounts payables to a former provider of professional services totaling \$333,060 and a note payable of \$50,000 to an individual, a principal of the professional services firm. The Company entered into an arrangement with the parties, which states that upon payment of a total of \$200,000, all of which was paid prior to December 31, 2004, the remaining balance of the above obligations referred to above will be considered fully satisfied without the necessity of further payments. The balance of \$183,060 was written off and a gain recorded in 2004 whereas the amounts due under the settlement are paid in full and all conditions fulfilled.

**CAPITAL LEASE OBLIGATIONS**

As of December 31, 2003, the Company had a balance due of \$53,311 of principal on capital lease obligation and \$15,924 in accrued interest. The equipment securing the obligation was abandoned prior to the 2003, after the lessee's refusal to accept return of the equipment in settlement of the obligation. The Company does not believe it has an obligation to repay the recorded balance, and neither the original lessee nor assigns have sought collection from the Company for over one year, and, accordingly the Company has recorded a gain of \$69,235 in 2004.

**FORMER EMPLOYEES OF DISCONTINUED OPERATING DIVISION**

In June 2003, the Company ceased operations of its St. Louis, Missouri office. As part of the termination agreement with the employees of the St. Louis office, the employees were authorized to maintain and service the existing clients and keep the property and equipment of that office. The Company agreed to return the customer deposits made by the St. Louis clients. The Company recorded a gain of \$55,842 in 2003 in connection with these transactions, based on the excess of the liabilities extinguished over the assets given up by the Company.

Three terminated employees were issued a total of 80,000 (1.2 million pre-split) free-trading shares of the Company's stock as severance pay. The Company charged \$36,000 to expense in 2003 based on an amount equal to the average bid and asked price of the Company's shares on the date of issuance. The Company had a recorded balance due of \$16,279 to terminated employees. However, during the three months ended September 30, 2005, the Company determined, and the former employees agreed, that any and all amounts due to or payable on behalf of the employees had been satisfied and no additional amounts were owed.

**FORMER CONSULTANTS**

Certain former consultants of the Company were granted a judgment in the sum of \$15,000, as described in Note 19 above. All disputed amounts allegedly payable to the consultants were written off and a gain was reported in prior periods. A loss on settlement of liabilities was recorded during 2005, for the \$15,000 subsequently determined payable.

**NOTE 23 - LOSS ON PROPERTY AND EQUIPMENT DISPOSITIONS**

As of September 30, 2004, the Company evaluated its property and equipment, including telecommunications equipment, located both within and outside of the United States, and office furniture and equipment ascribed to our various domestic office locations maintained from 2000 through September 30, 2004. Certain assets were abandoned, based on management's determination that such assets have no economic value, due to such factors as technological obsolescence, non-functioning of assets, lack of salvage in excess of costs to dispose, and non-recoverability of assets located in geographical markets and areas in which we are no longer active. During 2004 we recorded a loss on disposition of property and equipment of \$56,804.

Similarly, in 2003, a loss of \$42,301 was recorded in connection with abandoned obsolete equipment.

**NOTE 24 - INCOME TAXES**

Deferred income taxes and benefits for 2005 and 2004 are provided for certain income and expenses, which are recognized in different periods for tax and financial reporting purposes. The tax effects (computed at 15%) of these temporary differences and carry-forwards that give rise to significant portions of deferred tax assets and liabilities consist of the following:

<b>2004</b>	<b>Current Period</b>	<b>2005</b>
-------------	---------------------------	-------------



**Changes**

## Deferred tax assets:

Accrued officers' compensation	\$	29,750	\$	1,171,384	\$	1,201,134
Allowance for doubtful accounts		225,860		(164,495)		61,365
Consulting services elected as start-up costs under IRC Sec. 195 (b)		425,629		844,499		1,270,128
Reincorporation expenses amortized under IRC Sec. 248		25,975				25,975
Accumulated depreciation		(240,023)		193,743		(46,280)
Net operating loss carryforwards		4,478,552		4,539,781		9,018,333
		4,945,743		6,584,912		11,530,655
Valuation allowance		(4,945,743)		(6,584,912)		(11,530,655)
Net deferred tax asset	\$	—	\$	—	\$	—

A reconciliation of income benefit provided at the federal statutory rate of 15% to income tax benefit is as follows:

	2005	2004
Income tax benefit computed at federal statutory rate	\$ (3,136,496)	\$ (1,975,030)
Accrued salaries	1,201,134	29,750
Allowance for doubtful accounts	61,365	169,042
Depreciation	(10,269)	(4,497)
Losses not benefited	1,884,266	1,780,735
	\$	—\$

The Company has accumulated net operating losses, which can be used to offset future earnings. Accordingly, no provision for income taxes is recorded in the financial statements. A deferred tax asset for the future benefits of net operating losses and other differences is offset by a 100% valuation allowance due to the uncertainty of the Company's ability to utilize the losses. These net operating losses begin to expire in the year 2021.

At the end of 2005, the Company had net operating loss carry-forwards (including those of its successor due to accounting for the reincorporation as an "F" reorganization under the Internal Revenue Code) of approximately \$60,122,222, which expire at various dates through 2021.

#### NOTE 25 - COMMON STOCK TRANSACTIONS

During the year ended December 31, 2003, the Company issued the following shares of Common stock, all of which shares are stated in pre-split amounts:

Date Issued	Shares	Consideration	Valuation	Relationship
March 14, 2003	2,200,000	Consulting services	\$ 22,000	Consultant
March 14, 2003	1,800,000	Investment banking	18,000	Consultant
May 7, 2003	1,100,000	Consulting services	11,550	Consultant
May 7, 2003	900,000	Investment banking	9,450	Consultant
May 22, 2003	2,500,000	Loan Collateral	—	Note Holder
May 22, 2003	2,500,000	Loan Collateral	—	Note Holder
May 22, 2003	15,000,000	Conversion of debt	239,206	Investor
May 29, 2003	4,000,000	Satisfaction of debt	55,000	Shareholder /Former Director
July 18, 2003	200,000	Severance pay	6,000	Employee
July 18, 2003	500,000	Severance pay	15,000	Employee
July 18, 2003	500,000	Severance pay	15,000	Employee
July 18, 2003	450,000	Legal services	13,500	Legal counsel/ former corporate secretary
July 18, 2003	800,000	Consulting services	24,000	Consultant/Employee
July 18, 2003	12,844,000	Conversion of debt	256,880	Investor
August 5, 2003	20,080,321	Sale of stock	500,000	Investor/Consultant
August 5, 2003	—	Marketing services	100,402	Investor
August 8, 2003	3,400,000	Consulting services	102,000	Consultant
August 28, 2003	(42,916,666)	Return of shares issued	—	Note
August 28, 2003	—	Conversion of debt	125,000	Investor
August 28, 2003	—	Conversion of debt	250,000	Investor / consultant
August 28, 2003	—	Conversion of debt	125,000	Investor

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August 28, 2003	—	Conversion of debt	250,000	Investor
September 3, 2003	944,444	Consulting services	11,806	Consultant
September 3, 2003	900,000	Consulting services	11,250	Consultant
September 3, 2003	1,100,000	Consulting services	13,750	Consultant
September 3, 2003	3,847,222	Consulting services	49,090	Consultant
September 29, 2003	656,687	Consulting services	8,211	Consultant
		Additional shares due For Conversion		
October 9, 2003	4,281,333	of debt	—	Investor
October 9, 2003	3,650,000	Consulting services	73,000	Consultant/employee
October 9, 2003	2,000,000	Officer's salary	40,000	Chief Financial Officer
December 31, 2003	7,500,000	Officer's salary	112,500	Chief Executive Officer
December 31, 2003	1,166,667	Officer's salary	17,500	Chief Financial Officer
December 31, 2003	(4,000,000)	Return of shares issued for loan collateral	—	Note Holder

During the year ended December 31, 2004, the Company issued the following shares of Common stock, all of which shares are stated in pre-split amounts:

<b>Date Issued</b>	<b>Shares</b>	<b>Consideration</b>	<b>Valuation</b>	<b>Relationship</b>
January 15, 2004	4,500,000	Exercised Stock Options	\$ —	Chief Executive Officer /Director
January 15, 2004	5,166,666	Exercised Stock Options	—	Chief Financial Officer
January 15, 2004	2,000,000	Exercised Stock Options	—	Director/Formal President
January 15, 2004	9,000,000	Exercised Stock Options	—	Chief Operating Officer/ Director
January 15, 2004	1,000,000	Exercised Stock Options	—	President/Director /Former Consultant
January 15, 2004	2,666,667	Exercised Stock Options	—	Vendor
February 3, 2004	3,202,180	Exercised Stock Options	—	Chief Executive Officer/Director
February 3, 2004	1,243,847	Exercised Stock Options	—	Chief Financial Officer
February 3, 2004	2,003,106	Exercised Stock Options	—	Chief Operating Officer/Director
February 3, 2004	6,410,513	Exercised Stock Options	—	Employee
February 3, 2004	1,458,333	Exercised Stock Options	—	Accountant
February 4, 2004	20,796,483	Exercised Stock Options	—	Director/Formal President
February 4, 2004	16,500,000	Investment in Unconsolidated Foreign Subsidiary	—	Investee
February 5, 2004	3,500,000	Investment in Unconsolidated Foreign Subsidiary	—	Creditor of
February 17, 2004	9,100,000	Consulting Services	425,000	Director (COB)/ Former Consultant
May 11, 2004	108,333	Marketing Services	6,500	Consultant
May 12, 2004	28,000,000	Sanswire Assets Acquisition	2,800,000	Shareholders of Selling Corporation
May 25, 2004	1,352,528	Investment Banking Fees	67,626	Investment Banker
May 25, 2004	676,264	Investment Banking Fees	33,813	Investment Banker
May 25, 2004	1,352,528	Investment Banking Fees	67,626	Investment Banker
July 29, 2004	1,500,000	Compensation	144,000	Employee
July 29, 2004	500,000	Compensation	48,000	Employee
July 29, 2004	500,000	Compensation	48,000	Employee
August 12, 2004	2,000,000	Consulting Services	192,000	President/Formal Consultant (as

				Nominee) Chief Technology Officer / Former Consultant (as Nominee)
August 12, 2004	2,000,000	Consulting Services	192,000	
August 12, 2004	175,000	Compensation	7,000	Employee
Sept. 28, 2004	2,000,000	Stratodyne Assets Acquisition	—	Shareholder of Corporation Selling
November 4, 2004	7,800,000	Convert Pfd. Ser. A (received as broker fee).	—	Preferred Series-A Shareholder/ Investment Banker
November 4, 2004	5,200,000	Convert Pfd. Ser. A	—	Preferred Series-A Shareholders
November 17, 2004	26,000,000	Convert Pfd. Ser. A	—	Preferred Series-A Shareholder/ Investment Banker
November 17, 2004	20,800,000	Convert Pfd. Ser. A	—	Preferred Series-A Shareholders
November 17, 2004	10,920,000	Convert Pfd. Ser. A	157,500	Preferred Series-A Shareholders
November 18, 2004	1,560,000	Convert Pfd. Ser. A	22,500	Preferred Series-A Shareholders
November 19, 2004	9,360,000	Convert Pfd. Ser. A	135,000	Preferred Series- A Shareholders
November 23, 2004	7,800,000	Convert Pfd. Ser. A	112,500	Preferred Series- A Shareholders
November 24, 2004	1,560,000	Convert Pfd. Ser. A	22,500	Preferred Series-A Shareholders
November 30, 2004	9,360,000	Convert Pfd. Ser. A	135,000	Preferred Series-A Shareholders
December 1, 2004	31,200,000	Convert Pfd. Ser. A	450,000	Preferred Series-A Shareholders
December 3, 2004	1,560,000	Convert Pfd. Ser. A	22,500	Preferred Series-A Shareholders
December 8, 2004	6,240,000	Convert Pfd. Ser. A	90,000	Preferred Series-A Shareholders
December 10, 2004	12,480,000	Convert Pfd. Ser. A	180,000	Preferred Series-A Shareholders
December 28, 2004	6,240,000	Convert Pfd. Ser. A	90,000	Preferred Series-A Shareholders
December 30, 2004	1,560,000	Convert Pfd. Ser. A	22,500	Preferred Series-A Shareholders
December 31, 2004	(28,000,000)	Return of shares originally issued for Sanswire and Stratodyne Assets	(2,800,000)	Shareholders of Selling Corporations
December 31, 2004	26,000,000	Reissuance of shares For Sanswire Assets	2,600,000	Shareholders of Selling Corporation
December 31, 2004	2,000,000	Reissuance of shares for Stratodyne Assets	200,000	Shareholder of Selling Corporation
	3,000,000	Consulting Services	135,000	Consultant

