

GLOBETEL COMMUNICATIONS CORP
Form 10KSB
July 09, 2008

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

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 0-23532

GLOBETEL COMMUNICATIONS CORP.
(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction of incorporation)

88-0292161
(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

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

Title of each class

Name of exchange on which registered

Securities registered pursuant to Section 12 (g) of the Exchange Act: Common Stock Par Value \$.00001 per share

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

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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No:

State issuer's revenues for its most recent fiscal year ended December 31, 2006: \$37,808.

As of July 1, 2008, there were 146,198,784 shares of the issuer's common stock issued and outstanding. Affiliates of the issuer own 1,851,111 shares of the issuer's issued and outstanding common stock and the remaining 144,347,673 shares are held by non-affiliates. The aggregate market value of the shares held by non-affiliates at July 1, 2008 was \$13,279,986.

DOCUMENTS INCORPORATED BY REFERENCE:

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

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

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

TABLE OF CONTENTS

PART I

Item 1. Description of Business	5
Item 2. Description of Property	11
Item 3. Legal Proceedings	12
Item 4. Submission of Matters to a Vote of Security Holders	15

PART II

Item 5. Market for Common Equity and Related Stockholder Matters	16
Item 6. Management's Discussion and Analysis or Plan of Operation	18
Item 7. Financial Statements and Supplementary Data	24
Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	64
Item 8a. Controls and Procedures	65
Item 8b. Other Information	66

PART III

Item 9. Directors and Executive Officers, Promoters and Control Persons	67
Item 10. Executive Compensation	70
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	74
Item 12. Certain Relationships and Related Transactions	74
Item 13. Principal Accountant Fees and Services	74
Item 14. Exhibits and Financial Statement Schedules	75

PART I

Forward-Looking Statements and Risk Factors

Certain information included in this Form 10-KSB 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.

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.

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.

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", "we", "us", or the "Company"), a Delaware corporation established in July 2002, is engaged in the business of airships and telecommunications delivery systems. GlobeTel operates business units in the sale of Internet telephony using Voice over Internet Protocol ("VoIP") technology and equipment, and wireless communications both domestically and internationally. In addition, we are developing high-altitude airships called Stratellites that will be used to provide wireless voice, video, and data services.

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. 760,000 shares of Preferred Stock has been allocated into different series of issuance and the remaining 9,240,000 shares 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 20.

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.

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).

On May 1, 2008 the SEC filed a lawsuit (the "complaint") against GlobeTel and three of the company's former officers (*Securities and Exchange Commission v. GlobeTel Communications Corp., Timothy J. Huff, Thomas Y. Jimenez and Lawrence E. Lynch*, Case No. 08-CV-60647 (S.D. Fla., filed May 1, 2008)). The complaint filed represents decisions and actions taken by GlobeTel's management team during the company's operations covering 2004-2006. Specifically the complaint concerns former CEO Timothy Huff, former COO and CFO Larry Lynch, and former CFO Thomas Jimenez. The complaint reiterates that former officer Joseph Monterosso and former employee Louis Vargas conspired to and carried out a scheme to fraudulently cause the company to report 119 million dollars in nonexistent revenue. The company no longer has any relationship with those individuals. As a result of the alleged schemes and actions of the previous management mentioned in the complaint, the company is diligently working to come into compliance with all relevant regulations. The company has formally exited all businesses associated with the alleged schemes and continues to operate under new management with the goal of completing the restructuring of the

company and focusing all its efforts on new opportunities in the aerospace sector.

The Company has filed amendments to its annual reports on Form 10-K and 10-KSB for the years ending December 31, 2005, and December 31, 2004, respectively, restating its financial statements for these periods.

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 posted 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 third party telecommunications switches, and created false invoices with regard to such revenue.

Networks

To provide the above described services we interconnected with licensed carriers in each country we desired to provide calling services. In some countries, we placed electronic equipment called a "hub" on the carrier's premises and then interconnected with their local network. In other countries, we would connect directly to the carrier's hub, which was 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 was relatively low, we created 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 assets, further discussed below, which were part of an agreement with Gotham Financial Services ("Gotham"). On November 3, 2006, GlobeTel Communications Corp. entered into an agreement regarding the stored value card assets that was also known as the Magic Money program, to Gotham. Under terms of the agreement, Gotham acquired substantially all of the assets, which include the stored value program, financial processing switch and contracts totaling \$5,279,567, and assumed the liabilities of associated with the program including certain employees and leased office space totaling \$57,500, but due to the lack of consideration received, no sale has been recorded and the assets were instead impaired.

The agreement calls for the payment, over a 3 to 6 year period, of \$3,250,000 with additional clauses that could bring the total to \$4,000,000. 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. As of the date of this report, no payments have been received in relation to this agreement. In the event the Company does receive future payments, it will record the payments as income at the time they are received.

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.

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 2 Stored Value Service Agreements & Programs were transferred to Gotham Financial as part of an agreement involving the MagicMoney program in November 2006.

Englewood Agreement

In May of 2004, we signed a joint venture agreement with Englewood Corporation ("Englewood") 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 an agreement involving the Stored Value assets.

Processing Switch Agreement

In August 2004, through Englewood, 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 GlobeTel 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; however the Switch was included in an agreement with Gotham Financial involving the Stored Value assets 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, the 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 Wireless LLC and its principal owner, Ulrich Altvater, who was also HotZone Wireless' principal engineer. Upon the acquisition, Mr. Altvater became President of GlobeTel Wireless Corp., a wholly-owned subsidiary of GlobeTel. 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, 666,667 shares were issued during fiscal year 2006. The remainder of the shares were issued in 2007.

Mr. Altvater 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 resolve 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, VPN de Mexico sa de cv, 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.

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.

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 introduced the SAS-51, a low altitude airship. This airship 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 can be used to provide wireless voice, video, and data services.

In September 2007, GlobeTel entered into letter of intent with TAO Technologies GmbH, a German company specializing in the design of remotely operated airships. GlobeTel had been working with TAO since 2005. Pursuant to the letter of intent GlobeTel will purchase 50% of TAO, and TAO will be renamed Sanswire-TAO GmbH. The Company will be focused on the design, development and production of unmanned aerial vehicles. It is expected that Sanswire-TAO will be based chiefly in Stuttgart. The acquisition of 50% of TAO follows the October 2005 development agreement between Sanswire and TAO that resulted in the construction and testing of the Sanswire 2A.

The letter of intent calls for TAO and GlobeTel/Sanswire to share sales and marketing rights of various aerial vehicles developed and currently owned by TAO. Additionally, upon closing of definitive agreements, TAO will grant to Sanswire-TAO the respective patents and intellectual property rights covering the products, including the AirChain segmented airship.

In November 2007, the Company entered into a Licensing and Technical Cooperation Agreement with TAO. TAO granted to Globetel an exclusive license for the territories of the US, Canada, Mexico and Chile for the marketing and distribution of airships based upon the technologies patented and developed by TAO. TAO will also provide testing and engineering support for the development of airships to meet the criteria required by Sanswire customers. GlobeTel is obligated to provide TAO with engineering orders of at least \$1,000,000 per year and certain cash and stock payments on a quarterly basis.

Since the signing of the agreements, Sanswire and TAO have performed several airship tests in Germany.

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 telecommunications 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 other airships 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, SAS-51 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 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. We have additionally entered into an agreement with TAO Technologies GmbH, with whom Sanswire has collaborated since 2005. This agreement provides exclusive licensing rights for TAO's airship technologies and allows Sanswire to register the TAO patents in the United States.

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.

