

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

GLOBETEL COMMUNICATIONS CORP
Form 10QSB
August 19, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-QSB
(Mark one)

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

For the quarterly period ended: June 30, 2003

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

For the transition period from _____ to _____

Commission file number: 0-23532

GLOBETEL COMMUNICATIONS CORP.

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

Delaware

88-0292161

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

444 Brickell Avenue Suite 522 Miami, FL 33131

(Address of principal executive offices)

305-579-9922

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last
report)

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common
equity, as of the latest practicable date 674,094,104 shares issued as of August
11, 2003

Transitional Small Business Disclosure Format: Yes ___ No X

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	3
Item 2. Management's Discussion and Analysis or Plan of Operation	9
Item 3. Controls and Procedures	13

PART II. OTHER INFORMATION

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

Item 1. Legal Proceedings	13
Item 2. Changes in Securities	13
Item 3. Default Upon Senior Securities	13
Item 4. Submission of Matters to a Vote of Security Holder	13
Item 5. Other Information	13
Item 6. Exhibits and Reports on Form 8-K	13

1

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	
Balance Sheet - (Unaudited)	3
Statements of Income (Unaudited)	4
Statements of Cash Flows (Unaudited)	5
Notes to Financial Statements (Unaudited)	6

2

GLOBETEL COMMUNICATIONS CORP.
f/k/a AMERICAN DIVERSIFIED GROUP, INC. & SUBSIDIARIES
BALANCE SHEET (UNAUDITED)

June 30, 2003

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	56,957
Accounts receivable, less allowance for doubtful accounts of \$1,138,857		3,480,243
Non-readily marketable, available-for-sale equity securities		1,600,000
Deferred tax asset, less valuation allowance of \$2,308,543		--

TOTAL CURRENT ASSETS 5,137,200

PROPERTY AND EQUIPMENT, less accumulated depreciation of \$340,140 514,787

OTHER ASSETS

Non-readily marketable, available-for-sale equity securities due from related party - Charterhouse Investment		4,301,500
Deposits		128,622
Miscellaneous receivable (less \$125,000 allowance for uncollectibility)		--

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

TOTAL OTHER ASSETS	4,430,122
TOTAL ASSETS	\$ 10,082,109
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 744,660
Accounts payable, to be satisfied with non-readily marketable available-for-sale equity securities	975,000
Notes payable, secured	750,000
Notes payable, unsecured	662,395
Capital lease obligations	80,592
Loans payable to related party - Charterhouse	361,960
Loan payable	10,000
Accrued expenses and other liabilities	67,617
Deferred revenues	36,870
Accrued officers' salaries and bonuses	923,368
Due to related parties	182,222
TOTAL CURRENT LIABILITIES	4,794,684
CONTINGENCY (NOTE 10)	
STOCKHOLDERS' EQUITY	
Preferred stock, Series A, \$.001 par value, 10,000,000 shares authorized;	\$ --
Common stock, \$.00001 par value, 1,500,000,000 shares authorized; 635,520,283 shares issued and outstanding	6,325
Additional paid-in capital	24,795,391
Accumulated deficit	(19,514,291)
TOTAL STOCKHOLDERS' EQUITY	5,287,425
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,082,109

3

GLOBETEL COMMUNICATIONS CORP.
f/k/a AMERICAN DIVERSIFIED GROUP, INC. & SUBSIDIARIES
STATEMENTS OF INCOME (UNAUDITED)

	For the Six Months Ended June 30, 2003	For the Six Months Ended June 30, 2002	Three Jun
REVENUES			
Sales	\$ 6,093,111	\$ 356,690	\$
Sales - related parties	--	4,068,575	
Total sales	6,093,111	4,425,265	

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

Cost of sales	4,247,843	2,237,434	

GROSS MARGIN	1,845,268	2,187,831	

EXPENSES			
Payroll and related taxes	157,090	106,523	
Professional fees	220,429	138,608	
Officers' salary	283,085	206,000	
Consulting fees	51,060	572,500	
Bad debts	44,436	--	
Bad debt - affiliate, Sigma Online	--	283,051	
Other operating expenses	85,840	36,605	
Telephone and communications	39,379	22,331	
Travel and related expenses	50,880	32,829	
Rents	22,200	19,901	
Insurance and employee benefits	49,540	37,926	
Depreciation and amortization	22,299	15,939	