December 31, 2004				
December 31, 2004	3,000,000	Consulting Services	135,000	Consultant
December 31, 2004	500,000	Consulting Services	22,500	Consultant
December 31, 2004	500,000	Consulting Services	22,500	Consultant

65

During the year ended December 31, 2005, the Company issued the following shares of Common stock, all of which shares are stated in post-split amounts:

DATE ISSUED	SHARES	CONSIDERATION	VALUATION	RELATIONSHIP
2/9/2005	208,000	Converted Preferred Series A	\$ 36,000	Preferred Series-A Shareholders
2/14/2005	520,000	Converted Preferred Series A	\$ 90,000	Preferred Series-A Shareholders
2/18/2005	84,500	Converted Preferred Series A Received as Broker Fee	*	Broker / Preferred Series-A Shareholders

66

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2/24/2005	251,421	Converted Notes Payable and Accrued Interest	\$ 301,706	Convertible Note Holder
2/24/2005	471,415	Converted Notes Payable and Accrued Interest	\$ 565,698	Convertible Note Holder
2/24/2005	157,138	Converted Notes Payable and Accrued Interest	\$ 188,566	Convertible Note Holder
2/24/2005	33,333	Broker Fee	*	Broker / Preferred Series-A Shareholders
2/24/2005	625,000	Convert Note Payable and Accrued Interest	\$ 750,000	Convertible Note Holder
2/25/2005	1,575,833	Converted Preferred Series A Received as Broker Fee	*	Broker / Preferred Series-A Shareholders
2/25/2005	33,333	Broker Fee	*	Broker / Convertible Note Holder
3/3/2005	1,040,000	Converted Preferred Series A	180,000	Preferred Series-A Shareholders
3/3/2005	33,333	Exercised Warrants	61,325	Broker / Convertible Note Holder
3/3/2005	260,417	Exercised Warrants	429,688	Convertible Note Holder turned Stockholder
3/3/2005	86,806	Exercised Warrants	143,229	Convertible Note Holder turned Stockholder
3/3/2005	138,889	Exercised Warrants	229,165	Convertible Note Holder turned Stockholder
3/6/2005	80,555	Exercised Warrants	132,916	Convertible Note Holder turned Stockholder
3/7/2005	485,333	Converted Preferred Series A Received as Broker Fee	*	Preferred Series-A Shareholders
3/7/2005	-	Converted Preferred Series A Additional Proceeds	\$ 9,000	Preferred Series-A Shareholders
3/7/2005	66,667	Exercised Warrants	\$ 110,000	Convertible Note Holder turned Stockholder
3/10/2005	66,667	Exercised Warrants	\$ 110,000	Convertible Note Holder turned Stockholder
3/11/2005	80,000	Consulting Services	\$ 358,200	Consultant / Legal Counsel
3/11/2005	80,000	Consulting Services	\$ 358,200	Former Consultant / Current Executive Vice President
3/11/2005	200,000	Costs of Sales	\$ 450,000	Vendor
3/14/2005	66,667	Exercised Warrants	\$ 110,000	Convertible Note Holder turned Stockholder
3/14/2005	500,000	Exercised Stock Options	*	CEO
3/14/2005	280,216	Exercised Stock Options	*	CFO
3/21/2005	369,022	Exercised Stock Options	*	COO
3/21/2005	172,065	Exercised Stock Options	*	Former Director
3/21/2005	100,000	Exercised Stock Options	*	Employee



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3/22/2005	37,832	Exercised Stock Options	*	Employee
3/22/2005	10,378	Exercised Stock Options	*	Employee
3/22/2005	8,211	Exercised Stock Options	*	Employee
3/22/2005	7,738	Exercised Stock Options	*	Employee
3/22/2005	6,388	Exercised Stock Options	*	Employee
3/22/2005	8,097	Exercised Stock Options	*	Employee
3/22/2005	1,363	Exercised Stock Options	*	Employee
3/22/2005	945	Exercised Stock Options	*	Employee
3/22/2005	1,052	Exercised Stock Options	*	Employee
3/22/2005	310	Exercised Stock Options	*	Employee
3/28/2005	211,734	Exercised Stock Options	*	Employee

67

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4/6/2005	-	Exercise Warrants - Additional Proceeds	\$ 1,347,500	Convertible Note Holder turned Stockholder
4/12/2005	33,333	Exercise Warrants	\$ 61,325	Convertible Note Holder turned Stockholder
4/15/2005	8,892	Exercised Stock Options	*	Employee
4/15/2005	8,527	Exercised Stock Options	*	Employee
4/15/2005	8,715	Exercised Stock Options	*	Director
4/15/2005	5,790	Exercised Stock Options	*	Employee
4/15/2005	6,151	Exercised Stock Options	*	Employee
4/27/2005	12,897	Exercised Stock Options	*	Senior Vice President
5/4/2005	174,790	Additional Shares Issued Per Anti-dilutive Agreement	*	Convertible Note Holder turned Stockholder
5/6/2005	291,317	Additional Shares Issued Per Anti-dilutive Agreement	*	Convertible Note Holder turned Stockholder
5/12/2005	103,950	Stock for Cash	\$ 300,000	Investors
5/12/2005	346,500	Stock for Cash	\$ 1,000,000	Investors
5/12/2005	86,667	Stock for Cash	\$ 250,120	Investors
5/12/2005	86,667	Stock for Cash	\$ 250,120	Investors
5/12/2005	17,325	Stock for Cash	\$ 50,000	Investors
5/12/2005	86,625	Stock for Cash	\$ 250,000	Investors
5/12/2005	6,930	Stock for Cash	\$ 20,000	Investors
5/12/2005	27,720	Stock for Cash	\$ 80,000	Investors
5/12/2005	3,333	Stock for Cash	\$ 9,620	Investors
5/12/2005	3,333	Stock for Cash	\$ 9,620	Investors
5/12/2005	34,650	Stock for Cash	\$ 100,000	Investors
5/12/2005	13,333	Stock for Cash	\$ 38,480	Investors
5/17/2005	650,000	Converted Preferred Series A	\$ 112,500	Preferred Series-A Shareholders
5/27/2005	86,625	Stock for Cash	\$ 250,000	Investors
5/27/2005	250,000	Consulting Services	\$ 905,000	Former Consultant - Corporation owned by current Executive Vice President
6/8/2005	350,000	Consulting Services	\$ 969,500	Consultant / Legal Counsel
6/13/2005	22,500	Shares received as Converted Preferred Series A	*	Broker/Preferred Series-A Shareholders
6/13/2005	2,444,167	Converted Preferred Series A Received as Broker Fee	*	Broker/Preferred Series-A Shareholders
6/14/2005	4,353	Exercised Stock Options	*	Employee
6/27/2005	33,334	Sales Commissions	\$ 100,000	Affiliate
6/30/2005	170,000	Legal Services	\$ 493,000	Consultant / Legal Counsel
7/5/2005	14,815	Exercised Stock Options	*	Consultant
7/5/2005	8,334	Employment Signing Bonus	\$ 25,000	Employee of Sanswire

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7/5/2005	1,000	Services - Performance Bonus	\$	1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$	1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$	1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$	1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$	1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$	1,000	Employee of Sanswire

68

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7/5/2005	334	Services - Performance Bonus	\$ 1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$ 1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$ 1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$ 1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$ 1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$ 1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$ 1,000	Employee of Sanswire
7/5/2005	334	Services - Performance Bonus	\$ 1,000	Employee of Sanswire
8/5/2005	20,001	Sales Commissions	\$ 37,402	Affiliate / Vendor
8/5/2005	13,333	Sales Commissions	\$ 24,933	Affiliate / Vendor
9/6/2005	38,730	Equipment Purchase	\$ 58,206	Affiliate / Vendor
9/8/2005	100,000	Conversion of Preferred Series C to Common Stock	\$ 150,000	Relation to Investment Banker / Consultant
9/8/2005	720,000	Conversion of Preferred Series C to Common Stock	\$ 1,080,000	Investment Banker / Consultant
9/8/2005	3,166	Services - Performance Bonus	\$ 4,750	Employee of Sanswire
9/8/2005	133,334	Employment Signing Bonus	\$ 200,000	Employee
9/13/2005	98,983	Employment Severance Agreement	\$ 177,400	Former Employee
9/27/2005	185,185	Board Member Referral Fee	\$ 275,926	Consultant Board Member
9/30/2005	1,881,317	Converted Preferred Series A	\$ 270,000	Preferred Series-A Shareholders
9/30/2005	36,667	Officer Salary Adjustment	\$ 55,000	Former President / Director
9/30/2005	33,611	Officer Salary Adjustment	\$ 50,000	Former President / Director
9/30/2005	12,500	Director Fees	\$ 18,750	Former President / Director
10/7/2005	350,000	Consulting Services	\$ 458,500	Corporation owned by Former Consultant / Ccurrent Executive Vice President
11/2/2005	28,201	Exercised Stock Options	\$ 53,300	Employee
11/17/2005	500,000	Conversion of Preferred Series C	\$ 250,000	Chief Operating Officer Stockholder / Warrant Holder
11/28/2005	9,333	Exercised Warrants	\$ 15,399	Holder
11/28/2005	2,333	Exercised Warrants	\$ 3,849	Stockholder / Warrant Holder

11/28/2005	60,638	Exercised Warrants	\$ 100,053	Stockholder / Warrant Holder
11/28/2005	4,851	Exercised Warrants	\$ 8,004	Stockholder / Warrant Holder
11/28/2005	72,765	Exercised Warrants	\$ 120,062	Stockholder / Warrant Holder
11/28/2005	2,333	Exercised Warrants	\$ 3,849	Stockholder / Warrant Holder
11/28/2005	69,545	Exercised Warrants	\$ 114,751	Stockholder / Warrant Holder