During 2007, Globetel and its subsidiaries incurred payroll tax liability during the normal course of business at each payroll cycle. The Company submitted certain withholding tax payments during the first quarter through a payroll processor, ADP. Subsequent thereto, the Company no longer processed its payroll through ADP. During this time, the Company did not file the appropriate tax forms or deposit the appropriate withholding amounts. The Company has recognized this issue and contacted the IRS accordingly to bring its filings up-to-date and pay any taxes due. The Company may be subject to penalties and interest from the IRS.

IPW

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

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

As of September 30, 2003, IP World Ltd. was in liquidation and was no longer listed in the Australian Exchange. The Company then ceased transacting with IPW. Therefore, the Company expensed \$4,301,500 in stock receivable as well as the \$1,600,000 in stock it had in its name during the three months ended September 30, 2003. As of December 31, 2004, the Company believed that the likelihood of recovering any such amounts is remote. Based upon the foregoing and the Company's recent restatement of its 2004 and 2005 financial statements, the Company is evaluating whether such transactions should be presented differently on the Company's financial statement with the potential effect of eliminating the loss from the Company's net loss (without adding the same back to income).

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 2006 and 2005 were \$1,573,150 and \$9,467,670, respectively for our Sanswire project. Since our acquisition of the Sanswire assets in April 2004, amounts of time and resources devoted to these businesses are expected to continue increasing in the near term as our Stratellite project continues and expands. We had additional research and development costs of \$110,167 for 2006 and \$26,553 in 2005 which were associated with our discontinued operations of Globetel Wireless.

Number of Total Employees and Number of Full-Time Employees

As of July 1, 2008 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

GlobeTel's corporate offices are now located at 101 NE 3rd Ave., Suite 1500, Fort Lauderdale, FL 33301. Base rent is \$2,000 per month plus the cost of services used by GlobeTel. The lease is for a period of 6 months.

The Company previously leased office facilities at 9050 Pines Blvd., Suite 110, Pembroke Pines, Florida 33024, as of April 1, 2004. This lease will expire in June 2009, and had an initial monthly rent of \$5,462. In November 2004, the Company leased additional adjacent space at the Pembroke Pines, Florida location under the same terms and period as the existing lease, bring the total monthly rent to \$9,186.

In June 2005, we negotiated with the landlord to lease an additional 5,000 square feet office on the second floor of our prior facility, 9050 Pines Blvd., Pembroke Pines, Florida 33024. The Company began occupancy of this office in April 2006 and the lease expires in June 2009 with a monthly rent of \$9,186 (including sales tax). GlobeTel vacated the premises in March 2006, having turned over the space to Gotham as part of the sale of the Stored Value assets to Gotham. However, there was unpaid rent due on both the first and second floor suites. In August 2007, the landlord received a judgment in the amount of \$206,730.

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

Until September 2007, the Company leased a 66,000 square foot space hanger in Palmdale, California. The initial lease, between Sanswire Networks, LLC and the City of Los Angeles World Airports, was for a term of three months, ended July 22, 2005 with a monthly rent of \$19,990. On June 8, 2005 the lease term was amended for fifteen months, commencing June 8, 2005 through September 7, 2006, with two one-year options. Concurrently with the signing of the amended lease, the parties entered into a reimbursement agreement to share the cost of certain improvements.

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 is indebted to Los Angeles World Airports, the lessor of the hangar, in the amount of \$161,761.

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, Globetel paid the monthly rent from May 2004 through March 2005, whereas employees of our subsidiary, Sanswire, LLC, utilized the premises. The employees have since vacated the premises and the Company no longer occupies the space and is no longer obligated for any lease payments.

ITEM 3. LEGAL PROCEEDINGS

Securities and Exchange Commission

In March 2006 the Company received a request from the Securities and Exchange Commission (the "SEC") regarding the purchase of Company shares by an administrative assistant around the time of a material corporate announcement. The SEC 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. The formal order only named the Company and was not specific to any particular allegations. Through the use of subpoenas, the SEC has requested documentation from certain officers and directors of the Company. In subsequent subpoenas, the SEC has asked for additional documents and information.

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.

On May 2, 2008, the Securities and Exchange Commission ("SEC") filed a lawsuit in the United States District Court for the Southern District of Florida against GlobeTel Communications Corp. (the "Company") and three former officers of the Company, Timothy J. Huff, Thomas Y. Jimenez and Lawrence E. Lynch. The SEC alleges, among other things, that the Company recorded \$119 million in revenue on the basis of fraudulent invoices created by Joseph Monterosso and Luis Vargas, two individuals formerly employed by the Company who were in charge of its wholesale telecommunications business.

The SEC alleges that the Company violated Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933, as amended, Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 under the Exchange Act. The SEC seeks as relief a permanent injunction, civil penalties, and disgorgement with prejudgment interest. The Company intends to vigorously defend itself in this action.

Joseph Monterosso

In October 2007 the Company filed a lawsuit in the Circuit Court for Broward County, Florida against Joseph J. Monterosso alleging Libel, Slander and Defamation, Tortious Interference, Violations of FS § 836.05 (THREATS EXTORTION) and violations of FS §517 (Securities Fraud). Mr. Monterosso has not yet been served with the complaint.

Wachovia v. GlobeTel

In connection with the operations of Globetel Wireless Europe GmbH and the acquisition of Altvater GmbH, the Company guaranteed a letter of credit in the amount of \$600,000. Upon Globetel Wireless Europe GmbH ceasing operations, the letter of credit was drawn upon. The letter of credit was not collateralized. In September 2007, Wachovia filed a lawsuit in Broward County in an attempt to recover the amount through arbitration with the American Arbitration Association. The Company is reviewing the matter and has not made a determination as to its defenses or the validity of the claim.

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 approved the final order on settlements reached in its pending securities class action and a shareholder derivative action on February 4, 2008.

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 2006. 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 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.

Mitchell Siegel v. Globetel

On February 2, 2007, GlobeTel was sued in the Circuit Court for Broward County, Florida entitled Mitchell Siegel v. Globetel Communications Corp., Case no. 0702456 (“the Siegel Lawsuit”). In this action, Siegel sued GlobeTel for breach of contract in regards to a Key Executive Employment Agreement. On February 15, 2008, both parties entered into a settlement agreement whereas Mr. Siegel would receive \$175,000 worth of stock, payable over 12 months, and 50% of the gross proceeds, up to a total amount of \$300,000, received from Gotham pursuant to the October 2006 agreement.

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 pre split shares 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.

Trimax Wireless

On July 3, 2007 GlobeTel filed suit against its former employee Ulrich Altvater and his company Trimax Wireless seeking the return of certain equipment held at the former GlobeTel Wireless offices and for the return of \$175,000 lent to Altvater by the Company. The replevin action against Trimax was dismissed on the basis of venue and the Company intends to refile the suit with regard to Trimax in Collier County, Florida.

On July 12, 2007, the Company announced that it terminated its agreement with Mr. Altvater and his company, Trimax Wireless, Inc.

In August 2007, Altvater and Trimax filed suit against GlobeTel alleging, defamation, conversion, breach of contract and seeking injunctive relief. GlobeTel successfully moved to have the two cases consolidated and has filed a Motion to Dismiss this suit. The Company intends to vigorously defend this suit, but no assurance can be given about the outcome of the litigation.

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

ANNUAL MEETING

On June 16, 2006, 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, J. Randolph Dumas, Dorian Klein, Jonathan Leinwand, Amb. Ferdinando Salleo, and Michael Castellano. Additionally, proposals to ratify Dohan & Co. CPA's PA as our auditors, and increase the number of authorized common shares from 150 million to 250 million 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 shares eligible to vote were 92,940,883, and the total number of shares voted were 81,524,314.