TOTAL EXPENSES	1,026,238	1,472,213	

INCOME FROM OPERATIONS	819,030	715,618	

OTHER INCOME (EXPENSE)			
Interest income	141	5,634	
Interest expense	(76,186)	(13,496)	
Gain on disposition of assets	34,365	--	
Loss on forgiveness of accrued interest receivable-officers	--	(43,488)	

TOTAL OTHER INCOME (EXPENSE)	(41,680)	(51,350)	

INCOME BEFORE INCOME TAXES	777,350	664,268	

INCOME TAXES			
Provision for income taxes	272,073	232,493	
Tax benefit from utilization of net operating loss carryforward	(272,073)	(232,493)	

TOTAL INCOME TAXES	--	--	

NET INCOME	\$ 777,350	\$ 664,268	\$
=====			
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (BASIC)	611,024,150	477,296,282	61
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (DILUTED)	644,445,272	477,296,282	65
=====			
NET INCOME PER SHARE (BASIC)	\$ 0.00	\$ 0.00	\$
NET INCOME PER SHARE (DILUTED)	\$ 0.00	\$ 0.00	\$
=====			

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

GLOBETEL COMMUNICATIONS CORP.
f/k/a AMERICAN DIVERSIFIED GROUP, INC. & SUBSIDIARIES
STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30, 2003
<hr/>	
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 777,350
Adjustments to reconcile net income to net cash used by operating activities:	
Depreciation and amortization	101,606
Gain on disposition of assets	(34,366)
Amortization of deferred consulting fees	--
Common stock exchanged for services	21,000
Common stock for severance pay	36,000
(Increase) decrease in assets:	
Accounts receivable	(1,763,138)
Accounts receivable, related party	--
Related party receivables	--
Non-readily marketable, available for sale equity securities	--
Non-readily marketable, available for sale equity securities due from related party - Charterhouse	--
Deposits	(38,000)
Increase (decrease) in liabilities:	
Accounts payable	105,385
Accounts payable, to be satisfied with non-readily marketable available for sale equity securities	--
Accrued payroll and related taxes	(12,785)
Accrued officers' salaries and bonuses	193,368
Accrued expenses and other liabilities	18,917
Deferred revenues	16,162
Deferred revenues - related party	(147,480)
<hr/>	
NET CASH USED BY OPERATING ACTIVITIES	(725,981)
<hr/>	
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property and equipment	(215,515)
Property and equipment included in cost of sales	--
Payments for related party receivables (net)	--
<hr/>	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(215,515)
<hr/>	
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on capital lease financing	(2,392)
Proceeds from promissory notes payable	751,073
Payments on promissory notes payable	--
Proceeds from related party payables	144,194
Payments on related party payables	(96,053)
<hr/>	
NET CASH PROVIDED BY FINANCING ACTIVITIES	796,822
<hr/>	

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

NET DECREASE IN CASH AND EQUIVALENTS		(144,674)
CASH AND EQUIVALENTS - BEGINNING		201,631

CASH AND EQUIVALENTS - ENDING	\$	56,957
=====		
SUPPLEMENTAL DISCLOSURES Cash paid during the period for:		
Interest	\$	27,932
Income taxes	\$	--
In addition to amounts reflected above, common stock was issued for:		
Non-readily marketable, available for sale equity securities		
due from related party in payment of notes and accounts receivable	\$	--
Non-readily marketable, available for sale equity securities		
received in payment of notes and accounts receivable	\$	--
Settlement of debt	\$	294,206
Consulting services	\$	21,000
Employee compensation	\$	36,000
=====		

5

GLOBETEL COMMUNICATIONS CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. All adjustments are of a normal recurring nature, except as otherwise noted below.

Certain financial information and footnote disclosures which are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but which are not required for interim reporting purposes for Form 10-QSB, have been condensed or omitted. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto as of December 31, 2002, contained in the Company's Form 10-KSB.