69

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11/29/2005	72,766	Exercised Warrants	\$ 120,064	Stockholder / Warrant Holder
11/30/2005	19,404	Exercised Warrants	\$ 32,017	Stockholder / Warrant Holder
12/1/2005	242,550	Exercised Warrants	\$ 400,208	Stockholder / Warrant Holder
12/2/2005	24,255	Exercised Warrants	\$ 40,021	Stockholder / Warrant Holder
12/2/2005	60,667	Exercised Warrants	\$ 100,101	Stockholder / Warrant Holder
12/5/2005	60,667	Exercised Warrants	\$ 100,101	Stockholder / Warrant Holder
12/8/2005	1,857,350	Conversion of Note Payable and Accrued Interest	\$ 3,064,628	Convertible Note Holder turned Stockholder
12/8/2005	306,860	Conversion of Note Payable and Accrued Interest	\$ 506,319	Convertible Note Holder turned Stockholder
12/16/2005	100,000	Exercised Warrants	\$ 250,000	Stockholder / Warrant Holder
12/19/2005	100,000	Exercised Warrants	\$ 250,000	Stockholder / Warrant Holder
12/21/2005	72,727	Exercised Warrants	\$ 181,818	Stockholder / Warrant Holder
12/22/2005	81,168	Travel Services	\$ 125,000	Corporation owned by Former Consultant / Ccurrent Executive Vice President
12/27/2005	291,961	Conversion of Note Payable and Accrued Interest	\$ 481,736	Convertible Note Holder turned Stockholder
12/27/2005	21,429	Officer Salary	\$ 60,000	Chief Executive Officer / Director
12/27/2005	19,643	Officer Salary	\$ 55,000	Chief Financial Officer
12/27/2005	9,821	Officer Salary	\$ 27,500	Corp. Secretary / Director
12/27/2005	19,643	Officer Salary	\$ 55,000	Chief Operating Officer
12/27/2005	19,643	Officer Salary	\$ 55,000	Chief Technology Officer
12/27/2005	19,643	Officer Salary	\$ 55,000	Former Chief Operating Officer / Director
12/27/2005	9,821	Officer Salary	\$ 27,500	Senior Vice-President of Finance
12/31/2005	12,931,334	Conversion of Preferred Series B	\$ 8,435,200	Preferred Stockholder
12/31/2005	308,712	Conversion of Note Payable and Accrued Interest	\$ 509,375	Convertible Note Holder turned Stockholder

\* The valuation amounts of the above common stock transactions are based on the amounts that common stock and related additional paid-capital were increased (decreased) upon recording of each transaction. For exercises of stock options, no values are indicated, whereas the options were valued and the additional paid-in capital account was

increased upon the original issuance (grant) of the options and no additional charges were recorded upon exercise of the options. For conversions of preferred stock, the valuation indicated is the recorded amount of the preferred stock upon original issuance of the preferred shares, which amount was reclassified to common stock and related additional paid-in capital upon conversion. Where preferred stock was originally issued for broker's fees (instead of cash) and, accordingly, no monetary compensation was received or recorded by the Company for the preferred shares issued, the listed common stock valuation is also zero.

In connection with the above, for certain issuances of shares, Forms S-8 have been filed with the Securities and Exchange Commission relative to such issuances of stock. The shares issued were valued by the Company based upon the average bid and asked price of the shares on the date of issuance. The value of these shares was charged to expense unless they were in consideration for future services, in which case they were recorded as deferred consulting fees.

For other issuances of shares during the periods described above, the Company-issued restricted shares (Rule 144) of its common stock to consultants and officers for services to the Company. Through December 31, 2004, issuance of restricted shares (Rule 144) were valued, due to limitations in current marketability, by the Company based upon half of the average bid and asked price of the Company's shares on the date of issuance, unless the services provided were valued at another amount as agreed upon between the parties.

Effective January 1, 2005, the Company adopted the policy of valuing all shares of common stock issued in consideration for services at the closing price of the shares on the date of issuance or date of Board approval or agreement, if earlier, regardless of whether the shares are issued or restricted or free-trading, except for instances where the closing price is based on contractual agreements.

Shares issued (retired) for loan collateral were recorded at par value.

#### NOTE 26 - STOCK OPTIONS

During the year ended December 31, 2003, the Company issued the following options to acquire Common stock, all of which share amounts below are pre-split:

Date Issued	Shares	Consideration	Valuation	Relationship
September 26, 2003	2,206,667	Satisfaction of debt	33,100	Former President
September 26, 2003	17,600,000	Accrued salary	264,200	Former President
September 26, 2003	8,944,467	Accrued salary	134,167	Chief Executive Officer
September 26, 2003	7,444,467	Accrued salary	111,667	Chief Operating Officer
September 26, 2003	7,444,467	Accrued salary	111,667	Chief Financial Officer
September 26, 2003	4,111,133	Accrued salary	61,667	Controller
December 18, 2003	6,666,667	Officer salary	100,000	Former President
December 18, 2003	5,333,333	Officer salary	80,000	Chief Operating Officer
December 18, 2003	3,333,333	Salary	50,000	Former Controller
December 18, 2003	1,000,000	Officer salary	15,000	President
December 18, 2003	1,666,667	Accounting services	25,000	Accountants
December 18, 2003	2,666,667	Network services	40,000	Vendor

According to option agreements in connection with the above shares, the option prices were the lower of \$ .015 (pre-split) per share or one-half of the closing market price on the last reported sale or closing price on the date of the agreement. The above options were issued at \$.015 (pre-split) per share.

The above option shares were issued in "cashless exercises". Accordingly, the option shares actually issued were reduced by the number of shares required to pay for the options as \$ .015 (pre-split) per share.

All of the above stock options were subsequently exercised in January 2004.



During the year ended December 31, 2004, the Company issued the following options to acquire Common stock, all of which share amounts below are pre-split:

<b>Date Issued</b>	<b>Shares</b>	<b>Consideration</b>	<b>Valuation</b>	<b>Relationship</b>
December 31, 2004	479,778	Accrued Board Member Stipends	18,750	Chief Executive Officer/Director
December 31, 2004	479,778	Accrued Board Member Stipends	18,750	Director (COB)/ Former Consultant
December 31, 2004	479,778	Accrued Board Member Stipends	18,750	Chief Operating Officer/Director
December 31, 2004	479,778	Accrued Board Member Stipends	18,750	Director/Former President
December 31, 2004	479,778	Accrued Board Member Stipends	18,750	President Director/ Former Consultant
December 31, 2004	479,778	Accrued Board Member Stipends	18,750	Director/Former President of Subsidiary
December 31, 2004	479,778	Accrued Board Member Stipends	18,750	Director
December 31, 2004	359,833	Accrued Board Member Stipends	14,065	Chief Financial Officer
December 31, 2004	4,444,444	Bonus	200,000	Chief Executive Officer/Director
December 31, 2004	3,888,889	Bonus	175,000	Chief Financial Officer
December 31, 2004	3,888,889	Bonus	175,000	Chief Operating Officer/Director
December 31, 2004	694,444	Bonus	31,250	Chief Technology Officer/Former Consultant
December 31, 2004	833,333	Bonus	37,500	Senior Vice- President
December 31, 2004	2,777,778	Bonus	125,000	President/Director/ Former Consultant
December 31, 2004	1,444,444	Bonus	65,000	Employee
December 31, 2004	2,444,444	Bonus	110,000	Employee
December 31, 2004	670,556	Bonus	30,175	Employee
December 31, 2004	530,556	Bonus	23,875	Employee
December 31, 2004	500,000	Bonus	22,500	Employee
December 31, 2004	412,720	Bonus	18,572	Employee
December 31, 2004	523,144	Bonus	23,541	Employee
December 31, 2004	88,040	Bonus	3,962	Employee
December 31, 2004	281,250	Bonus	12,656	Employee
December 31, 2004	61,040	Bonus	2,747	Employee
December 31, 2004	68,000	Bonus	3,060	Employee
December 31, 2004	20,000	Bonus	900	Employee
December 31, 2004	550,922	Bonus	24,791	Employee of Subsidiary
December 31, 2004	83,333	Bonus	3,750	Former Employee of Subsidiary
December 31, 2004	374,078	Bonus	16,834	Employee of Subsidiary
December 31, 2004	574,533	Bonus	25,854	Employee of Subsidiary
December 31, 2004	397,456	Bonus	17,886	Former Employee of Subsidiary

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December 31, 2004	277,778	Bonus	12,500	Employee of Subsidiary
December 31, 2004	133,333	Bonus	6,000	Employee of Subsidiary
December 31, 2004	116,667	Bonus	5,250	Employee of Subsidiary
December 31, 2004	185,189	Bonus	8,334	Employee of Subsidiary
December 31, 2004	222,222	Amount owed for services	10,000	Accountant
December 31, 2004	31,519,878	Officer Stock Option Grant	1,418,394	Chief Executive Officer /Director
December 31, 2004	21,013,252	Officer Stock Option Grant	945,596	Chief Operating Officer /Director
December 31, 2004	15,759,939	Officer Stock Option Grant	709,197	Chief Financial Officer
December 31, 2004	10,506,626	Officer Stock Option Grant	472,798	Director /Former President
December 31, 2004	10,506,626	Officer Stock Option Grant	472,798	President / Director / Former Consultant
December 31, 2004	10,506,626	Officer Stock Option Grant	472,798	Chief Technology Officer/ Former Consultant

According to option agreements in connection with the above shares, the option prices were the lower of \$0.675 (\$ .045 pre-split) per share or one-half of the closing market price on the last reported sale or closing price on the date of the agreement. The above options that were exercised were issued at \$0.675 (\$ .045 pre-split) per share.

During the year ended December 31, 2005, the Company issued the following options to acquire Common stock, all of which shares are stated in post-split amounts:

Date Issued	Shares	Consideration	Valuation	Relationship
9/27/2005	81,481	Additional stock options per	\$ 55,000	Former President / Director settlement agreement
9/27/2005	1,542,176	Settlement Agreement	\$ 1,256,873	Consultant / Affiliate or Former President
12/9/2005	37,500	Director Bonus	\$ 55,875	Former Director
12/9/2005	30,000	Director Severance	\$ 29,700	Former Director
12/31/2005	2,945,763	Officer Stock Option Grant	\$ 1,988,390	Chief Executive Officer/ Director
12/31/2005	1,963,842	Officer Stock Option Grant	\$ 1,325,593	Chief Operating Officer / Director
12/31/2005	1,472,882	Officer Stock Option Grant	\$ 994,195	Chief Financial Officer
12/31/2005	490,961	Officer Stock Option Grant	\$ 331,398	Director / Former President
12/31/2005	981,921	Officer Stock Option Grant	\$ 662,797	Chief Technology Officer / Former Consultant
12/31/2005	981,921	Officer Stock Option Grant	\$ 662,797	Chief Operating Officer
12/31/2005	2,454,803	Officer Stock Option Grant	\$ 4,394,097	Director

The above scheduled stock options include only those recorded at intrinsic value (see Note 1 above). Other stock options with no intrinsic value (i.e., not discounted) are discussed below, but are not required to be recorded in the financial statement.

#### EXECUTIVE STOCK OPTIONS PLAN

In May 2004, the board of directors approved an Officers' Stock Option Grant Plan, pursuant to which certain officers are entitled to receive stock options, for each of three years, beginning in 2004 (Year 1). The annual number of option shares to be issued will be equal to amounts that, after the exercise of such options, would affect ownership of various percentages of the total shares then issued and outstanding. The following officers received options for restricted shares in the following percentages: CEO - 3% in each of the three years (total 9%); COO - 2% in each of the three years (total 6%), CFO - 2.0% in Year 1 and 1.5% in each of the following years (total 5.0%), Director and former President - 1.0% in Year 1 and .5% in each of the following years (total 2%), current President - 1% in each of the three years (total 3%), and CTO - 1% in each of the three years (total 3%). The recipient's rights to the options will be fully vested as of December 31, 2004, although compensation expense is recorded at the completion of each year. The total of 6,654,166 (99,812,946 pre-split) option shares issuable for 2004. The stock options are exercisable at the lower of \$ 0.675 (\$.045 pre-split) per share, based on one-half of the average closing market price for the shares during the ten day period prior to the vesting date of December 31, 2004, or 50% of the closing market price on the date of exercise.

In addition to the above parties, the Corporate Secretary / general counsel and the Senior Vice-President were awarded 1% and 2%, respectively, of the total shares outstanding, at the fair market value of the Company's stock on the date the options were granted. Also, a board member, Randolph Dumas, was awarded 2.5% of the total shares outstanding, exercisable at \$1.79 per share at the date of issuance. A total of 13,992,374 options shares were granted for 2005.