J. Randolph Dumas	79,313,917
Timothy Huff	78,903,222
Jonathan Leinwand	79,310,932
Dorian Klein	79,851,604
Amb. Ferdinando Salleo	79,781,689
Michael Castellano	79,850,614
Ratify the Company's appointment of Dohan and Company, CPAs, PA as independent auditors of the Company for the fiscal year ending December 31, 2006	80,627,624
Increase the number of authorized common shares from 150,000,000 (One Hundred Fifty Million) to 250,000,000 (Two Hundred Fifty Million)	73,996,798

There were no other matters brought to a vote of security holders during the 2006.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.****(a) MARKET PRICE**

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. Prior to being listed on the American Stock Exchange, our common stock was quoted on the Over-the-Counter Bulletin Board (OTCBB) quotation system under the symbol "GTEL". Since its move to AMEX, GlobeTel stock traded under the symbol of "GTE". In October 2006, our stock was delisted from the AMEX and began trading on the Pink Sheets under the symbol "GTEM". Since October 2006 our shares of common stock have been quoted on the Pink Sheets quotation system under the symbol "GTEM."

The following information sets forth the high and low bid price of our common stock during fiscal 2005, and 2006 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.

	HIGH	LOW
CALENDAR 2005		
Quarter Ended March 31	\$ 5.55	\$ 0.45
Quarter Ended June 30	\$ 4.05	\$ 2.25
Quarter Ended September 30	\$ 2.88	\$ 1.14
Quarter Ended December 31	\$ 4.34	\$ 1.25
CALENDAR 2006		
Quarter Ended March 31	\$ 3.92	\$ 2.48
Quarter Ended June 30	\$ 2.30	\$ 1.07
Quarter Ended September 30	\$ 1.21	\$ 0.41
Quarter Ended December 31	\$ 0.62	\$ 0.25

(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

The Company has never paid a dividend and do not anticipate that any dividends will be paid in the near future. It currently has no funds from which to pay dividends and as of December 31, 2006, our accumulated deficit was \$108,790,248. The Company does not expect that any dividends will be paid for the foreseeable future.

(d) SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the information indicated with respect to our compensation plans as of December 31, 2006, under which our common stock is authorized for issuance.

	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	20,173,602	\$.894	—
Equity compensation plans not approved by security holders	—	—	—
Total	20,173,602	\$.894	—

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 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 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 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 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, and, as a result, we issued 2,000,000 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 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 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 options shares at \$1.49 and \$0.99, respectively. Through the date of this report, none of these options have been exercised.

During 2006, the board of directors authorized the issuance of stock options for restricted shares totaling 2,003,215 shares to the directors of the Company as board members' compensation for services through December 31, 2006. The stock options are exercisable at various amounts, ranging from \$1.21 to \$2.30 per share, based on the closing market price of the Company's free-trading shares on the date the options were granted.

In addition to the above parties, the Corporate Secretary / General Counsel and the Senior Vice-President were awarded .75% 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, options shares were granted for 2005.

2004 STOCK OPTIONS EXERCISED IN 2005

During 2005, a total of 1,785,490 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 18 to financial statements) and with stock options (see Note 19 to financial statements) and certain investment banking and broker's fees were paid with preferred stock (see Note 20 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, 2006 ("Fiscal 2006" or "2006" or "the current year") compared to twelve months ended December 31, 2005 ("Fiscal 2005" or "2005" or "the prior year").

RESULTS OF OPERATIONS

REVENUES. During fiscal 2006, our gross sales were \$37,808, representing a decrease of 95.5% over the prior year when our gross sales were \$839,163. Our revenues decreased primarily due to a decrease in revenues from network management fees.

Revenues generated included \$404 from our Store Value Card as compared to no revenues in the prior year and \$37,404 from the sale of IP Phones for the current year as compared to \$3,154 in the prior year. No revenues were generated from our Magic Money program for the current year as compared to \$109,023 in the prior year.

COST OF SALES. Our cost of sales consists primarily of the wholesale cost of buying IP Phones as well as network bandwidth. During fiscal 2006, we had cost of sales of \$96,168 representing a decrease of 87.6% from \$774,829 for fiscal 2005.

GROSS MARGIN (LOSS). Our gross loss was \$58,360 or 254% for fiscal 2006, compared to our gross profit of \$64,334 or 7.7% for fiscal 2005, a decrease of \$122,694 or 190.7%. The decrease is primarily due to the fact that there were so few sales in regards to IP Phones and there associated cost of operating.

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 2006 were \$13,158,474 compared to fiscal year 2005 operating expenses of \$35,178,870 an decrease of \$22,020,396 or 62.6%.

The decrease is primarily due to a decrease in officers' and directors' compensation to \$1,931,774 (including non-cash compensation), from \$12,082,809 in the prior year. During fiscal 2006, total officers' and directors' compensation, included non-cash equity compensation (stock and stock options) of \$561,829, compared to \$10,799,267 in non-cash compensation during fiscal 2005.

We incurred \$93,571 of bad debt expense, a decrease of \$1,278,650 or 93.2% for 2006 compared to \$1,372,221 in 2005. This decrease is primarily contributable to the large write down of 2004 receivables during the 2005 fiscal year.

In addition, employee payroll and related taxes for fiscal 2006 were \$3,916,409 compared to \$3,180,953, an increase of \$735,456 or 23.1%. This increase was due to expansion of our operations, facilities and workforce during 2006, and included in non-cash equity compensation (stock and stock options) for employees was \$497,399 in fiscal 2006 compared to \$439,818 in fiscal 2005.

During 2007, Globetel and its subsidiaries incurred payroll tax liability during the normal course of business at each payroll cycle. The Company submitted certain withholding tax payments during the first quarter through a payroll processor, ADP. Subsequent thereto, the Company no longer processed its payroll through ADP. During this time, the Company did not file the appropriate tax forms or deposit the appropriate withholding amounts. The Company has recognized this issue and contacted the IRS accordingly to bring its filings up-to-date and pay any taxes due, which is currently estimated to be at least \$130,000. The Company may be subject to penalties and interest from the IRS.

We incurred \$623,219 of consulting fees, a decrease of \$2,850,015 or 82.1% for 2006 compared to \$3,473,234 in 2005. These decreases are related to additional services required to develop and expand our geographical and product markets and projects, including the Stored Value Program as well as decreased professional fees in maintaining and expanding a public company, which included our move to the American Stock Exchange in 2005. Our consulting fees include such expenses as computer consulting and technical consulting,

We incurred \$1,573,150 of research and development costs for our Sanswire project during 2006, compared to \$9,467,670 in 2005, a decrease of \$7,894,520 or 83.4%. During 2005, \$2,104,559 of these costs represents direct expenses of development and building of the airship, as compared to \$1,573,150 of direct expenses during 2006. This is due mainly to the fact that the first prototype airship was completed during 2005.

During 2006, we incurred \$186,501 of investment and broker fees as compared to \$788,985 during 2005. The \$602,484 decrease is due to 2005 equity funding related to subscription agreements with investors for 5% convertible notes and from private placements executed.

LOSS FROM OPERATIONS. We had an operating loss of (\$13,216,834) for fiscal year 2006 as compared to an operating loss of (\$35,114,536) for fiscal 2005, primarily due to decreased operating expenses as described above, including lower operating costs and reductions of our various programs. We expect that we will continue to have lower operating costs as we decrease our staffing and continue operate in a more efficient manner while expanding only primary operations, programs and projects.

OTHER INCOME (EXPENSE). We had net other expenses totaling (\$6,484,551) during fiscal year 2006 compared to (\$1,713,373) during fiscal 2005. This variance was due primarily to the impairment of assets related to the Stored Value assets of (\$5,222,066) and the write-off of other assets of (\$682,695) in 2006. 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).

Interest expense for fiscal year 2006 was \$625,200 compared to \$148,414 for the prior year. Interest expense increase was primarily due to noncash financing charges associated with the Company's convertible debentures as well as the accrual of interest associated with its unsecured notes.