The financial statements for periods prior to the merger and reincorporation in July, 2002 include the consolidated accounts of American Diversified Group, Inc. and its two then wholly-owned subsidiaries, Global Transmedia Communications Corp. and NCI Telecom, Inc., all of which together and individually are referred to as the Company. All material intercompany balances and transactions were eliminated in the consolidation.

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

Two customers accounted for 91% of the Company's sales for the three months ended June 30, 2003, including 25% attributable to the Brazil network and 66% to the Mexico network. The same two (2) customers accounted for 88% of the Company's sales for the six months ended June 30, 2003, including 25% attributable to the Brazil network and 63% to the Mexico network. The same two

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

(2) customers account for 99% of the Company's accounts receivable, including 49% attributable to the Brazil network and 50% to the Mexico network as of June 30, 2003.

Revenue of \$73,740 and \$147,480 was recognized during the three months and six months ended June 30, 2003, respectively, in connection with the Company's service agreements for the Brazil and Philippines networks, \$36,870 and \$73,740, respectively, for each network.

In connection with the Brazil network, \$460,888 and \$747,456 during the three months and six months ended June 30, 2003, respectively, was paid by our Brazilian network customer directly to a local provider of network termination services, and, accordingly, the account receivable due from the customer was reduced by the same amounts.

In connection with the Mexico network, \$1,371,680 and \$2,577,880 during the three months and six months ended June 30, 2003, respectively, was paid by our Mexico network customer directly to a local provider of network termination services, and, accordingly, the accounts receivable due from the customer was reduced by the same amounts.

In connection with the Brazil network sales, the Company accrued \$50,452 and \$133,259 due to IP World, Ltd. (IPW) during the three months and six months ended June 30, 2003, respectively, which represents 25% of the project income (after allocated costs) payable pursuant to the three-party agreement with Charterhouse Investments (Charterhouse) and IPW and is recorded as a reduction to the Company's revenue share from the Brazil network.

In connection with the Philippines network sales, the Company reduced the amount due to IP World, Ltd. (IPW) by \$26,246 during the three months and six months ended June 30, 2003, which represents 25% of the project loss (after allocated costs) payable pursuant to the three-party agreement with Charterhouse Investments (Charterhouse) and IPW and is recorded as a reduction to the Company's costs of revenues from the Philippines network.

6

NOTE 3 - NON-READILY-MARKETABLE EQUITY SECURITIES, AVAILABLE FOR SALE

As of June 30, 2003, the Company has included in its current assets, \$1,600,000 in non-readily marketable, available-for-sale equity securities, which represent 16 million shares of IPW unrestricted stock, valued at \$.10 per share, held in the company's name.

As of June 30, 2003, the Company also included in other assets, \$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.

The IP World Ltd. shares are not currently tradable. The Company believes the above amounts which, together, represent 58% of the Company's total assets, are fully realizable as of June 30, 2003.

NOTE 4 - NOTES PAYABLE, SECURED

In connection with two \$125,000 secured convertible notes payable to other parties executed during 2002, the Company issued 2.5 million shares in connection with each note as additional collateral for the notes.

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

NOTE 5 - NOTES AND LOANS PAYABLE, UNSECURED

In connection with a \$125,000 secured, subordinated promissory note payable to a third party executed in November 2002, the Company received an additional \$53,678 from the lender during the three months ended March 31, 2003 and an additional \$60,528 during the three months ended June 30, 2003, to increase the note amount to \$239,206. The note included interest payable monthly at a rate of 12% per annum. In May 2003 the Company issued 15 million restricted shares of the Company's common stock in full payment of the amount due. The Chief Executive Officer of the Company is a minority shareholder of the lending corporation.

In February 2003, the Company executed two unsecured promissory notes payable, each for \$100,000 (to fund operations and pay operating expenses), to an unrelated third party, which is also a secured promissory note holder. Each note was originally due in May 2003, and included interest payable monthly at a rate of 25% per annum. The Company and the note holders subsequently agreed to extend due dates of the loans by one year and modified the interest rate to 12%.

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

In May 2003, the Company executed a convertible promissory note payable to another party for \$256,880, with interest at 10%. Subsequently, in July 2003, the Company issued 12,440,000 shares of restricted stock in full payment of the note payable.