## STOCK OPTION BONUS PLANS

In December 2004, the Company established its 2004 Stock Option Bonus Plan, wherein the board of directors authorized the issuance of stock options for restricted shares totaling 1,765,832 (26,487,483 pre-split) shares to the officers and employees of the company as payment of accrued bonuses through December 31, 2004. The stock options are exercisable at the lower of \$0.675 (\$.045 pre-split) per share, based on one-half of the average closing market price for the shares during the ten-day period prior to the vesting date of December 31, 2004, or 50% of the closing market price on the date of exercise.

In December 2004, the board of directors authorized the issuance of stock options for restricted shares totaling 247,885 (3,718,279 pre-split) shares to the directors of the company as payment of accrued board members' stipends through December 31, 2004. The stock options are exercisable at the lower of \$0.5865 (\$.0391 pre-split) per share or 50% of the closing market price on date of exercise.

In November 2005, the Company established its 2005 Stock Option Bonus Plan, wherein the board of directors authorized the issuance of stock options for restricted shares totaling 1,509,180 (post-split) shares to the officers and employees of the company as payment of accrued bonuses through December 31, 2005. The stock options are exercisable at \$2.12, based on the closing market price of the Company's free-trading shares on the date the options were granted. Through the date of this report, none of these options have been exercised.

During 2005, the board of directors authorized the issuance of stock options for restricted shares totaling 199,490 (post-split) shares to the directors of the company as board members' compensation for services through December 31, 2005. The stock options are exercisable at various amounts, ranging from \$1.99 to \$4.35 per share, based on the closing market price of the Company's free-trading shares on the date the options were granted, except for a now former director who was issued 37,500 and 30,000 (post-split) options shares at \$1.49 and \$0.99, respectively. Through the date of this report, none of these options have been exercised.

All of the options granted during 2005, unless otherwise discounted as noted above, were exercisable based on the closing market price of the Company's free-trading shares. Accordingly, whereas through December 31, 2005 the Company expenses stock options only at intrinsic value (per APB 25 - see Note 1 above), no expense was recorded for shares exercised based on the closing price of the Company's free-trading shares at the date granted.

#### 2004 STOCK OPTIONS EXERCISED IN 2005

During 2005, a total of 1,785,490 (26,782,350 post-split) of the above options shares were exercised and issued (net of shares used to pay for "cashless" options"), with payment in cash and common stock subscriptions receivable totaling \$92,906, pursuant to the 2004 Stock Option Bonus Plan, the Officers' Stock Option Grant Plan, and for accrued board members' stipends, and, furthermore, these shares were registered by the Company's filing a Form S-8 registration statement. The number of shares registered were allocated to the individuals exercising the options based a ratio of the number of options held by each individual to the total number of options held by all individuals.

#### **NOTE 27 - PREFERRED STOCK**

##### SERIES A

In October 2003, the Company entered into an agreement with Fordham Financial Management Inc. to raise funds. In accordance with the agreement, the investors will receive preferred shares convertible into common stock upon investment. An Offering Circular was made available to investors on October 17, 2003.

The offering was for maximum of 150,000 shares ("Shares") of Series A Convertible Redeemable Preferred Stock, par value \$.001 per share ("Series A Preferred"). The shares have a liquidation preference of \$16.67 per share and each share is convertible into a number of shares of Common Stock determined by dividing the number of shares of Common Stock outstanding as of the date of conversion by three, and dividing the result of that calculation by 250,000. The Company may redeem the Shares at \$.001 per share at any time after the second anniversary of the date of issuance. Such redemption would effectively require the investor to convert his shares at that time or lose the entire amount of his investment.

As part of the offering, the Company agreed to pay its investment banking consultant, Fordham Financial Management, Inc. a 10% commission, plus 100,000 Shares.

The Company had \$1,200,000 subscribed as of December 31, 2003, and had received \$717,140 (\$1,200,000 less related expenses of \$107,860 and \$375,000 of subscriptions receivable). The full amount of \$2,500,000 had been subscribed as of January 31, 2005, and the \$2,250,000 (\$2,500,000 total less 10% commission) had been received as of February 6, 2005.

During 2004, preferred shareholders converted a total 153,500 shares into 10,642,666 (159,640,000 pre-split) of the Company's common stock, based on conversion ratio of 1,040 common shares for each preferred share owned, in accordance with the formula described above. The Company had remaining 96,500 Series A Preferred Shares issued and outstanding, representing \$697,500 subscribed, as of December 31, 2004. During 2005, the preferred shareholders converted a total all of the remaining 96,500 Series A Preferred shares into 8,911,651 (pre-split) shares of the

Company's common stock.

#### SERIES B

On April 27, 2004, the Company agreed to sell 1,000 shares of Series B Preferred Stock of GlobeTel Communications Corp. (GTE) to Caterham Financial Management, Ltd., a Malaysian company (Caterham), for a total investment of \$15 million. The Company intended to use \$5 million of this investment for working capital and \$10 million to purchase two Stored Value Card Data switches.

The agreement was later modified so that the total number of shares is 35,000 for the same investment convertible into the same amount of common stock as agreed upon on April 27, 2005.

With respect to the \$5 million in working capital, Caterham had agreed to advance \$1 million to GlobeTel Communications on May 7, July 1, September 1, November 1 and December 31 of 2004. The Agreement provides that Caterham has a 10 day grace period, in which to make any scheduled payments. With respect to the Master Card Data switches, Caterham has agreed to advance an aggregate of \$5 million to GlobeTel Communications to purchase a Stored Value Card Data Switch, which will be located in Miami, Florida and subsequently a second switch will be installed in the Company's Hong Kong operations.

The Certificate of Designation for the Series B Preferred Stock was filed with the State of Delaware on July 30, 2004.

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 share 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 369,467 (5,542,000 pre-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.

The Company had subscribed and received \$3,350,000 as of December 31, 2004 (net of \$11.5 million of subscriptions receivable). A total of \$2,850,000 was received from Caterham; an amount representing \$500,000 was issued to Charterhouse in settlement of outstanding obligations (see Note 10 above). In addition an amount representing \$150,000, was issued as a broker's fee.

In January 2005 an additional \$250,000 was received from Caterham. The remaining amount of the subscription receivable was subsequently received during 2005 in the form of \$4,835,200 of telecommunication equipment - the data switch in connection with the Stored Value Card program.

In December 2005, the Company entered into an agreement with Caterham wherein all 35,000 Series A Preferred shares were converted into 12,931,334 post-split shares of GlobeTel common stock in full settlement of all obligations of the parties.

#### SERIES C

On April 27, 2004, the Company agreed to sell 1,000 shares of Series C Preferred Stock of GlobeTel Communications Corp. ("GTE") to Tim Ingram, a Hong Kong based investment banker, for a total investment of \$1 million. The Company intended to use this \$1 million investment for working capital and purchase of equipment necessary to expand the Company's Stored Value Card Programs.

On July 30, 2004, the Company filed a Certificate of Designation for Series C Preferred Stock with the State of Delaware.

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 GTE'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 GlobeTel Communications 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 GlobeTel Communications common stock. Each 1,000 shares of Series C Preferred Stock will represent 2% of the GlobeTel Communications 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 GlobeTel Communications 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 GlobeTel Communications 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 GlobeTel Communications' common stock.



Ingram agreed to advance \$1 million to GlobeTel Communications on or before June 25, August 25, October 25 and December 25, 2004. Mr. Ingram advanced \$250,000 to the Company on June 25, 2004 as agreed, and 250 shares of Series C Preferred Stock were issued. Subsequently, Mr. Ingram notified the Company that he will not be funding the remaining \$750,000 and instead agreed to assign the remaining amount to other groups wanting to invest in the Company. In December 2004, Mr. Ingram converted his preferred shares into 151,515 (2,272,727 pre-split) common shares, recorded at the then current market price of \$1.65 (\$.11 pre-split) per common share, for a total of \$250,000.

On August 20, 2004, the Company agreed to sell 500 shares of Series C Preferred Stock of GlobeTel Communications Corp. ("GTE") to Paul E. Taboada for a total investment of \$500,000. Mr. Taboada, an individual investor, has also been providing consulting services for the Company for over four years. The Company is using this \$500,000 investment for working capital and purchase of equipment for Sanswire Networks, LLC, necessary to launch the prototype of the Stratellite.

The purchase price was payable in five (5) installments of \$100,000, payable no later than August 30, 2004, September 30, 2004, October 30, 2004, November 30, 2004, and December 30, 2004. The Purchaser has a three-day cure period to remit the monthly payments. As of December 31, 2004, the Company has received the full \$500,000 as agreed upon.

In September 2005, Mr. Taboada converted all 500 shares of Series C Preferred Stock into 820,000 (12,300,000 pre-split) shares of the Company's common stock based on 1% of the then outstanding total of the Company's common stock, as agreed upon by the parties.

On October 22, 2004, the Company agreed to sell 250 shares of Series C Preferred Stock of GlobeTel Communications Corp. ("GTE") to Lawrence Lynch for a total investment of \$250,000. Mr. Lynch, an individual investor, is also the current Chief Operating Officer of the Company. The Company used this \$250,000 investment for working capital and purchase of equipment necessary to expand the Company's stored value card programs.

In November 2005, Mr. Lynch converted all 250 shares of Series C Preferred Stock into 500,000 (7,500,000 pre-split) shares of the Company's common stock.

As of December 31, 2005, there were no subscriptions receivable for Series C preferred stock, all shares were converted into Company common stock, and the Company does not anticipate issuing any additional shares in connection with this preferred stock series.

#### SERIES D

On July 28, 2004, the Company agreed to sell 1,000 shares of Series D Preferred Stock of GlobeTel Communications Corp. ("GTE") to Mitchell A. Siegel, former Chief Operating Officer and current Vice President and Director 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 in June 2005, remitted the second \$250,000.

The Certificate of Designation for the Series D Preferred Stock was filed with the State of Delaware on July 30, 2004.

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 GTE's authorized shares of common stock for a period of three years from the first closing date.

For a period of two years after the first closing date, the Series D Preferred Stock shall not be convertible into shares of GTE 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 GTE common stock. The 1,000 shares of Series D Preferred Stock will represent 2% of the GTE 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 GTE 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 GTE 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 GTE's common stock.

The Company expects to receive the remaining \$500,000 in stock subscriptions receivable from Mr. Siegel in the near term.

## NOTE 28 - SEGMENTS AND RELATED INFORMATION

During the year 2001, the Company adopted FASB Statement No. 131 (SFAS No. 131), "Disclosures about Segments of an Enterprise and Related Information," which changes the way the Company reports information about its operating segments.

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 results 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.