LOSS FROM DISCONTINUED OPERATIONS. During 2006 we had a loss of (\$7,566,882) related to our discontinued operations compared to (\$2,255,036) during fiscal year 2005. See note 3 in the financial statements for more information regarding the discontinued operations.

NET LOSS. We had a net loss of (\$27,268,267) in fiscal year 2006 compared to a net loss of (\$39,082,945) in fiscal 2005. The decrease in net loss is primarily attributable to the decrease in the operating expenses as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

ASSETS. At December 31, 2006, we had total assets of \$508,905 compared to total assets of \$10,411,522 as of December 31, 2005.

The current assets at December 31, 2006, were \$454,525 compared to \$3,366,706 at December 31, 2005. As of December 31, 2006, we had \$4,243 of cash and cash equivalents compared to \$1,065,952 at December 31, 2005.

The Company had deposits of \$72,987 as of December 31, 2006 compared to \$1,212,921 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 in 2005, a rental deposit for Los Angeles World Airport related to the Palmdale Hanger occupied by Sanswire Networks, LLC in the amount of \$72,000, During 2007, 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 a reimbursement check from our insurance provider, was \$271,262 as of December 31, 2006 compared to \$77,905 as of December 31, 2005.

We had no other current assets in 2006 compared to \$185,960 of prepaid expenses to a related party ISG Jet, LLC, and \$67,060 in prepaid expenses in 2005.

Equipment as of December 31, 2006 was \$0 as compared to \$717,425 at December 31, 2005. The Company wrote down all remaining assets as of December 31, 2006. As of December 31, 2005, the Company also had \$5,279,567 of the Stored Value assets which were impaired during 2006 (See note 8 of the financial statements).

We had \$106,033 of current assets from discontinued operations as of December 31, 2006 as compared to \$710,841 at December 31, 2005. We also had \$54,380 of other assets from discontinued operations as of December 31, 2006 as compared to \$1,047,824 at December 31, 2005. See note 3 in the financial statements for more information regarding the discontinued operations.

LIABILITIES. At December 31, 2006, we had total liabilities of \$14,694,994 compared to total liabilities of \$9,906,932 as of December 31, 2005.

The current liabilities at December 31, 2006 were \$10,096,661 compared to \$2,509,332 at December 31, 2005, an increase of \$7,587,329. The increase is principally due to the current portion of payments due on the notes payable for \$6,262,598 (see note 13 of the financial statements) and the increase in Accounts Payable of \$1,761,553.

Long-term liabilities decreased \$2,799,267 from \$7,397,600 in 2006 to \$4,598,333 in 2005 due to stock being issued in 2006 as contemplated for the long term portion of the due to a related party - Hotzone Wireless as well as for the debt owed to its former employee.

CASH FLOWS. Our cash used in operating activities was \$14,140,330 compared to \$12,807,332 for the prior year. The decrease was primarily due to the decreased level of operations and operating activities and changes in our current assets and liabilities.

Our cash used in investing activities was \$255,182 which was mainly attributed to cash payments made towards the purchase of our Hotzone assets and additional equipment, compared to \$2,048,559 in the prior year.

Net cash provided by financing activities was \$13,333,803 principally from the sale of common stock and the conversion of notes and loan payables totaling \$13,284,693, as compared to \$15,321,329 in the prior year.

In order for us to pay our operating expenses during 2006 and 2005, including certain operating expenses for our wholly-owned subsidiary, Sanswire, we raised \$13,299,357 from loans and notes payable related to the exercise of warrants by convertible note holders and private placements, compared to \$13,271,957 in the prior year.

In January 2006, we received approximately \$6.3 million from the exercise of warrants by certain investors. With this funding, we will still require additional capital resources to fund our operations and capital requirements 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.

During 2007, the Company raised approximately \$1.6 million from investors; however this is not adequate funding to cover the estimated working capital deficit of approximately \$12 million or the net loss for 2007 of approximately \$15 million.

As reflected in the accompanying financial statements, during the year ended December 31, 2006 we had a net loss of (\$27,268,267) compared to a net loss of (\$39,082,945) during 2005. Consequently, there is an accumulated deficit of (\$108,790,248) at December 31, 2006 compared to (\$81,521,980) at December 31, 2005.

CRITICAL ACCOUNTING POLICIES

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade and other accounts receivable are reported at face value less any provisions for uncollectible accounts considered necessary. Accounts receivable consists of a reimbursement from the Company's Directors and Officers insurance for legal and accounting expenses that were paid above the Company's deductible. The Company estimates doubtful accounts on an item-to-item basis and includes over-aged accounts for any trade receivable as part of allowance for doubtful accounts, which are generally accounts that are ninety-days or more overdue. When accounts are deemed uncollectible, the account receivable is charged off and the allowance account is reduced accordingly. Bad debt expense for the years ended December 31, 2006 and 2005 were \$93,571, and \$1,372,221, respectively.

REGISTRATION RIGHTS

In connection with the sale of debt or equity instruments, we may enter into Registration Rights Agreements. Generally, these Agreements require us to file registration statements with the Securities and Exchange Commission to register common shares that may be issued on conversion of debt or preferred stock, to permit re-sale of common shares previously sold under an exemption from registration or to register common shares that may be issued on exercise of outstanding options or warrants.

The Agreements usually require us to pay penalties for any time delay in filing the required registration statements, or in the registration statements becoming effective, beyond dates specified in the Agreement. These penalties are usually expressed as a fixed percentage, per month, of the original amount we received on issuance of the debt or preferred stock, common shares, options or warrants. We account for these penalties as a contingent liability and not as a derivative instrument. Accordingly, we recognize the penalties when it becomes probable that they will be incurred. Any penalties are expensed over the period to which they relate.

REVENUE RECOGNITION

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

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

USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles in the United States requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values. SFAS No. 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*. In March 2005, the Securities and Exchange Commission issued SAB No. 107, *Share-Based Payment*, relating to SFAS No. 123(R). The Company has applied applicable provisions of SAB No. 107 in its adoption of SFAS No. 123(R).

The Company adopted SFAS No. 123(R) using the prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of its year ended December 31, 2006. In accordance with this transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include the impact of, SFAS No. 123(R). The Company's consolidated financial statements, as of and for the year ended December 31, 2006 and thereafter, reflect the impact of SFAS No. 123(R). Upon adopting SFAS No. 123(R), for awards with service conditions and graded-vesting, a one-time election was made to recognize stock-based compensation expense on a straight-line basis over the requisite service period for the entire award.

The Company used the intrinsic value method of measuring the fair value of share based payments granted prior to January 1, 2006. Because the Company utilized the intrinsic value method for pro forma disclosure purposes under the original provisions of SFAS No. 123, *Accounting for Stock-based Compensation*, disclosures to demonstrate the effect of pro forma compensation cost on net loss and net loss per share for the year ended December 31, 2005 is not appropriate in accordance with SFAS No. 123(R).

The stock-based compensation expense related to employee stock options and restricted stock awards recognized during the year ended December 31, 2005 was \$122. Stock-based compensation expense recognized under SFAS No. 123(R) for the year ended December 31, 2006 was \$321,729 before income taxes.

The Company accounts for stock issued to consultants on a fair value basis in accordance with SFAS No. 123(R) and EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans, consistent with the measurement provisions of SFAS 123 and SFAS 148, the Company's net loss and basic loss per share would have been adjusted as follows:

	For the Year Ended December, 31, 2005
Net Loss	
As Reported	\$ (39,082,945)
Pro Forma	\$ (43,012,437)
Net Loss per common share – basic and diluted	
As Reported	\$ (.52)
Pro Forma	\$ (.57)

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123(R))

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123(R), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB No. 107) which summarizes the views of the SEC staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations. SAB No. 107 provides guidance on several topics, including valuation methods, the classification of compensation expense, capitalization of compensation expenses related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements, and disclosures in "Management's Discussion and Analysis of Financial Condition and Results of Operations" subsequent to adoption of SFAS No. 123(R).