In June 2003, the Company executed a \$200,000 promissory note payable to Commercebank, N.A., due in June 2004, with interest payable at a rate of one percent over the prime rate, currently 4%. As of June 30, 2003, the Company received \$165,515 of the total loan amount.

NOTE 6 - LOAN PAYABLE TO RELATED PARTY - CHARTERHOUSE

In January 2003, the Company received a \$50,000 loan from Charterhouse. This loan payable, as well as the previous balance of \$311,960, is unsecured, non-interest bearing and provided for no formal repayment terms.

NOTE 7 - NOTE PAYABLE TO SHAREHOLDER

In May 2003, the Company issued 4 million restricted shares of its common stock in full payment of a \$55,000 note payable to a shareholder.

NOTE 8 - INVESTMENT BANKING AGREEMENT

In January 2003, Fordham Financial Management, Inc., an investment banking firm, based in New York City, assumed all functions and responsibilities of Charles Morgan Securities to provide consulting services. Under the agreement, the Company was obliged to pay a monthly fee of \$10,000. In June 2003, the firm and the Company agreed to suspend the monthly fee until both parties agree it will resume. The Company paid total fees of \$40,000 during the six months ended June 30, 2003. Pursuant to agreement, in May 2003, the Company issued 2 million restricted shares of the Company's common stock as payment for services rendered. The Company charged \$21,000 to expense during the three months ended June 30, 2003, based on an amount equal to one-half of the average bid and asked price of the Company's shares on the date of issuance.

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

NOTE 9 - GAIN ON DISPOSITION OF ASSETS

In June 2003, the Company ceased operations at its St. Louis, Missouri office. As part of the termination agreement with the employees of the St. Louis office, the employees were authorized to maintain and service the existing clients and keep the property and equipment of that office, and the Company agreed to return the customer deposits made by the St. Louis clients. The Company recorded a gain of \$34,365 in connection with these transactions.

Three terminated employee were issued a total of 1.2 million free-trading shares of the Company's stock as severance pay. The Company charged \$36,000 to expense during the three months ended June 30, 2003, based on an amount equal to the average bid and asked price of the Company's shares on the date of issuance.

NOTE 10 - PREFERRED STOCK

In May and June 2003, the Company applied for a loan with a financing company that brokers the transaction with several major European banks. The total amount of the loan is for \$4.4 million and may be increased when and if additional funds become available. The loan amounts are payable over five (5) years at 5.5% per annum, with only interest being paid during the first year. Further, the loans are to be collateralized with preferred stock, which the banks can only convert in case of a default by the Company.

As of June 30, 2003, the financing company was processing loans with two (2) different banks totaling approximately \$1.6 million. The Company issued preferred stock totaling 1,194,356 shares. In the event that the loan is not funded, the preferred shares will be cancelled.

8

Item 2. Management's Discussion and Analysis or Plan of Operation

Overview

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

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

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

Forward-Looking Statements; Market Data; Risk Factors

Forward-Looking Statements: This Form 10-QSB and other statements issued or made from time to time by GlobeTel and ADGI contain statements which may constitute "Forward-Looking Statements" within the meaning of the Securities Act of 1933,

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

as amended and the Securities Exchange Act of 1934 by the Private Securities Litigation Reform Act of 1995, 15 U.S.C.A. Sections 77Z-2 and 78U-5 (SUPP. 1996). Those statements include statements regarding our intent, belief or current expectations, our officers and directors 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 may differ materially from those contemplated by such forward-looking statements.

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

This quarterly report contains certain estimates and plans related to the telecommunications industry. 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 to expect in the telecommunications industry, and particularly in the Voice over Internet Protocols markets.

The majority of our revenues are dependent on the Brazil and Mexico networks and our ability to achieve revenues from additional networks, including, networks in the Philippines, Venezuela, Colombia and other countries we have identified as our potential market. In addition, our shares in IPW represent the majority of our assets. Our ownership position in IPW totals 86 million shares of their common stock, valued at \$5,901,500. We have 16 million shares held by us, and 70 million shares held on our behalf by Charterhouse Investment. The IPW shares are not currently tradable. Based on information provided to us, we believe the stock will become tradable and that the value of the shares is fully realizable. However, in the event that the stock does not become tradable, the share value may materially affect our asset value in the future.