2005	TELECOM	SANSWIRE	UNALLOCATED	TOTALS
Revenues Earned	\$ 10,136,168	—	\$ 8,644	\$ 10,144,812
Cost of Revenue Earned	9,722,749	—	8,335	9,731,084
<b>GROSS MARGIN (LOSS)</b>	<b>413,388</b>	<b>—</b>	<b>309</b>	<b>413,697</b>
Expenses	2,355,398	4,300,866	23,970,231	30,626,495
Loss Before Other Income (Expense) and Income Taxes	(1,942,010)	(4,300,866)	(23,969,922)	(30,212,798)
Other Income (Expense)	(1,740,594)	—	(3)	(1,740,597)
Loss Before Income Taxes	(3,682,604)	(4,300,866)	(23,969,925)	(31,953,395)
Income Taxes	—	—	—	—
<b>NET LOSS</b>	<b>(\$3,682,604)</b>	<b>4,300,866</b>	<b>(\$23,969,925)</b>	<b>(\$31,953,395)</b>

2004	TELECOM	SANSWIRE	UNALLOCATED	TOTALS
Revenues Earned	\$ 11,309,376	—	—	\$ 11,309,376
Cost of Revenue Earned	11,500,577	—	—	11,500,577
<b>GROSS MARGIN (LOSS)</b>	<b>(191,201)</b>	<b>—</b>	<b>—</b>	<b>(191,201)</b>
Expenses	901,076	746,827	11,202,347	12,850,250
Loss Before Other Income (Expense) and Income Tax	(1,092,277)	(746,827)	(11,202,347)	(13,041,451)
Other Income (Expenses)	(379,511)	254,093	(125,418)	
Loss Before Income Taxes	(1,471,788)	(746,827)	(10,948,254)	(13,166,869)
Income Taxes	—	—	—	—
<b>NET LOSS</b>	<b>1,471,788</b>	<b>(\$ 746,827)</b>	<b>(\$10,948,254)</b>	<b>(\$13,166,869)</b>

## **NOTE 29 - SUBSEQUENT EVENTS (restated)**

### **SEC Investigation**

In September 2006 the SEC issued a formal order of investigation regarding certain issues with respect to the Company. On October 5, 2007, GlobeTel Communications Corp., received a "Wells Notice" from the Securities and Exchange Commission ("SEC") in connection with the SEC's ongoing investigation of the Company. The Wells Notice provides notification that the staff of the SEC intends to recommend to the Commission that it bring a civil action against the Company for possible violations of the securities laws including violations of Sections 5 and 17(a) of the Securities Act of 1933; Sections 10(b), 13(a), and 13(b)(2)(A) & (B) of the Securities Exchange Act of 1934 ("Exchange Act") and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder; and seeking as relief a permanent injunction, civil penalties, and disgorgement with prejudgment interest. The staff is also considering recommending that the SEC authorize and institute proceedings to revoke the registration of Company's securities pursuant to Section 12(j) of the Exchange Act. Under the process established by the SEC, recipients have the opportunity to respond in writing to a Wells Notice before the SEC staff makes any formal recommendation to the Commission regarding what action, if any, should be brought by the SEC.

### Redwood Grove Financing

During the first quarter of 2006, the Company received additional investments totaling over \$4 million. Convertible promissory notes with face values totaling \$1.8 million were issued, and, after commissions, fees and costs, a net of \$1,579,487 was received in January 2005. In February 2005 the notes were converted into a total of 23,574,615 shares of the Company's common stock. In March 2005 the investors exercised warrants to purchase a total of 35,366,285 additional shares of common stock for an additional \$2,625,025, including amount due under a redemption buyout of the warrant shares.

On February 5, 2005 GlobeTel filed a registration statement with the Securities and Exchange Commission on Form SB-2 to register shares offered by shareholders who may convert, and eventually did as discussed above, their convertible notes, and additional shares to ensure sufficient number of shares are available for conversion. Further, additional shares totaling 75% of the underlying convertible notes and warrants to ensure that shares are available for conversion under all contingencies.

### Appointment of Jonathan Leinwand as Director

The Board of Directors appointed Jonathan Leinwand to the Board of Directors effective August 18, 2005. Mr. Leinwand was and continued to be the Company's General Counsel, until September 10, 2007 when he was named Chief Executive Officer.

### Appointment and Resignation of Sir Christopher Meyer as Director

The Board of Directors appointed Sir Christopher Meyer as a Director effective September 13, 2005. Sir Christopher has served as the head of the UK Press Complaints Commission since 2003 and from 1997 until 2003 he was the UK ambassador to the United States. Sir Christopher has also been elected by the Board to be its Chairman and to serve on the Audit Committee. Sir Christopher subsequently resigned on March 21, 2006. He had no disputes with the Company.

### American Stock Exchange Deficiency Letter

On December 19, 2005 the Company received a letter from the American Stock Exchange, pursuant to Rule 1009(a)(i) of the American Stock Exchange Company Guide that it had not timely filed with the Exchange an

Additional Listing Application to list shares that had been issued by the Company since its initial listing in May 2005. The Company has subsequently filed such an application with the Exchange.

According to the letter, the Exchange determined not to apply, at that time, continued listing evaluation and follow-up procedures.

Agreement with Internafita

On December 29, 2005, GlobeTel Wireless Corp. a wholly-owned subsidiary of GlobeTel Communications Corp. has entered into an agreement with LLC Internafita, a Russian corporation, whereby Internafita will pay GlobeTel \$600 million to construct and install a communications network in the 30 largest Russian cities. This communications network will utilize GlobeTel's HotZone 4010 WiMax (802.16e) capable radio. It is intended that this network will provide wireless broadband access, Voice over IP capabilities, DECT functionality, and IPTV capabilities.

The networks will be installed in the cities over a 27-month period. Payments to GlobeTel are pursuant to a schedule that includes certain milestones. Payments will be made via a Letter of Credit confirmed by a US money center bank. GlobeTel will not commence construction until the first payment has been made by Internafita. Additionally, GlobeTel will help operate the Russian networks once constructed and will be a 50/50 joint venture partner with Internafita in the networks' operations.

In May 2006, GlobeTel announced that it was terminating the Joint Venture Agreement

#### Warrant Agreement

On January 9, 2006, GlobeTel entered into agreements with the investors in its August 2005 Convertible Note placement for them to exercise their warrants that had an exercise price of \$2.50 per share. The investors will exercise their warrants and the Company will issue to the investors a total of 1,935,606 new warrants with an exercise price of \$4.00 per share.

The investors were given “piggy-back” registration rights for the warrants. If the warrants have not been registered after one year, then the investors have a demand registration rights.

The warrants expire on August 31, 2008.

#### Appointment and Resignation of Michael Castellano and Dorian Klein as Directors

The Board of Directors appointed Dorian Klein and Michael P. Castellano to serve as directors on GlobeTel’s Board of Directors.

Mr. Castellano subsequently resigned as a director on March 14, 2007.

Mr. Klein subsequently resigned as a director on October 7, 2006.

#### Appointment and Resignation of J. Randolph Dumas as Director

The Board of Directors appointed J. Randolph Dumas as a Director and Executive Vice Chairman on November 30, 2005. Mr. Dumas was a partner of Salomon Brothers International Limited responsible for the firm's European corporate finance, mortgage securities and real estate investment banking businesses, and a managing Partner of two private equity firms focusing on telecommunications and European leveraged buyouts. Upon the resignation of Sir Christopher Meyer in March 2006, Mr. Dumas was elected Chairman. Mr. Dumas resigned on October 7, 2006 in conjunction with a management restructuring. He had no disputes with the Company.

#### Retirement of Thomas Jimenez

On April 7, 2006, Thomas Jimenez retired as Chief Financial Officer of GlobeTel Communications Corp. Mr. Jimenez had no disputes with the Company.

#### Appointment and Termination of Lawrence Lynch

On April 10, 2006 Chief Operating Officer Lawrence Lynch was named acting Chief Financial Officer, following Mr. Jimenez’s retirement. Subsequently, Mr. Lynch had been promoted to the Company’s Chief Operating Officer. He joined the Company as Vice President in July 2004. On October 25, 2006, Mr. Lynch was dismissed from the Company.

#### Appointment and Resignation of Ambassador Ferdinando Salleo as Director

On May 16, 2006, the Board of Directors appointed Ambassador Ferdinando Salleo, former Italian ambassador to the United States, as Director. Ambassador Salleo resigned as Director on October 7, 2006 in conjunction with a management restructuring. He had no disputes with the Company.

American Stock Exchange

On July 18, 2006 certain regulatory officials at the American Stock Exchange called the Company and stated that they intended to send a notice to the Company that the Company's common shares currently traded on the Exchange would be de-listed. On July 19, 2006 the Company received a letter from the American Stock Exchange stating that the Exchange intended to de-list the Company's shares because the Company's press releases were "overly promotional" and that the Company had not provided all requested documentation to the Exchange pursuant to a request for information.

GlobeTel disputes that its press releases violated Exchange standards and has attempted to work diligently with the Exchange to assure its compliance in this area. Additionally, the Company did respond to the request for information and did not receive any indication that the documentation was incomplete.

The Company appealed this determination by the AMEX staff.

On August 18, 2006 the Company received notice from the Amex Staff updating and supplementing its letter dated July 17, 2006 concerning its allegations that the Company no longer complies with Exchange's continued listing standards. In addition to the alleged violations set forth in its July 18, 2006 letter the Staff alleges violations of the following sections of the Amex Company Guide: 120 (Review of Related Party Transactions), 127 (Discretionary Authority of the Amex), 134 (Filing Requirements with a reference to Section 1101), 402 (Explanation of Exchange Disclosure Policies), 403 (Content and Preparation of Public Announcements), 404 (Exchange Surveillance Procedures), 921 (Notification of the Exchange Upon Change in Officers and Directors), 1002(d) and (e) (Failure to Comply with Listing Agreement, Any Other Event That Would Warrant Delisting [referencing Sec 127 listed above]), 1003(d) (Failure to Comply with Listing Agreement and/or SEC Requirements) and 1101 (General Filing Requirements).

The Company was notified by letter dated August 18, 2006 that its appeal was to be heard by the Listing Qualifications Panel on September 28, 2006. On October 3, 2006 the Company received notice from the American Stock Exchange notifying the Company that the Amex Committee on Securities upheld the recommendation of the Amex Staff that the Company no longer complies with Exchange's continued listing standards including the following sections of the Amex Company Guide: 120 (Review of Related Party Transactions), 127 (Discretionary Authority of the Amex), 134 (Filing Requirements with a reference to Section 1101), 401 ((Outline of Exchange Disclosure Policies), 402 (Explanation of Exchange Disclosure Policies), 403 (Content and Preparation of Public Announcements), 1001 (General Suspension and Delisting Policies), 1002(d) and (e) (Failure to Comply with Listing Agreement, Any Other Event That Would Warrant Delisting), 1003(d) (Failure to Comply with Listing Agreement and/or SEC Requirements) and 1101 (General Filing Requirements).

The Company decided not to further appeal this determination and the Company's common shares began trading on the Pink Sheets under the symbol GTEM The Company disclosed to the SEC in a Form 25-NSE, on November 17, 2006, that it had received from the Amex a document dated November 17 entitled " Determination and Notification of Removal from Listing And/or Registration under Section 12(b) of the Securities Exchange Act of 1934.

#### The 2006 Westor Financing

#### Creation Of A Direct Financial Obligation Or An Obligation Under An Off-Balance Sheet Arrangement Of A Registrant: Unregistered Sales Of Equity Securities

On September 6, 2006, the Company entered into subscription agreements with Hudson Bay Overseas Fund Ltd, Hudson Bay Fund LP, Nite Capital LP, Castle Creek Technology, Double U Master Funder, The Nutmeg Group and Brio Capital LP whereby these investors bought a total \$1,075,000 in 7% convertible notes, and were issued Class A and Class B Warrants (described below). The common shares underlying the notes and the warrants carry with them registration rights that obligated the Company to register such shares within 30 days.

The Notes were convertible into common stock at \$0.36939 per share. Prior to any notice of conversion the Company had the right, under certain circumstances, to redeem the notes at a premium for cash, subject to a right to convert by the investor. The investors received one Class A Warrant to purchase one share of common stock for every two shares that the notes were convertible into on the closing date as well as one Class B Warrant to purchase the identical number of shares.

The Class A Warrants are exercisable for a purchase price equal to 150% of the market price on the day prior to closing and the Class B Warrants are exercisable for a purchase price equal to 200% of the market price on the day prior to closing. The Warrants have a 5 year term The Placement Agent for the transaction, Westor Capital Group, has the right to raise up to \$3 million for the Company.



Appointment and Resignation of Patrick Heyn as Director

On September 27, 2006 the Board of Directors appointed Patrick Heyn to serve as an independent director on GlobeTel's Board of Directors and to serve on the Audit Committee.

Mr. Heyn subsequently resigned as a Director on March 14, 2007.

Management Restructuring

On October 7, 2006 Amb. Ferdinando Salleo, Dorian Klein, J. Randolph Dumas and Timothy Huff resigned as directors. Timothy Huff also resigned as Chief Executive Officer but remained as Chief Technology Officer until April 13, 2007, when he resigned.