In April 2005, the SEC issued FR-74, Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment (FR-74)*. FR-74 allows companies to implement SFAS No. 123(R) at the beginning of their next fiscal year, instead of the next reporting period that begins after June 15, 2005. FR-74 does not change the accounting required by SFAS No. 123(R); it only changes the implementation date of the standard.

The Company adopted SFAS No. 123(R) using the prospective method on January 1, 2006. The Company cannot predict the level of its impact since it will depend upon the level of share-based payments granted in the future. However, the Company generally expects compensation expense to increase.

SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 39 (SFAS No. 154)

In May 2005, the FASB issued SFAS No. 154, which changes the requirements for the accounting and reporting of a change in accounting principle or correction of an error. It requires, unless impracticable, retrospective application of the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company implemented SFAS No. 154 effective January 1, 2006.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in tax positions. This interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. The provisions of FIN 48 are effective as of January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company believes that FIN 48 will not have a material impact on its consolidated financial statements.

SAB No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108)

In September 2006, the SEC released SAB 108. SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of (1) the error quantified as the amount by which the current year income statement was misstated (rollover method) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (iron curtain method). Reliance on either method in prior years could have resulted in misstatement of the financial statements. The guidance provided in SAB 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. The Company believes that SAB 108 will not have a material impact on its consolidated financial statements.

SFAS No. 157, Fair Value Measurements (SFAS No. 157)

In September 2006, the FASB issued SFAS No. 157. This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in GAAP and expands disclosure related to the use of fair value measures in financial statements. SFAS No. 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Standard emphasizes that fair value is a market-based measurement and not an entity-specific measurement based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS No. 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. SFAS No. 157 is to be effective for its financial statements issued in 2008. The Company believes that SFAS No. 157 will not have a material impact on its consolidated financial statements.

SFAS No. 141 (R), Business Combinations (SFAS No. 141R) and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS No. 160)

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements. SFAS No. 141R requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statement. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141R and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has not yet determined the effect on our financial statements, if any, upon adoption of SFAS No. 141R or SFAS No. 160.

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161)

In March 2008, the FASB issued FASB Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities”. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. FAS 161 is effective for the Company in fiscal 2010.

Management does not believe that there are any recently-issued, but not yet effective accounting pronouncements, which could have a material effect on the accompanying condensed consolidated financial statements

ITEM 7. FINANCIAL STATEMENTS

24

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of:
Globetel Communications Corp.

We have audited the accompanying consolidated balance sheet of Globetel Communications Corp. (the “Company”), as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity (deficiency), and cash flow for the year then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audit in accordance with 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. An audit 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 audit provides a reasonable basis for our opinion.

We were not engaged to examine management's assertion about the effectiveness of Globetel Communications Corp.'s internal control over financial reporting as of December 31, 2006 included in the Company's Item 8A “Controls and Procedures” in the Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Globetel Communications Corp. as of December 31, 2006 and the consolidated results of their operations and their cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced net losses and negative cash flows from operations and expects such losses to continue. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1, on May 2, 2008, the Securities and Exchange Commission (“SEC”) filed a lawsuit in the United States District Court for the Southern District of Florida against GlobeTel Communications Corp. (the “Company”) and three former officers of the Company, Timothy J. Huff, Thomas Y. Jimenez and Lawrence E. Lynch. The SEC alleges, among other things, that the Company recorded \$119 million in revenue on the basis of fraudulent invoices created by Joseph Monterosso and Luis Vargas, two individuals formerly employed by the Company who were in charge of its wholesale telecommunications business. The SEC alleges that the Company violated Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933, as amended, Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 under the Exchange Act. The SEC seeks as relief a permanent injunction, civil penalties, and disgorgement with prejudgment interest. The Company has advised that it intends to vigorously defend itself in this action. The SEC lawsuit states that 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. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Weinberg & Company, P.A.

Boca Raton, Florida

July 3, 2008

25

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 sheet of Globetel Communications Corp. and Subsidiaries (the Company) as of December 31, 2005, and the related consolidated statements of income (loss), cash flows and stockholders' equity for the year then ended December 31, 2005. 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 audit.

We conducted our audit 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 audit provides 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 the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2 to the financial statements, the 2005 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

/s/ Dohan & Company, CPAs

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

GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2006	DECEMBER 31, 2005 (restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,243	\$ 1,065,952
Accounts receivable, less allowance for doubtful accounts of \$0 and \$408,128	271,262	77,905
Prepaid expense – related party	—	185,960
Prepaid expense	—	67,060
Loans to employees	—	46,068
Deposits	72,987	1,212,921
Current assets from discontinued operations	106,033	710,840
TOTAL CURRENT ASSETS	454,525	3,366,706
EQUIPMENT, NET	—	717,425
OTHER ASSETS		
Assets held for sale, net	—	5,279,567
Other assets from discontinued operations	54,380	1,047,824
TOTAL OTHER ASSETS	54,380	6,327,391
TOTAL ASSETS	\$ 508,905	\$ 10,411,522
LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 2,463,605	\$ 702,052
Notes and convertible notes payable, net of discount of \$882,128	6,262,598	—
Bank Overdraft	14,664	—
Accrued officers' and directors' compensation	—	97,382
Accrued expenses and other liabilities	460,097	459,528
Related party payables	—	57,500
Current liabilities from discontinued operations	895,697	1,192,870
TOTAL CURRENT LIABILITIES	10,096,661	2,509,332
LONG-TERM LIABILITIES		
Due to former employee payable in stock	—	237,600
Due to related party payable in stock	4,598,333	7,160,000
TOTAL LONG-TERM LIABILITIES	4,598,333	7,397,600
TOTAL LIABILITIES	14,694,994	9,906,932
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY(DEFICIT)		
Series A Preferred stock, \$.001 par value, 250,000 shares authorized; no shares issued and outstanding:	—	—
Series B Preferred stock, \$.001 par value, 500,000 shares authorized;		

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no shares issued and outstanding:	—	—
Series C Preferred stock, \$.001 par value, 5,000 shares authorized; no shares issued and outstanding:	—	—
Series D Preferred stock, \$.001 par value, 5,000 shares authorized; no shares issued and outstanding:	—	1
Additional paid-in capital - Series D Preferred stock	—	999,999
Common stock, \$.00001 par value, 250,000,000 shares authorized; 109,470,803 and 98,192,101 shares issued and outstanding	1,095	982
Additional paid-in capital	94,733,346	81,570,082
Stock subscriptions receivable:		
Series D Preferred Stock	—	(500,000)
Common Stock	(130,282)	(44,494)
Accumulated deficit	(108,790,248)	(81,521,980)
TOTAL STOCKHOLDERS' (DEFICIT) EQUITY	(14,186,089)	504,590
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 508,905	\$ 10,411,522