9

Results of Operations - Comparison of Three Months Ended June 30, 2003 and 2002

Revenues. During the three-month period ended June 30, 2003, our gross sales were \$2,995,422, representing an increase of 42% over the same period in the prior year when its gross sales were \$2,101,425. This increase is primarily attributable to the growth of our operations in Mexico and Brazil. Our two main customers were the source of over 91% of all revenues. Our Mexico network generated \$1,992,802 (or 66% of gross sales) from one customer and our Brazil network generated \$752,193 (or 25% of gross sales) from another customer.

For the three months ended June 30, 2003, we had no income from International sales, compared to the same period in 2002 when we had international sales representing 97% of total sales, including \$67,380 or 3% related to the Brazil network and \$1,968,575 or 94% related to the network sales and services to related parties (Charterhouse) domiciled outside of the United States.

Cost of Sales. Our cost of sales consists primarily of the costs of depreciation of telecommunications equipment, technical services, rents and the wholesale cost of buying bandwidth purchased by us for resale. We had cost of sales of \$2,126,394 for the three months ended June 30, 2003, compared to \$1,071,271 for the same period in 2002. We expect cost of sales to increase in future periods only to the extent that our sales volume increases.

Operating Expenses. Our operating expenses consist primarily of payroll and related taxes, expenses for executive and administrative personnel, facilities expenses, professional and consulting service expenses, travel and other general

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

corporate expenses. Our operating expenses for the three months ended June 30, 2003 was \$496,584 compared to \$846,228 for the same period in 2002. The decrease in expenses was predominantly caused by the reduced consulting costs we incurred during the current period.

Our operating expenses are expected to further decrease as a percentage of revenue in future periods because our existing operating infrastructure will allow increases in revenues without having to incrementally add operating expenses. Further, we reduced our payroll as of June 30, 2003, as we terminated the services of our employees in the St. Louis office. However, our expenses may increase in absolute dollars as we continue to expand our network termination locations worldwide and incur additional costs related to the growth of our business and being a public company.

Income from Operations. We had an income from operations of \$372,478 during the three months ended June 30, 2003 compared to an income of \$183,926 during the same period in 2002. The gross margin for the three month period ended June 30, 2003 was 12% compared to 49% for same period in 2002. The difference in the margins is mainly attributable to extraordinary margins from the construction of networks in the prior year.

Other Income (Expense). Other income (expense) consists of interest expense on our borrowings and interest income earned on our cash and cash equivalents and receivables from related parties. We recorded interest income of \$32 during the three months ended June 30, 2003, compared \$491 during the same period in 2002. During the three months ended June 30, 2002, we recorded a loss of \$43,488 attributable to the forgiveness of accrued interest receivable. We did not incur any such loss in 2003.

In June 2003, we recorded a gain of \$34,365 in connection with the closing operations of our St. Louis, Missouri office after all accounting adjustments were made. Interest expense during the three months ended June 30, 2003, was \$40,598 compared to \$10,031 during the same period in the prior year. Interest expense increased due to increases in notes and loans payable.

Net Income. Our net income for the three months ended June 30, 2003 was \$366,277 compared to \$130,898 during the same period in 2002. The increase in net income was mainly attributable to our increased sales in Mexico and Brazil, with sustained margin and overall reduced monthly operating expenses.

10

Results of Operations - Comparison of Six Months Ended June 30, 2003 and 2002

Revenues. During the six-month period ended June 30, 2003, we had gross sales of \$6,093,111, compared to gross sales of \$4,425,265 during the same period in 2002. The increase of 37% is primarily attributable to the growth of our sales from our Mexico and Brazil networks. During the six months ended June 30, 2003, our two main customers generated \$5,393,232 in gross sales or 88% of all sales. Our Mexico network customer generated sales of \$3,862,608 or 63% of all sales, while our Brazil network customer generated sales of \$1,530,624 or 25% of total sales.