80

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The Board of Directors appointed Peter Khoury as the Company's Interim Chief Executive Officer and appointed him to the Board of Directors. The Board also appointed Przemyslaw L. Kostro as a director and Interim Chairman of the Board of Directors.

Mr. Khoury subsequently resigned in September 2007 and was replaced as Chief Executive Officer by GlobeTel's General Counsel, Jonathan Leinwand.

Lt. Colonel (USA/Ret.) Douglas B. Murch tendered his resignation as President of Sanswire Networks LLC on October 16, 2007.

#### Sale of Magic Money Division

On November 3, 2006, GlobeTel Communications Corp. entered into an agreement to sell substantially all of the assets related to its stored value card division that was also known as the Magic Money program, to Gotham Financial LLC. Under terms of the agreement, Gotham acquired substantially all of the assets, which include the stored value program, financial processing switch and contracts, and assumed the liabilities of associated with the program including certain employees and leased office space.

The agreement calls for the payment, over a 3 to 6 year period, of up to \$4 million. The length of the payment period depends upon Gotham making certain minimum payments. Revenues earned by GlobeTel will be based on the successful rollout of the platform by Gotham and on user fees following a formula that considers the total number of transactions on a Stored Value card and use of the card at any ATM, POS or other transaction, under closed and committed contracts GlobeTel had at the time of sale, and the number of transactions utilizing the Financial Processing Switch.

The agreement also gives GlobeTel the right to the most favorable pricing if it decides in the future to utilize the services to be provided by Gotham.

#### Appointment and Subsequent Resignation of Michael DeCarlo as Interim CFO

On November 7, 2006, Michael A. DeCarlo Jr., was appointed as interim Chief Financial Officer. On March 21, 2007, Mr. DeCarlo resigned as Interim CFO.

#### Appointment and Termination of Joseph Monterosso Chief Operating Officer

On November 17, 2006, the Company announced the appointment of Joseph Monterosso as Chief Operating Officer, succeeding Mr. Lynch, who was dismissed from the Company. On April 27, 2007, Mr. Monterosso was terminated as COO.

#### Appointment and Resignation of Alice Muntz as Director

On November 20, 2006 the Company announced the appointment of Dr. Alice Muntz to the Company's Board of Directors. Dr. Muntz resigned as a director on March 13, 2007.

#### Change in Registrant's Certifying Accountant

On January 4, 2007, the Company's Audit Committee dismissed Dohan and Company, CPAs PA as the Company's certifying accountant, and stated on that date that during the two years ended December 31, 2005 and December 31, 2004 and the subsequent interim periods through August 14, 2006, there were no disagreements with Dohan & Company on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or

procedure. The Audit Committee went on to say that the report of independent registered public accounting firm of Dohan and Company as of and for the two years ended December 31, 2005 and December 31, 2004, did not contain any adverse opinion or disclaimer of opinion, nor was it qualified or modified as to audit scope or accounting principle. The Company also engaged McKean Paul Chrycy Fletcher & Co. as the Company's certifying accountants.

Change in Registrant's Certifying Accountant

On March 21, 2007, the Company was notified that McKean Paul Chrycy Fletcher & Co. declined to accept the engagement as the Company's certifying public accountants. McKean Paul Chrycy Fletcher & Co. performed no services for the Company and did not have any disputes with the Company.

Completion of Agreement To Form "No Mas Cables" Joint Venture with VPN de Mexico S.A. de C.V

On April 3, 2007, the Company and VPN de Mexico S.A. de C.V., subsidiary of Grupo IUSA S.A. de C.V., Mexico, finalized an agreement that called for the creation of a joint venture company called "No Mas Cables de Mexico S.A. de C.V." to be owned 51% by VPN and 49% by GlobeTel. The purpose of the joint venture is to install and operate wireless broadband networks utilizing GlobeTel's HotZone 4010 wireless base station. The parties had originally entered into a Test Network Installation Agreement in June 2006, pursuant to which GlobeTel installed a network in the Mexican city of Pachuca. As of the date of this filing, the Company retains its 49% ownership in No Mas Cables and recently re-affirmed its commitment to working with the Peralta family, owners of VPN de Mexico.

Entry Into A Material Definitive Agreement to Reprice Exercise Price of Warrants

On April 13, 2007, the Company agreed to reprice the exercise price of warrants previously packaged with aforementioned Convertible Note financing in September 2006 to \$.20 per share, and increased the number of shares issuable upon exercise of such warrants 1.5 times the original amount of warrants issued. In consideration of the aforementioned the investors exercised their warrants which will result in the issuance of up to 4,839,014 shares of common being issued for a total consideration of up to \$967,802.80. As of that date, warrants have been exercised for a total of 3,750,000 shares for total consideration of \$750,000. The Company relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). The Company believes that the investors are 'accredited investors', as such term is defined in Rule 501(a) promulgated under the Securities Act.

Change in Registrant's Certifying Accountant

On April 13, 2007, the Company appointed Weinberg & Company, P.A. of Boca Raton, Florida as the Company's new independent registered public accounting firm to audit and certify our financial statements for fiscal year ended December 31, 2006. The Company had, on September 11, 2007, re-appointed previous independent auditor Dohan & Company P.A. to audit and certify restated financial statements for fiscal years ended December 31, 2004 and 2005. The Company maintains and intends to maintain its relationship with Weinberg & Company moving forward.

Entry Into a Material Definitive Agreement, Winding Down of Centerline, Refocus of Wireless Unit

On May 1, 2007, the Company entered into a one-year consulting agreement with Ulrich Altvater, the former president of the GlobeTel Wireless subsidiary, providing for Mr. Altvater to provide certain assembly and support services to the Company for its line of HotZone products, the intellectual property for which the Company purchased from Mr. Altvater's previous company in June 2005. In consideration for providing such services, the Company will pay Mr. Altvater a consulting fee of \$45,000 per month. Additionally, Mr. Altvater would receive 50% of the net proceeds resulting from any sales of HotZone products he generated.

Additionally, the Company decided to wind down the operations of its Centerline Communications LLC subsidiary. In conjunction therewith the Company is investigating whether to sell its related equipment, redeploy such equipment or a combination thereof.

The Company also reorganized its GlobeTel Wireless Corp. subsidiary to focus on the sale and implementation of wireless broadband networks. In conjunction with the restructuring, the Company entered into the above referenced consulting agreement with Mr. Altvater.

On July 12, 2007, the Company announced that it terminated its agreement with Mr. Altvater and his company, Trimax Wireless, Inc., and filed a lawsuit against Trimax and Mr. Altvater to recover assets and money, totaling approximately \$475,000, that belong to the Company's shareholders.

Refinancing of Debt

On May 1, 2007, GlobeTel Communications Corp. executed several Certificates of Adjustments for previously issued Warrants. The Warrants previously had Exercise Prices ranging from \$0.75 to \$1.00 and with the execution of the adjustments, the Exercise Price is now set at \$0.196.

Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

On May 4, 2007, the Board of Directors of GlobeTel Communications Corp. (the "Company"), in consultation with its outside accounting consultant, determined that the Company will restate its financial statements for the years ended 2004 and 2005, as reported on Form 10-K and for the interim periods in fiscal 2005 and the first two fiscal quarters of 2006 for which the Company filed reports on Form 10-Q.

Letter of Intent with TAO Technologies GmbH

On September 26, 2007 the Company entered into a Letter of Intent with TAO Technologies GmbH for the Company to acquire 50% of TAO and its airship design patents. The LOI contemplates the acquisition of the interest for payment in both cash and stock. The LOI also modified the Company's previous cooperation agreement with TAO signed in October 2005. Subsequent to the execution of the LOI, Sanswire, the Company's wholly-owned subsidiary, shipped the Sanswire 2A Technology Demonstrator airship to TAO in Stuttgart, Germany for evaluation and overhaul.

## **ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

### **Dismissal of Dohan & Co. PA**

On January 4, 2007, the Audit Committee of the Board of Directors dismissed Dohan & Co., CPAs PA as the Company's certifying accountant.

During the two years ended December 31, 2005 and the subsequent interim periods until the change, there were no disagreements with Dohan & Co. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Dohan & Co. would have caused them to make reference in connection with their report to the subject matter of the disagreement, and Dohan & Co. has not advised the Company of any reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

The report of independent registered public accounting firm of Dohan & Co. as of and for the two years ended December 31, 2005, did not contain any adverse opinion or disclaimer of opinion, nor was it qualified or modified as to audit scope or accounting principle.

On January 4, 2007 the Company engaged McKean Paul Chrycy Fletcher & Co. as the Company's certifying accountants, which subsequently declined to accept the engagement. During the two years ended December 31, 2005, and through January 4, 2007, the Company did not consult with McKean Paul Chrycy Fletcher & Co. regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

### **Appointment of Weinberg, PA**

The Board of Directors of the Company appointed Weinberg & Company, P.A. of Boca Raton, Florida as the Company's new independent registered public accounting firm to audit and certify our financial statements for fiscal year ended December 31, 2006. Weinberg & Company has accepted this appointment and has been engaged by the Company. During the most recent fiscal year and through April 13, 2007, neither the Company nor any one on behalf of the Company has consulted with Weinberg & Company, P.A. regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Registrant's financial statements, or any other matters or reportable events required to be disclosed under Items 304 (a) (2) (i) and (ii) of Regulation S-K.

### **Limited Engagement of Dohan & Co., P.A.**

The Company appointed Dohan & Co., P.A. ("Dohan") CPAs of Miami, Florida as the Company's independent registered public accounting firm to audit and certify our financial statements for fiscal year ended December 31, 2004 and 2005. The Board of Directors of the Company has approved the appointment of Dohan. Dohan has accepted this appointment and has been engaged by the Company after assurances and verifications from the Company that previous management from 2004 and 2005 are no longer associated with the Company and have been since been replaced.

During the most recent fiscal year and through September 11, 2007, neither the Company nor any one on behalf of the Company has consulted with Dohan regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or any other matters or reportable events required to be disclosed under Items 304 (a) (2) (i) and (ii) of Regulation S-K. The Company provided Dohan with a copy of the applicable Form 8-K prior to filing it with the SEC.

## **ITEM 8A. 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 Jonathan Leinward, the Company's Chief Executive Officer and Principal Financial Officer (the "Reviewing Officer"), of the effectiveness of the Company's disclosure controls and procedures as of December 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 Reviewing Officer concluded that as of December 31, 2004, the Company's disclosure controls and procedures were not effective 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.

For the year ended December 31, 2003, 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 30, 2004, that in connection with its audit of the Company's consolidated financial statements for the year ended December 31, 2003, it noted certain matters involving internal control and its operation that it considered to be a material weakness 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 following to constitute material weaknesses in internal control and operations: (i) the Company's failure to adequately staff its finance group to effectively control the increased level of transaction activity, address the complex accounting matters and manage the increased financial reporting complexities and (ii) the Company's current monthly close process does not mitigate the risk that material errors could occur in the books, records and financial statements, and does not ensure that those errors would be detected in a timely manner by the Company's employees in the normal course of performing their assigned functions. Dohan noted that these matters were considered by them during its audit and did not modify the opinion expressed in its independent auditor's report dated March 30, 2004.

In light of the letter from Dohan, we identified deficiencies in our internal controls and disclosure controls related to our accounting and audit procedures. Specifically, the identified deficiencies involved the ineffective controls over (i) revenue reporting, (ii) audit preparation procedures and (iii) financial reporting procedures.

#### Remediation of Material Weaknesses

We have formulated a program to remedy the material weaknesses identified above. In the first phase of the program, already completed as of September 30, 2007, we have hired outside accountants and consultants to review our financial statements and prepare the restatement of our financial statements. We have also hired outside counsel to advise on the amendment of our previously filed annual and quarterly reports filed with the SEC.