See accompanying notes

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

	2006	2005 (restated)
REVENUES	\$ 37,808	\$ 839,163
COST OF REVENUES	96,168	774,829
GROSS (LOSS) MARGIN	(58,360)	64,334
EXPENSES		
Payroll and related taxes	3,916,409	3,180,953
Consulting fees	623,219	3,473,234
Officers' and directors' compensation	1,931,774	12,082,809
Bad debts	93,571	1,372,221
Research and development	1,573,150	9,467,670
General and Administrative	4,730,437	5,533,417
Depreciation and amortization	289,914	68,566
TOTAL EXPENSES	13,158,474	35,178,870
LOSS FROM OPERATIONS	(13,216,834)	(35,114,536)
OTHER INCOME (EXPENSE)		
Loss on settlement	—	(1,256,873)
Loss on disposition of unconsolidated foreign subsidiary	—	(352,300)
Loss on disposition of equipment	(682,695)	—
Loss on impairment of equipment	(5,222,066)	—
Interest income	45,410	44,214
Interest expense	(625,200)	(148,414)
NET OTHER EXPENSE	(6,484,551)	(1,713,373)
LOSS FROM CONTINUING OPERATIONS	(19,701,385)	(36,827,909)
LOSS FROM DISCONTINUED OPERATIONS	(7,566,882)	(2,255,036)
NET LOSS	\$ (27,268,267)	\$ (39,082,945)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
BASIC and DILUTED	105,643,655	75,072,487
LOSS PER SHARE FROM CONTINUING OPERATIONS		
BASIC and DILUTED	\$ (0.19)	\$ (0.49)
LOSS PER SHARE FROM DISCONTINUED OPERATIONS		
BASIC and DILUTED	\$ (0.07)	\$ (0.03)
NET LOSS PER SHARE		
BASIC and DILUTED	\$ (0.26)	\$ (0.52)

See accompanying notes

GLOBETEL COMMUNICATIONS CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (RESTATED)

Description	SHARES	AMOUNT	COMMON STOCK	
			ADDITIONAL PAID-IN CAPITAL	STOCK SUBSCRIPTIONS RECEIVABLE
Balance, Dec. 31, 2004	63,389,976	\$ 634	\$ 39,889,479	\$ —
Shares issued for options exercised	1,785,490	18	92,888	(44,494)
Shares issued for services	2,232,215	22	4,930,729	—
Shares issued for convertible note payable and accrued interest	4,269,876	43	6,367,983	—
Shares issued for cash	3,177,916	32	6,903,901	—
Shares issued for brokers fees	66,667	1	(1)	—
Shares issued for severance pay	106,977	1	177,396	—
Conversion of amount due to unconsolidated subsidiary to equity per buy-back agreement	—	—	1,568,524	—
Shares issued for conversion of Preferred Series A shares	8,911,651	89	697,411	—
Preferred Series B stock subscriptions receivable paid for with cash and equipment	—	—	—	—
Shares issued for conversion of Preferred Series B shares	12,931,334	129	8,435,070	—
Shares issued for conversion of Preferred Series C shares	1,320,000	13	749,987	—
Preferred Series D stock subscriptions receivable paid for with cash	—	—	—	—
Options issued for Board member stipends	—	—	85,575	—
Options issued for executive compensation	—	—	55,000	—
Options issued for services, per Executives % Stock Option Grant Plan	—	—	10,359,267	—
Options issued for settlement of obligations	—	—	1,256,873	—
Net loss	—	—	—	—
BALANCE, DEC. 31, 2005 (restated)	98,192,102	\$ 982	\$ 81,570,082	\$ (44,494)
Shares issued for options exercised	1,953,830	20	446,517	(85,788)
Shares issued for services	520,965	5	321,724	—
Shares issued for settlement of debt obligations	909,967	9	3,214,826	—

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Shares issued for cash	5,727,272	57	6,341,091	—
Shares issued for conversion of Preferred Series D shares	1,166,667	12	499,988	—
Shares issued for Preferred Series C shares	1,000,000	10	(10)	—
Options issued for Board member stipends	—	—	586,995	—
Options issued for executive compensation	—	—	472,133	—
Warrants issued with convertible notes	—	—	655,131	—
Beneficial conversion feature with convertible notes	—	—	624,869	—
Net loss	—	—	—	—
BALANCE, DEC. 31, 2006	109,470,803	\$ 1,095	\$ 94,733,346	\$ (130,282)

29

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

Options issued for executive
compensation

Warrants issued with convertible notes	—	—	—	—
Beneficial conversion feature with convertible notes	—	—	—	—
Net loss	—	—	—	—
BALANCE, DEC. 31, 2006	— \$	— \$	— \$	—

30

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

Shares issued for Preferred Series C shares				
Options issued for Board member stipends	—	—	—	—
Options issued for executive compensation	—	—	—	—
Warrants issued with convertible notes	—	—	—	—
Beneficial conversion feature with convertible notes	—	—	—	—
Net loss	—	—	—	—
BALANCE, DEC. 31, 2006	— \$	— \$	— \$	—

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

Options issued for executive compensation	—	—	—	—
Warrants issued with convertible notes	—	—	—	—
Beneficial conversion feature with convertible notes	—	—	—	—
Net loss	—	—	—	—
BALANCE, DEC. 31, 2006	— \$	— \$	— \$	—

32

Description	SERIES D ADDITIONAL STOCK PAID-IN SUBSCRIPTIONS					ACCUMULATED DEFICIT		TOTAL
	SHARES	AMOUNT	CAPITAL	RECEIVABLE	DEFICIT	DEFICIT	STOCKHOLDERS' EQUITY	
Balance, Dec. 31, 2004	1,000	\$ 1	\$ 999,999	\$ (750,000)	\$ (42,439,036)	\$	2,498,577	
Shares issued for options exercised	—	—	—	—	—	—	48,412	
Shares issued for services	—	—	—	—	—	—	4,930,751	
Shares issued for convertible note payable and accrued interest	—	—	—	—	—	—	6,368,026	
Shares issued for cash	—	—	—	—	—	—	6,903,932	
Shares issued for brokers fees	—	—	—	—	—	—	—	
Shares issued for severance pay	—	—	—	—	—	—	177,397	
Conversion of amount due to unconsolidated subsidiary to equity per buy-back agreement	—	—	—	—	—	—	1,568,524	
Shares issued for conversion of Preferred Series A shares	—	—	—	—	—	—	—	
Preferred Series B stock subscriptions receivable paid for with cash and equipment	—	—	—	—	—	—	5,085,200	
Shares issued for conversion of Preferred Series B shares	—	—	—	—	—	—	—	
Shares issued for conversion of Preferred Series C shares	—	—	—	—	—	—	—	
Preferred Series D stock subsc. receivable paid for with cash	—	—	—	250,000	—	—	250,000	
Options issued for Board member stipends	—	—	—	—	—	—	85,575	
Options issued for executive compensation	—	—	—	—	—	—	55,000	
Options issued for services, per Executives % Stock Option Grant Plan	—	—	—	—	—	—	10,359,267	
Options issued for settlement of obligations	—	—	—	—	—	—	1,256,873	
Net loss	—	—	—	—	(39,082,945)	(39,082,944)		

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BALANCE, DEC. 31, 2005 (restated)	1,000	\$	1	\$	999,999	\$	(500,000)	\$	(81,521,981)	\$	504,589
Shares issued for options exercised	—		—		—		—		—		360,749
Shares issued for services	—		—		—		—		—		321,729
Shares issued for settlement of debt obligations	—		—		—		—		—		3,214,835
Shares issued for cash	—		—		—		—		—		6,341,148
Shares issued for conversion of Preferred Series D shares	(1,000)		(1)		(999,999)		500,000		—		—
Shares issued for Preferred Series C shares	—		—		—		—		—		—
Options issued for Board member stipends	—		—		—		—		—		586,995
Options issued for executive compensation	—		—		—		—		—		472,133
Warrants issued with convertible notes	—		—		—		—		—		655,131
Beneficial conversion feature with convertible notes	—		—		—		—		—		624,869
Net loss	—		—		—		—		(27,268,267)		(27,268,267)
BALANCE, DEC. 31, 2006	—	\$	—	\$	—	\$	—	\$	(108,790,248)	\$	(14,186,089)