For the six months ended June 30, 2003, we had no income from international sales, compared to the same period in 2002 when we had international sales representing 48% of total sales, including \$159,460 or 4% related to the Brazil network and \$1,968,575 or 44% related to the network sales and services to related parties (Charterhouse) domiciled outside of the United States.

Cost of Sales. Our cost of sales consists primarily of the costs of depreciation of telecommunications equipment, technical services, rents and the wholesale

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

cost of buying bandwidth purchased by us for resale. We had cost of sales of \$4,247,843 for the six months ended June 30, 2003 compare to \$2,237,434 for the same period in 2002. We expect cost of sales to increase in future periods only to the extent that our sales volume increases.

Operating Expenses. Our operating expenses consist primarily of payroll and related taxes, expenses for executive and administrative personnel, facilities expenses, professional and consulting service expenses, travel and other general corporate expenses. Our operating expenses for the six months ended June 30, 2003 was \$1,026,238 compared to \$1,472,213 for the same period in 2002. The decrease of approximately 30% was predominantly due to a decrease in consulting costs and overall reduction in monthly operating costs.

Our operating expenses are expected to further decrease as a percentage of revenue in future periods because our existing operating infrastructure will allow increases in revenues without having to incrementally add operating expenses. Further, we reduced our payroll as of June 30, 2003, as we terminated the services of our employees in the St. Louis office. However, our expenses may increase in absolute dollars as we continue to expand our network termination locations worldwide and incur additional costs related to the growth of our business and being a public company.

Income from Operations. We had an income from operations of \$819,029 for the six months ended June 30, 2003, compared to \$715,618 for the same period in 2002. The income from operations is mainly attributable to the increased sales, sustained margin and reduced operating expenses. Our gross margin for the six months ended June 30, 2003 was 13%, compared to 49% for the same period in 2002. The difference in the margins is mainly attributable to extraordinary margins from the construction of networks in the prior year.

Other Income (Expense). Other income (expense) consists of interest expense on our borrowings and interest income earned on our cash and cash equivalents and receivables from related parties. We recorded interest income of \$141 during the six months ended June 30, 2003, compared to \$5,634 during the same period in the prior year. During the six months ended June 30, 2002, we recorded a loss of \$43,488 attributable to the forgiveness of accrued interest receivable. We did not incur any such loss in 2003.

In June 2003, we recorded a gain of \$34,365 in connection with the closing operations of our St. Louis, Missouri office after all accounting adjustments were made. Interest expenses during the six months ended June 30, 2003, were \$76,186 compared to \$13,496 during the same period in the prior year. Interest expense increased due to increases in notes and loans payable.

Net Income. Our net income for the six months ended June 30, 2003 was \$777,350 compared to \$664,268 during the same period in 2002. The increase in net income was mainly attributable to our increased sales in Mexico and Brazil, with sustained margin and overall reduced monthly operating expenses.

Liquidity and Capital Resources.

As of June 30, 2003, we had \$56,957 of cash and cash equivalents compared to \$201,631 at December 31, 2002 and \$12,270 as of June 30, 2002. We had accounts receivable of \$3,480,243 on June 30, 2003, compared to \$1,747,819 on December 31, 2002 and \$574,517 on June 30, 2002. At June 30, 2003, six customers accounted for all of our accounts receivable compared to June 30, 2002, when five customers accounted for all of our accounts receivable. We believe that all of our accounts receivable are collectible. We had non-readily marketable,

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

available-for-sale equity securities of \$1,600,000 at June 30, 2003 which were the same amounts reported as of December 31, 2002 and June 30, 2002.

As of June 30, 2003, our current assets were \$5,137,200 compared to \$3,549,450 as of December 31, 2002 and \$2,186,787 as of June 30, 2002. The increase in current assets was primarily as a result of increase in our accounts receivable from customers. We had working capital of \$342,516 as of June 30, 2003 which is a significant increase from prior periods, when we had a negative working capital of \$581,565 at December 31, 2002.

As of June 30, 2003 and December 31, 2002, we had non-readily marketable, available for sale equity securities due from related party - Charterhouse, totaling \$4,301,500 compared to \$1,850,750 as of June 30, 2002. This amount represents 70 million shares of IPW restricted stock valued at \$.06145 per share, held by Charterhouse on our behalf.