Additionally we determined that the Company had ineffective controls over revenue recognition. Our remediation measures relating to revenue recognition include a review by management of revenue items other than normal sales and also the discontinuation of the operations of our Centerline Communications LLC subsidiary for which we have restated revenue.

In the second phase of the program, commencing with the filing of our restated financial statements, we will be implementing certain new policies and procedures such as:

- a. Seeking to recruit board members independent of management;
- b. Granting Board committees standing authority to retain counsel and special or expert advisors of their own choice;
- c. Seeking outside review of acquisition transactions

#### Changes in Internal Control Over Financial Reporting

Except as set forth above, there have been no changes in our internal control over financial reporting that occurred during the year ended December 31, 2005 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



**Item 8A(T). Controls and Procedures.**

Not applicable

**ITEM 8B. OTHER INFORMATION**

**BOARD APPOINTMENTS AND RESIGNATIONS**

On August 30, 2005, Leigh Coleman, a director of the Company, resigned effective August 18, 2005. There were no disputes with the Company.

84

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The Board of Directors appointed Jonathan Leinwand to the Board of Directors effective August 18, 2005. Mr. Leinwand is also our general counsel.

On September 16, 2005, the Company named Sir Christopher Meyer, KCMG, as Chairman of its Board of Directors. The appointment of Sir Christopher, 61, increased the number of independent Directors to three among a total of seven Board members.

On October 7, 2005, Przemyslaw Kostro resigned as a director of the Company. Mr. Kostro had no disputes with the Company.

On November 29, 2005, Mr. J. Randolph Dumas was appointed to the position of Executive Vice Chairman and Director. In this new function, Mr. Dumas will be expanding on his previous role as a joint venture partner in Sanswire Europe.

On December 8, 2005, Ms. Laina Raveendran Greene, a director of the Company, resigned her position on the Board of Directors effectively immediately, for personal reasons. Ms. Greene had no disputes with the Company.

On January 5, 2006, the Company announced the appointment of Michael P. Castellano to the Board of Directors. As an independent director, Mr. Castellano will fulfill the role as Chairman of GlobeTel's Audit Committee as a qualified financial expert under Sarbanes-Oxley. He will also serve on GlobeTel's Compensation and Nominating Committees.

On January 11, 2006, the Company announced the appointment of Dorian B. Klein to its Board of Directors. Mr. Klein also serves on GlobeTel's Audit, Compensation and Nominating Committees.

On February 17, 2006, the Company announced that Sir Christopher Meyer, its Non-Executive Chairman, had requested a change in his status, effective March 19, 2006, to that of an Independent Director. As a result of his current professional obligations and commitments in the U.K., Sir Christopher had advised the Board that he felt unable to commit the time to the Chairmanship of GlobeTel that the company's shareholders had the right to expect.

On March 20, 2006, Sir Christopher Meyer elected to step down completely from GlobeTel's Board, after further considering the time that he had available to devote to the Company.

On March 23, 2006, the Company announced that J. Randolph Dumas, Vice Chairman, has been elected Chairman of the Board of Directors, succeeding Sir Christopher Meyer, who remains with the Company as Chairman of the GlobeTel International Advisory Board.

### **PART III**

#### **ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS**

<b>Name</b>	<b>Age</b>	<b>Position with Company</b>
Jonathan Leinwand	37	Chief Executive Officer, Director
Przemyslaw Kostro	45	Chairman of the Board

All directors hold office until the next annual meeting of our stockholders and until their successors have been elected and shall qualify. Officers serve at the discretion of our Board of Directors.

**(During 2005)**

<b>Name</b>	<b>Age</b>	<b>Position with Company</b>
Timothy Huff (a)	40	Chief Executive Officer and Director
Przemyslaw Kostro	42	Chairman
Jerrold Hinton (b)	63	Director
Leigh Coleman (c)	56	Director, President
Mitchell Siegel (d)	58	Director
Thomas Y. Jimenez (e)	46	Chief Financial Officer
Michael Molen (f)	48	Director
Kyle McMahan (g)	47	Director

(a) Resigned as Director and CEO October 7, 2006.

- (b) Resigned as Director February 8, 2005.
- (c) Resigned as an officer and Director August 18, 2005.
- (d) Retired as a Director June 21, 2006.
- (e) Retired as Chief Financial Officer on April 17, 2006.
- (f) Declined to stand for re-election and term ended August 11, 2005.
- (g) Declined to stand for re-election as director and term ended on June 21, 2006.

**Jonathan Leinwand**

Jonathan Leinwand, Chief Executive Officer and Director, joined GlobeTel as General Counsel in June 2005 and became a director in August 2005. He was appointed CEO in September 2007. Prior to joining GlobeTel, he was in private practice since 1996 concentrating in the areas of corporate and securities law, representing a number of public companies. As part of his practice, Mr. Leinwand also served as a deal-maker for several US and foreign corporations arranging strategic alliances and funding both in the US and abroad. Mr. Leinwand graduated from the University of Miami with honors degrees in Political Science and Communications and graduated cum laude from the University of Miami School Of Law.

**Przemyslaw L. Kostro**

Przemyslaw L. Kostro, Chairman, was first elected to the Board of Directors in November 2001. From November 2001 to April 2002, Mr. Kostro also served as the CEO of GlobeTel before relinquishing the position to Timothy Huff. Over the past five years, Mr. Kostro has been an attorney engaged in international law, and has been providing professional and consulting services to several large and mid-sized entities in Europe. Mr. Kostro resigned as a Director in October 2005 and was reappointed as Director and Chairman of the Board in October 2006.

**Timothy M. Huff**

Timothy M. Huff, Director, Chief Executive Officer, joined GlobeTel in October 1999, and has served as CEO and as a member of the Board of Directors since April 2002. Prior to joining GlobeTel, Mr. Huff spent over five years owning and operating several successful private telecom companies. Mr. Huff has over eighteen years experience in international telecom business that included working with Sprint and MCI International, where he was involved in the construction of MCI's first international gateways. Mr. Huff resigned as Director and CEO on October 7, 2006.

**Jerrold R. Hinton**

Jerrold R. Hinton, Director, has served on the Board of Directors since March 1995. He had previously served as Chief Executive Officer, President and Chairman of the Board from March 1995 to November 2001. Dr. Hinton, a graduate of Florida State University, holds bachelors, masters and doctorate degrees in management, engineering and real estate. From 1992 to early 1995, prior to joining the company, Dr. Hinton served as an officer of United Biomedical, Inc., a private company. Mr. Hinton resigned as a Director on February 8, 2005.

**Leigh Coleman**

Leigh Coleman, President, joined the Company in September 2003. Mr. Coleman was CEO of a major division for an internationally recognized Dutch public company based in the United States. In 2001, Mr. Coleman was CEO of an

Australian public company specializing in IP PBX applications and CP equipment before joining GlobeTel. Mr. Coleman has a Masters in Business Administration, and has lectured in Strategic Management at Curtin University in Australia. He has focused on growing companies and international business development since 1986. Mr. Coleman resigned as an officer and Director on August 18, 2005.

**Mitchell A. Siegel**

Mitchell A. Siegel, Director, Chief Operating Officer, has served in this capacity and as a member of the Board of Directors since May 2002. Since 1996, he was a consultant to Global Transmedia Communications Corporation and was instrumental in defining our role as a licensed telecommunications company. Mr. Siegel graduated from American University, holding a Bachelors Degree in Business Administration and has completed Masters Degree courses in finance at City College of New York - Bernard Baruch School of Finance. Mr. Siegel retired as a Director on June 21, 2006.

**Thomas Y. Jimenez**

Thomas Y. Jimenez, CPA, Chief Financial Officer, has served as our CFO since joining the Company in October 1999. For the three years prior to joining the Company, Mr. Jimenez was a consultant to various telecommunications companies, running their financial department and assisted in building networks in different countries. Previously, Mr. Jimenez was a partner in certified public accounting firm in the New York City area. Mr. Jimenez graduated from Cleveland State University with a degree in Business Administration. Mr. Jimenez retired as Chief Financial Officer on April 17, 2006.

**Michael Molen**

Michael Molen has served on our Board of Directors since May 2004. Since 1995, he has served in various capacities for Sanswire Technologies, Inc., including Chairman, Chief Executive Officer and Director. He currently serves as Chief Executive Officer of Sanswire Technologies, Inc. He was nominated to serve on the Company's Board of Directors in accordance with the terms of the Company's asset purchase agreement with Sanswire Technologies, Inc. Mr. Molen declined to stand for re-election and his term ended on August 11, 2005. Mr. Molen declined to stand for re-election and his term ended August 11, 2005.

**Kyle McMahan**

Kyle McMahan has served on our Board of Directors since May 2004. From 1989 to 2003, Mr. McMahan served as Chief Executive Officer of Southern Mortgage Reporting, Inc., a credit-reporting agency. From April 2001 through September 2003, he served as chairman of INFO 1 Co., Inc., a company that organized, planned and financed the startup of new businesses in the credit reporting industry. Mr. McMahan has served as a board member of The Mortgage Bankers Association of Georgia and The National Credit Reporting Association. He has been nominated to serve on the Company's Board of Directors in accordance with the terms of the Company's asset purchase agreement with Sanswire Technologies, Inc. Mr. McMahan declined to stand for re-election as director and term ended on June 21, 2006.

**(B) COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT**

Section 16(a) of the Securities Exchange Act of 1934 requires that our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and with any exchange on which the Company's securities are traded. Officers, directors and persons owning more than ten percent of such securities are required by Commission regulation to file with the Commission and furnish the Company with copies of all reports required under Section 16(a) of the Exchange Act. Based solely upon our review, we did not disclose any failures to file reports under Section 16(a) of the Exchange Act.

The audit committee consists of three directors of which one, Michael Castellano, is a financial expert under Sarbanes-Oxley and the two directors, Dorian Klein and Kyle McMahan are independent directors. Mr. Castellano also fulfills an important role as Chairman of GlobeTel's separately designated Audit Committee. Mr. Castellano succeeds Laina Raveendran Greene, who stepped down from the Board in December 2005 for personal reasons.

**ITEM 10. EXECUTIVE COMPENSATION.**

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Compensation (\$)	Change in Pension Value and Deferred Compensation (\$)	Non- Equity Qualified Deferred Compensation (\$)	All Other Compensation (\$)	Total (\$)
Timothy M. Huff, CEO	2005	200,000(a)	0	0	2,288,390(b,e)	0	0	50,000(d)	2,538,390	
Timothy M. Huff, CEO	2004	200,000(a)	0	0	1,618,394(b,e)	0	0	18,750(d)	1,837,144	
Timothy M. Huff, CEO	2003	175,000(a)	0	112,500	0	0	0	134,167(f)	421,667	
Mitchell A. Siegel, COO	2005	120,000(a)	0	0	3,988,093(b,e)	0	0	55,000(d)	4,163,093	
Mitchell A. Siegel, COO	2004	175,000(a)	0	0	1,120,596(b,e)	0	0	18,750(d)	1,314,346	
Mitchell A. Siegel, COO	2003	150,000(a)	0	0	0	0	0	191,667(f)	341,167	
Thomas Y. Jimenez, CFO	2005	120,000(a)	0	0	1,256,695(b,e)	0	0	55,000(d)	1,431,695	
Thomas Y. Jimenez, CFO	2004	175,000(a)	0	0	884,197(b,e)	0	0	14,063(d)	1,073,260	
Thomas Y. Jimenez, CFO	2003	150,000(a)	0	57,500	0	0	0	111,667(f)	318,667	
Stephen King, Sr. VP	2005	47,682(a)	0	0	143,338(b)	0	0	12,500(d)	203,520	
Lawrence E. Lynch, COO	2005	120,000(a)	0	0	881,547(b,e)	0	0	55,000	1,056,547	
Lawrence E. Lynch, Sr. VP Since August 2004	2004	37,500(a)	0	0	37,500(b)	0	0	0	75,000	
Joseph Seroussi, CTO	2005	120,000(a)	0	0	881,547(b,e)	0	0	55,000	1,056,547	
Joseph Seroussi, CTO Since November 2004	2004	25,000(a)	0	192,000	504,048(b,e)	0	0	0	721,048	
Jerrold R. Hinton, Director/Former President	2005	0	0	0	331,398(e)	0	0	100,000(d)	431,398	
Jerrold R. Hinton, Director/Former President	2004	0	0	192,000	472,798(e)	0	0	18,750(d)	683,548	
Jerrold R. Hinton	2003	100,000(a)	0	0	0	0	0	0	100,000	

Director/Former President									
Leigh A. Coleman	2005	49,220(a)	0	0	72,417(b)	0	0	0	121,637
Leigh A. Coleman President Since June 2004	2004	70,780(a)	0	0	597,798(b,e)	0	0	50,031(d)	718,609
Jonathan Leinwand, Secretary	2005	95,262	0	0	142,188(e)			18,750(d)	256,200
Vivian Manevich, CAO Through Dec. 2002	2005	0(c)	0	0	0	0	0	0	0
Vivian Manevich, CAO Through Dec. 2002	2004	0(c)	0	0	0	0	0	0	0
Vivian Manevich, CAO Through Dec. 2002	2003	0(c)	0	0	0	0	0	0	0

a) Effective January 1, 2002, GlobeTel entered into a three-year employment agreements with its key management. Effective 2005, the agreements were renewed automatically on a year-to-year basis.