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

	2006	2005 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (27,268,267)	\$ (39,082,945)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	289,914	165,352
Loss on settlement	—	1,256,873
Loss on disposition of unconsolidated foreign subsidiary	—	352,300
Loss on disposition of assets	682,695	—
Loss on impairment of assets	5,279,567	—
Bad debt expense	93,571	1,373,458
Research and development expense	—	7,129,550
Stock based compensation	321,729	4,930,573
Common stock exchanged for severance pay	—	177,397
Fair value of vested options	1,059,128	10,499,842
Interest expense for convertible notes payable	201,181	—
Noncash activity from discontinued operations	1,681,645	—
(Increase) decrease in assets:		
Accounts receivable	(193,357)	184,003
Loans to employees	46,068	(39,183)
Prepaid expenses	67,060	(117,522)
Prepaid expenses – related party	185,960	(185,960)
Inventory	—	(3,549)
Amortization of debt discount	(397,872)	—
Deposits	1,139,934	(1,159,610)
Decrease in assets relating to discontinued operations	1,598,251	—
Increase (decrease) in liabilities:		
Accounts payable	1,761,553	235,597
Due to former employee with stock	(237,600)	237,600
Accrued officers' salaries and bonuses	(97,382)	(100,951)
Accrued expenses and other liabilities	569	(452,200)
Related party payable	(57,500)	—
Deferred revenue	—	(13,964)
Decrease in liabilities relating to discontinued operations	(297,173)	901,606
NET CASH USED BY OPERATING ACTIVITIES	(14,140,328)	(12,807,332)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(255,182)	(2,021,559)
Acquisition of Hotzone assets	—	(27,000)
NET CASH USED BY INVESTING ACTIVITIES	(255,182)	(2,048,559)
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of preferred stock - Series B	—	250,000
Sale of preferred stock - Series C	—	250,000
Issuance of common stock – exercises of warrants	6,341,148	6,903,931
Sale of common stock - exercises of options	34,446	48,412
Proceeds from unconsolidated foreign subsidiary	—	1,568,524
Payments on capital lease financing	—	(4,718)

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Proceeds from notes and loans payable	6,943,545	6,368,026
Payments on notes and loans payable	—	(2,846)
Bank overdraft	14,664	—
Payments on related party payables	—	(60,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	13,333,803	15,321,329
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(1,061,709)	465,438
CASH AND EQUIVALENTS – BEGINNING	1,065,952	600,514
CASH AND EQUIVALENTS – ENDING	\$ 4,243	\$ 1,065,952

SUPPLEMENTAL DISCLOSURES	2006	2005 (restated)
Cash paid during the period for:		
Interest	\$ 26,310	\$ 730
Income taxes	—	—
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Options issued for services	—	10,499,842
Options issued for settlement of obligations	—	1,256,873
Shares issued for services	—	4,930,573
Shares issued for Hotzone debt	2,386,667	—
Shares issued for research and development	—	7,073,640
Shares issued for assets	—	55,910
Conversion of Series A preferred stock to common stock	—	697,500
Conversion of Series B preferred stock to common stock	—	8,435,200
Conversion of Series C preferred stock to common stock	—	750,000
Conversion of Series D preferred stock to common stock	1,000,000	—
Cashless issuance for exercise of options	360,749	48,412
Non cash receipt for services	590,568	—
Non cash disbursement for debt	590,568	—
Conversion of notes payable to common stock	—	6,368,026
Series B preferred stock issued for equipment	—	4,835,200
Non-cash equity-warrant valuation and intrinsic value of beneficial conversion associated with convertible notes	1,280,000	—

See accompanying notes

**GLOBETEL COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

NATURE OF OPERATIONS

GlobeTel Communications Corp. ("GlobeTel," "the Company") is engaged in the business of airships and telecommunications delivery systems. GlobeTel is developing high-altitude airships called Stratellites that will be used to provide wireless voice, video, and data services.

ORGANIZATION AND CAPITALIZATION

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

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

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

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

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

In the Company's annual shareholders meeting on June 21, 2006, the shareholders voted to increase the shares authorized from 150,000,000 to 250,000,000.

BASIS OF PRESENTATION

The financial statements include the accounts of GlobeTel Communications Corp. and its wholly-owned subsidiaries: Sanswire Networks, LLC; GlobeTel Wireless Corp.; GlobeTel Wireless Europe GmbH, a German corporation, and Centerline Communications, LLC, and its wholly-owned subsidiaries, EQ8, LLC, EnRoute Telecom, LLC, G Link Solutions, LLC, Volta Communications, LLC, and Lonestar Communications, LLC; High Valley Property Ltd., a British Virgin Islands corporation; as well as the accounts GTCC de Mexico, S.A. de C.V, which GlobeTel owns 99%.

Inter-company balances and transactions were eliminated in the consolidation.

GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying financial statements, the Company had a net loss of \$27,268,267 and a negative cash flow from operations of \$14,140,330 for the year ended December 31, 2006, and had a working capital deficiency of \$13,216,834 and a stockholders' deficit of \$14,186,089 at December 31, 2006. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Additional cash will still be needed to support operations. Management believes it can continue to raise capital from various funding sources, which when added to budgeted sales and current working capital, will be sufficient to sustain operations at its current level through December 31, 2007. However, if budgeted sales levels are not achieved and/or if significant unanticipated expenditures occur, or if it is unable to obtain the necessary funding, the Company may have to modify its business plan, reduce or discontinue some of its operations or seek a buyer for all or part of its assets to continue as a going concern. As of the date of this report the Company has continued to raise capital to sustain its current operations which have been significantly reduced since January 1, 2007. The Company will need to periodically seek investment to provide cash for operations until such time that operations provide sufficient cash flow to cover expenditures. (see also next paragraph.)

On May 2, 2008, the Securities and Exchange Commission (“SEC”) filed a lawsuit in the United States District Court for the Southern District of Florida against GlobeTel Communications Corp. (the “Company”) and three former officers of the Company, Timothy J. Huff, Thomas Y. Jimenez and Lawrence E. Lynch. The SEC alleges, among other things, that the Company recorded \$119 million in revenue on the basis of fraudulent invoices created by Joseph Monterosso and Luis Vargas, two individuals formerly employed by the Company who were in charge of its wholesale telecommunications business. The SEC alleges that the Company violated Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933, as amended, Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 under the Exchange Act. The SEC seeks as relief a permanent injunction, civil penalties, and disgorgement with prejudgment interest. The Company intends to vigorously defend itself in this action. 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. (also see Note 15)

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with an original maturity of three months or less at the date of purchase to be cash equivalents.

BANK OVERDRAFT

The Company records any negative balances in its bank accounts as a bank overdraft.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade and other accounts receivable are reported at face value less any provisions for uncollectible accounts considered necessary. Accounts receivable consists of a reimbursement from the Company’s Directors and Officers insurance for legal and accounting expenses that were paid above the Company’s deductible. The Company estimates doubtful accounts on an item-to-item basis and includes over-aged accounts for any trade receivable as part of allowance for doubtful accounts, which are generally accounts that are ninety-days or more overdue. When accounts are deemed uncollectible, the account receivable is charged off and the allowance account is reduced accordingly. Bad debt expense for the years ended December 31, 2006 and 2005 were \$93,571, and \$1,372,221, respectively.

INVENTORY

Inventory is recorded at lower-of-cost-or-market, first-in first-out (FIFO) basis.

As of December 31, 2006, the Company had no inventory, however, as of December 31, 2005, the Company had \$60,976 of IP phones inventory, but considered them obsolete.

PROPERTY AND EQUIPMENT

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

REGISTRATION RIGHTS

In connection with the sale of debt or equity instruments, we may enter into Registration Rights Agreements. Generally, these Agreements require us to file registration statements with the Securities and Exchange Commission to register common shares that may be issued on conversion of debt or preferred stock, to permit re-sale of common shares previously sold under an exemption from registration or to register common shares that may be issued on exercise of outstanding options or warrants.

