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)

x 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

o 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	88-0292161
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

101 NE 3rd 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:

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. o No: x

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. o

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

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 o No x

(*) 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.

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PART I

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.

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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				
	Revenue	**Cost of Sales**	**Net Loss**	**Loss per Share**	**Intangible Assets**
Previously reported	$ 81,143,838	$ 80,730,141	$ (31,953,395)	$ (0.43)	$ 9,907,550
Restatement Adjustments, net:					
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				
	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
Restatement Adjustments, net:					
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 3rd 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 team 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 3rd 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

<u>Securities and Exchange Commission</u>

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 ($0.045 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 ($0.045 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 ($0.0391 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 Hangar, 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.

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

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Dohan and Company
Certified Public Accountants
A Professional Association

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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

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GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DEC. 31, 2005 (restated)	DEC. 31, 2004 (restated)
ASSETS		
CURRENT ASSETS		
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	—	—
TOTAL CURRENT ASSETS	3,330,778	2,561,197
PROPERTY AND EQUIPMENT, NET	7,028,422	445,756
OTHER ASSETS		
Investment in unconsolidated foreign subsidiary - Consolidated Global Investments, Ltd.	—	352,300
Deposits	52,322	50,712
Prepaid expenses	—	8,012
TOTAL OTHER ASSETS	52,322	411,024
TOTAL ASSETS	$ 10,411,522	$ 3,417,977
LIABILITIES AND STOCKHOLDERS' EQUITY		
COMMITMENTS AND CONTINGENCIES (NOTES 6, 7, 17, AND 18)	—	—
LIABILITIES		
CURRENT LIABILITIES		
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
TOTAL CURRENT LIABILITIES	5,198,766	914,682
LONG-TERM LIABILITIES		

Due to related party payable in GTE Stock - Hotzone Wireless, Inc.		4,708,167		—
Capital lease obligations		—		4,718
TOTAL LONG-TERM LIABILITIES		4,708,167		4,718
TOTAL LIABILITIES	$	9,906,933	$	919,400
STOCKHOLDERS' EQUITY				
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)
TOTAL STOCKHOLDERS' EQUITY		504,589		2,498,577
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	10,411,522	$	3,417,977

See accompanying notes.

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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

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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
CASH FLOWS FROM OPERATING ACTIVITIES			
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 severence pay	177,397	—	—
Options exchanged for services	10,499,842	5,828,833	—
(Increase) decrease in assets:			
Accounts receivable			