For the year 2002, the agreements provided for annual compensation of \$150,000 for its Chief Executive Officer (CEO), \$125,000 each for its Chief Financial Officer (CFO) and Chief Operating Officer (COO) and \$75,000 each for its Chief Administrative Officer (CAO) and VP of Network Operations. Further, there remained an employment contract with its former President, as described below, which called for a salary of \$100,000 per annum through 2003.

In 2003, the base compensation increased to \$175,000 for its CEO, \$150,000 each for its CFO and COO, \$90,000 each for its CAO and VP of Network Operations.

In 2004, the base compensation increased to \$200,000 for its CEO, \$175,000 each for its CFO and COO, \$120,000 for the Controller (formerly the CAO) and \$110,000 for its VP of Network Operations. Also, GlobeTel hired a new President at an annual compensation of \$125,000 in June 2005, a Senior Vice President (Sr. VP) at an annual compensation of \$100,000 in August 2005, and a Chief Technology Officer (CTO) at an annual compensation of \$125,000 in November 2005.

Accrued but unpaid base compensation of \$82,500 for the CEO, \$57,500 for the CFO and \$58,333 for the COO (a total of \$198,333) were owed as of December 31, 2004. These amounts were paid in January 2005.

In 2005, the base compensation remained at \$200,000 for its CEO. The CFO, COO, CTO and General Counsel all had base compensation of \$175,000. The Company also entered into employment contracts with the Executive Vice Chairman (EVC) and Senior Vice President (SVP) of Finance. The EVC agreement called for annual salaries of \$250,000 plus signing bonuses equal to 2.5% of the outstanding shares of the company as of December 31, 2005. The EVC is also entitled to stock salary in stock options totaling \$750,000 per year for three years at \$1.21 per share. The SVP Finance agreement calls for annual salaries of \$195,000 plus bonuses amounting to 2% of the outstanding shares of the Company's stock at the end of the year, payable in the form of stock options.

(b) In addition to the base compensation, the employment agreements provide for payment of bonuses that at a minimum equal the executives' base compensation, unless otherwise agreed to by the executives. As of December 31, 2003 and 2002, the executives all agreed not to receive bonuses they are entitled to pursuant to the employment agreements. For 2004, the executives received bonuses as entitled to under the agreements. The bonuses received were equal to the amount of gross compensation received during 2004. All executive bonuses for 2004 were included in the Employee Stock Option Plan (see Note 26 to financial statements) and paid with stock options.

In 2005, the bonuses were awarded at the recommendation of management and approved by the board of directors. All executive bonuses for 2005 were included in the Employee Stock Options Plan and paid with stock options.

(c) Vivian Manevich served as the CAO through 2002. Thereafter, Ms. Manevich accepted a non-executive position in the Company, and, accordingly, any and all compensation for 2003, 2004 and 2005 was included in employee payroll and none of her compensation was included in executive compensation.

(d) In 2005, The Company's Directors received stipends of \$6,250 per quarter. The CFO, COO and SVP of Finance who are required to attend and present to the board receive stipends of \$3,125 per quarter. The Chairman of the Board has stipends of \$25,000 per quarter.

Non-executive directors' stipends were paid with cash, while executive directors' stipends were paid in stock options. Further, the board members approved the issuance of bonuses to the members at the end of the year amounting to 100% of the stipends earned during the year, which were paid in stock options.

In 2004, the then Chairman received additional stock compensation of \$425,000, for services rendered providing assistance in expanding our business and services world-wide and in obtaining funding for us.

(e) Pursuant to an Officers' Stock Option Grant plan approved by the Board (see Note 22 to financial statements), certain officers are entitled to receive stock options in amounts which, after the exercise of such options, would effect ownership of various percentages of the total shares then issued and outstanding. The following officers received options for restricted shares in the following percentages for 2005: CEO - 3%, former COO and current SVP - 2%, CFO - 1.5%, current COO - 1%, CTO - 1%, SVP of Finance - 2% and General Counsel - .75%.

The schedule below indicates the number of shares received upon exercise and the aggregate dollar value realized upon exercise in 2005 by officers and directors pursuant to the above plans.

NAME	POSITION	SHARES EXERCISE (POST-SPLIT)	VALUATION
HUFF, TIMOTHY	Chief Executive Officer/ Director	500,000	\$ 900,000
COLEMAN, LEIGH A	Former President	211,734	\$ 381,121
JIMENEZ, THOMAS Y	Chief Financial Officer	280,216	\$ 504,389
SIEGEL, MITCHELL A	Senior VP/Director	369,022	\$ 664,240
LYNCH, LAWRENCE E	Chief Operating Officer	12,897	\$ 29,020
SEROUSSI, JOSEPH	Chief Technical Officer	172,065	\$ 309,717
HINTON, JERROLD	Former President/ Former Director	100,000	\$ 180,000
MOLEN, MICHAEL	Former Director	8,715	\$ 15,687
<b>TOTAL - OFFICERS &amp; DIRECTORS</b>		<b>1,654,649</b>	<b>2,984,174</b>



**OUTSTANDING EQUITY AWARDS**

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Timothy Huff	1,782,964			0.675	December 31, 2006				
	1,647,442			0.675	December 31, 2007				
	116,527			0.675	April 1, 2007				
Thomas Jimenez	633,842			0.675	December 31, 2006				
	877,810			0.675	December 31, 2007				
Jerrold Hinton	1,577,367			0.675	December 31, 2006				
	569,416			0.675	December 31, 2007				
Mitchell Siegel	851,853			0.675	December 31, 2006				
	1,093,113			0.675	December 31, 2007				
Leigh Coleman	133,333			0.675	December 31, 2006				
	574,438			0.675	December 31, 2007				

**COMPENSATION OF DIRECTORS**

Name	DIRECTOR COMPENSATION						Total (\$)
	Fees Earned or	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive	Non-Qualified Deferred	All	

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(a)	Paid in Cash (\$) (b)	(c)	(d)	Plan Compensation (\$) (e)	Compensation Earnings (\$) (f)	Other Compensation (\$) (g)	(j)
Sir Christopher Meyer, Chairman (2005)			25,000				25,000
J. Randolph Dumas, Vice Chairman (2005)	62,500	4,397,097	6,250				4,465,847
Przemyslaw L. Kostro, Former Chairman (2005)			18,750				18,750
Przemyslaw L. Kostro, Chairman (2004)			443,750				443,750
Przemyslaw L. Kostro, Chairman (2003)							0
Laina Green (2005)	—	85,575	19,000	—	—	—	104,575
Michael Molen (2005)	—	—	18,520	—	—	—	18,520
Michael Molen (2004)	—	—	18,750	—	—	—	18,750
Kyle McMahan (2005)	—	—	25,000	—	—	—	25,000
Kyle McMahan (2004)	—	—	18,750	—	—	—	18,750

Compensation paid to Directors who are also officers of the Company is reflected in Item 10. Executive Compensation.

We maintain a policy of compensating our directors using cash and stock options. Currently, the Company determines Board compensation on an individual basis. Employee members of the Board do not receive additional compensation for their service on the Board.

## **ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

### **Common Stock**

At October 17, 2007, we had 127,749,688 common shares issued and outstanding (taking into account the 1 for 15 reverse split on May 23, 2005). The table below sets forth the share ownership of our executive officers and directors, individually and as a group. No other person is the beneficial owner of more than 5% of our issued and outstanding common shares

Title of Class	Name & Address of Beneficial Ownership	Amount and Beneficial	Nature of Ownership	Percentage of Class (1)
Common Stock	Przemyslaw L. Kostro Chairman 101 NE 3 <sup>rd</sup> Ave, Suite 1500, Fort Lauderdale, Florida 33301	9,211,385	Shares	7.25%
Common Stock	Jonathan Leinwand, CEO Since October 2007 and Director Since August 2005 101 NE 3 <sup>rd</sup> Ave, Suite 1500, Fort Lauderdale, Florida 33301	1,420,000	Shares	1.1%
	Total of all Officers and Directors as a Group	10,631,385		9.35%

(1) Based on 127,749,688 shares issued and outstanding on October 17, 2007.

## **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

See Item 7, Notes 25 and 26 Common Stock Transactions and Stock Option, respectively, to the Notes to Consolidated Financial Statements.

## **ITEM 13. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

### **AUDIT FEES**

Dohan and Company CPAs billed approximately \$66,303 for professional services rendered for the audit of our annual financial statements for fiscal year 2005. This also included reviews of the financial statements included in our Forms 10-Q for the fiscal year and assistance in filing various proxy statements. For fiscal year 2004, the amount paid for the same services was \$74,024. Dohan & Company has estimated the fees associated with their review of the restated financial statements will be \$10,000.

The above fees were pre-approved by the audit committee based on estimated budgets presented to the audit committee.

## **ITEM 14. EXHIBITS**

(A) EXHIBITS

EXHIBIT NO.	DESCRIPTION
3.1	Articles of Incorporation (filed as Exhibits 3.1, 3.2 and 3.3 to the Company's Registration Statement on Form 10-SB and incorporated herein by reference)
3.2	Bylaws (filed as Exhibit 3.4 to the Company's Registration Statement on Form 10-SB and incorporated Herein by reference)
	Material Contracts-Consulting Agreements and Employment Agreements (filed as Exhibits to Registration 10.1 Statements on Form S-8 and post-effective amendments thereto and incorporated herein by reference)
10.1	Asset Purchase Agreement between the Company and Sanswire, Inc.(incorporated by reference)
10.2	Asset Purchase Agreement between the Company and Stratodyne,Inc. (incorporated by reference)
10.3	Subscriptions Agreements between the Company and Preferred Series A,B,C, and D shareholders (incorporated by reference)
31.1	Certification of Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer required by Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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

**GLOBETEL COMMUNICATIONS CORP.**

By: /s/ Jonathan Leinwand

\_\_\_\_\_  
Name: Jonathan Leinwand,  
Title: Chief Executive Officer (Principal Executive Officer)

Dated: December 4, 2007

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.

SIGNATURE	TITLE	DATE
<u>/s/ Jonathan Leinwand</u> Jonathan Leinwand	Chief Executive Officer, Principal Financial Officer and Director	December 4, 2007
<u>/s/ Przemyslaw Kostro</u> Przemyslaw Kostro	Chairman of the Board	December 4, 2007