Our total assets as of June 30, 2003 were \$10,082,109, compared to \$8,344,884 at December 31, 2002, and \$4,488,282 at June 30, 2002. The increase in total assets is primarily attributable to the increase in accounts receivable and property and equipment.

Our total current liabilities as of June 30, 2003 were \$4,794,684, compared to \$4,131,015 at December 31, 2002 and \$1,714,238 at June 30, 2002. The increase was primarily due to increases in accounts payable, notes payable and accrued officers' salaries. The increase in accounts payable was attributable to the company's increase in cost of sales related to the Mexico and Brazil networks. The notes payable consisted of Convertible Promissory Notes and as of the date of this filing, we are in the process of eliminating these debts by converting the loan into equity. All officers of the company agreed to accrue salaries in order to enable the company to continue operating.

Our cash used in operating activities was \$725,980 for the six months ended June 30, 2003, compared to \$256,882 during the same period in the prior year. Our net cash used in investing activities was \$215,515 for the six months ended June 30, 2003, compared to \$235,188 provided by investing activities for the same period in the prior year. Cash provided by financing activities was \$796,822 for the six months ended June 30, 2003, compared to \$1,731 for the same period in the prior year.

We have recently begun distribution of our new product called "The Magic Money Card(R)." The Magic Money Card(R), in addition to being a prepaid calling card, is also a debit card/stored value card offering services that will include prepaid calling and added financial services such as domestic and foreign money remittances that will allow the user to shop in places that accept MasterCard and Maestro Debit/Credit Cards. Our associate in this venture is a company called Grupo Ingedigit, a certified MasterCard services provider, through its subsidiary in the U.S., AmericasCom International, Inc. As part of the agreement, we will be connecting our network with Grupo Ingedigit's network, valued at over \$5 million and in return, the group will be able to tap into our current market, starting with the Mexico and Brazil markets. We have been negotiating with several companies who want to avail of this service, and we believe that we will be able to generate considerable revenues from this product once we have fully setup with all our networks. We have receivables from our Mexico and Brazil customers which we are allowing them to utilize to help set up the Magic Money Card(R) program in their respective countries. We expect that our contributions to the rollout of the networks in Mexico and Brazil will not exceed \$350,000.

If we are unable to realize funds from the assets, non-readily marketable, available-for-sale equity securities, and if we cannot bring the days of our accounts receivable below ninety days, We will not have capital resources or credit lines available that are sufficient to fund our

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

operations and capital requirements as presently planned over the next twelve months. However, we are actively pursuing additional funds through the issuance of debt and equity instruments, and we believe sufficient capital resources will in fact be obtained to fund our operations and cash requirements over the next twelve months.

12

Item 3. Controls and Procedures

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon the evaluation, they concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in this report. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There was no new litigation to report during the period ended March 31, 2003, and there are no new developments related to previously reported litigation. For legal proceedings regarding previously reported litigations, refer to the discussion in our Annual Report on Form 10-KSB for the year ended December 31, 2002.

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit No.	Document Description
2	Agreement and Plan of Exchange (filed as Annex A to our Special Meeting Proxy Statement on Schedule 14A and incorporated herein by reference)
3.1	Articles of Incorporation (filed as Exhibits 3.1, 3.2 and 3.3 to our Registration Statement on Form 10-SB and incorporated herein by reference)
3.2	Bylaws (filed as Exhibit 3.4 to our Registration Statement)

Edgar Filing: GLOBETEL COMMUNICATIONS CORP - Form 10QSB

- 31.1 on Form 10-SB and incorporated herein by reference)
Certification Pursuant to 18 U.S.C. ss.1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
- 31.2 Certification Pursuant to 18 U.S.C. ss.1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Form 8-K.

We did not file a Report on Form 8-K during the quarter ended June 30, 2003.

13

SIGNATURES

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

GLOBETEL COMMUNICATIONS CORP.

Registrant

By: /s/ Timothy Huff
Timothy Huff, Chief Executive Officer

Dated: August 19, 2003

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

Dated: August 19, 2003