The Agreements usually require us to pay penalties for any time delay in filing the required registration statements, or in the registration statements becoming effective, beyond dates specified in the Agreement. These penalties are usually expressed as a fixed percentage, per month, of the original amount we received on issuance of the debt or preferred stock, common shares, options or warrants. We account for these penalties as a contingent liability and not as a derivative instrument.

REVENUE RECOGNITION

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

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

INCOME TAXES

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

ADVERTISING AND MARKETING COSTS

Advertising and marketing costs are charged to operations in the period incurred. Advertising and marketing expense for the years ended December 31, 2006 and 2005, were \$230,329 and \$265,283, respectively, and are included in "General and Administrative" in the consolidated statements of income (loss).

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

CONCENTRATIONS OF CREDIT RISK AND ECONOMIC DEPENDENCE

Financial instruments, which potentially subject the Company to a concentration of credit risk, are cash and cash equivalents and accounts receivable. The Company had cash balances of \$4,243 and \$1,065,952 as of December 31, 2006 and 2005, respectively, which included balances as of December 31, 2005 is in excess of federally insured limit. As of December 31, 2006, the Company had no balances in excess of federally insured limits.

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

Additional cash will still be needed to support operations. Management believes it can continue to raise capital from various funding sources, which when added to budgeted sales and current working capital, will be sufficient to sustain operations at its current level through December 31, 2007. However, if budgeted sales levels are not achieved and/or if significant unanticipated expenditures occur, or if it is unable to obtain the necessary funding, the Company may have to modify its business plan, reduce or discontinue some of its operations or seek a buyer for all or part of its assets to continue as a going concern. As of the date of this report the Company has continued to raise capital to sustain its current operations which have been significantly reduced since January 1, 2007. The Company will need to periodically seek investment to provide cash for operations until such time that operations provide sufficient cash flow to cover expenditures.

USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles in the United States requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation for comparative purposes. There were no material changes in classifications made to previously issued financial statements.

NET LOSS PER COMMON SHARE

Basic net loss per common share has been computed based upon the weighted average number of shares of common stock outstanding during each period. The basic net loss is computed by dividing the net loss by the weighted average number of common shares outstanding during each period. In periods where losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. If all outstanding options, warrants and convertible shares were to be converted or exercised as of December 31, 2006, the shares outstanding would be 139,944,588. If all outstanding options, warrants and convertible shares were to be converted or exercised as of the date of this report, the shares outstanding would be 166,806,582.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company follows FASB Statement No. 144 (SFAS 144), "Accounting for the Impairment of Long-Lived Assets." SFAS 144 requires that long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell.

STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values. SFAS No. 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*. In March 2005, the Securities and Exchange Commission issued SAB No. 107, *Share-Based Payment*, relating to SFAS No. 123(R). The Company has applied applicable provisions of SAB No. 107 in its adoption of SFAS No. 123(R).

The Company adopted SFAS No. 123(R) using the prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of its year ended December 31, 2006. In accordance with this transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include the impact of, SFAS No. 123(R). The Company's consolidated financial statements, as of and for the year ended December 31, 2006 and thereafter, reflect the impact of SFAS No. 123(R). Upon adopting SFAS No. 123(R), for awards with service conditions and graded-vesting, a one-time election was made to recognize stock-based compensation expense on a straight-line basis over the requisite service period for the entire award.

The Company used the intrinsic value method of measuring the fair value of share based payments granted prior to January 1, 2006. Because the Company utilized the intrinsic value method for pro forma disclosure purposes under the

original provisions of SFAS No. 123, *Accounting for Stock-based Compensation*, disclosures to demonstrate the effect of pro forma compensation cost on net loss and net loss per share for the year ended December 31, 2005 is not appropriate in accordance with SFAS No. 123(R).

The stock-based compensation expense related to employee stock options and restricted stock awards recognized during the year ended December 31, 2005 was \$122. Stock-based compensation expense recognized under SFAS No. 123(R) for the year ended December 31, 2006 was \$321,729 before income taxes.

The Company accounts for stock issued to consultants on a fair value basis in accordance with SFAS No. 123(R) and EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans, consistent with the measurement provisions of SFAS 123 and SFAS 148, the Company's net loss and basic loss per share would have been adjusted as follows:

	For the Year Ended December, 31, 2005	
Net Loss		
As Reported	\$	(39,082,945)
Pro Forma	\$	(43,012,437)
Net Loss per common share – basic and diluted		
As Reported	\$	(.52)
Pro Forma	\$	(.57)

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123(R))

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123(R), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB No. 107) which summarizes the views of the SEC staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations. SAB No. 107 provides guidance on several topics, including valuation methods, the classification of compensation expense, capitalization of compensation expenses related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements, and disclosures in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” subsequent to adoption of SFAS No. 123(R).

In April 2005, the SEC issued FR-74, Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (FR-74). FR-74 allows companies to implement SFAS No. 123(R) at the beginning of their next fiscal year, instead of the next reporting period that begins after June 15, 2005. FR-74 does not change the accounting required by SFAS No. 123(R); it only changes the implementation date of the standard.

The Company adopted SFAS No. 123(R) using the prospective method on January 1, 2006. The Company cannot predict the level of its impact since it will depend upon the level of share-based payments granted in the future. However, the Company generally expects compensation expense to increase.

SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 39 (SFAS No. 154)

In May 2005, the FASB issued SFAS No. 154, which changes the requirements for the accounting and reporting of a change in accounting principle or correction of an error. It requires, unless impracticable, retrospective application of the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 is effective for accounting changes and correction

of errors made in fiscal years beginning after December 15, 2005. The Company implemented SFAS No. 154 effective January 1, 2006.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in tax positions. This interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. The provisions of FIN 48 are effective as of January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company believes that FIN 48 will not have a material impact on its consolidated financial statements.

SAB No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108)

In September 2006, the SEC released SAB 108. SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of (1) the error quantified as the amount by which the current year income statement was misstated (rollover method) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (iron curtain method). Reliance on either method in prior years could have resulted in misstatement of the financial statements. The guidance provided in SAB 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. The Company believes that SAB 108 will not have a material impact on its consolidated financial statements.

SFAS No. 157, Fair Value Measurements (SFAS No. 157)

In September 2006, the FASB issued SFAS No. 157. This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in GAAP and expands disclosure related to the use of fair value measures in financial statements. SFAS No. 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Standard emphasizes that fair value is a market-based measurement and not an entity-specific measurement based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS No. 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. SFAS No. 157 is to be effective for its financial statements issued in 2008. The Company believes that SFAS No. 157 will not have a material impact on its consolidated financial statements.

SFAS No. 141 (R), Business Combinations (SFAS No. 141R) and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS No. 160)

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements. SFAS No. 141R requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statement. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141R and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has not yet determined the effect on our financial statements, if any, upon adoption of SFAS No. 141R or SFAS No. 160.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161)

In March 2008, the FASB issued FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. FAS 161 is effective for the Company in fiscal 2010.

Management does not believe that there are any recently-issued, but not yet effective accounting pronouncements, which could have a material effect on the accompanying condensed consolidated financial statements

NOTE 2. RESTATEMENT OF RESULTS

The Company determined that, in certain cases, it misinterpreted or misapplied Generally Accepted Accounting Principles (“GAAP”) in the 2005 consolidated financial statements and, accordingly, the Company has restated these consolidated financial statements.

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, the Company performed an internal analysis of its accounting policies, practices, procedures and disclosures for the affected period.

Summary of restatement items

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

Net Revenue Adjustment

Year ended December 31, 2005

Revenue