UNITED STATES DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF FLORIDA
CASE NO. ________-CIV___

08-60647
CIV-MARTINEZ
MAGISTRATE JUDGE
BROWN

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

GLOBETEL COMMUNICATIONS CORP.,
TIMOTHY J. HUFF, THOMAS Y. JIMINEZ
and LAWRENCE E. LYNCH

Defendants.

FILED BY ______ D.C.
MAY - 1 2008
STEVEN M. LARIMORE
CLERK U.S. DIST. CT.
S.D. OF FLA. FT. LAUD.

COMPLAINT

Plaintiff Securities and Exchange Commission ("SEC" or "Commission") alleges as follows:

NATURE OF THE ACTION

1. The Commission brings this action against GlobeTel Communications Corp. ("GlobeTel" or the "company") and three former officers for violations that span more than five years and include fraud and the unregistered sale of more than $1.6 million in stock. These violations involved one scheme to fraudulently inflate GlobeTel's revenue and then hide millions of dollars in unpaid bills, and another scheme to sell GlobeTel stock in order to pay some of the individuals who were responsible for the fraudulent inflation of GlobeTel's revenue.

2. The fraud continued from 2004 to 2006 during which time the two individuals, Joseph J. Monterosso ("Monterosso") and Luis E. Vargas ("Vargas"), who ran GlobeTel's wholesale telecommunications ("telecom") business created $119 million in fake invoices that

appeared to reflect transactions between telecom companies and three of GlobeTel's wholly-owned subsidiaries. These invoices falsely created the appearance that GlobeTel's subsidiaries were buying and selling telecom "minutes" at no profit. In reality, GlobeTel and its subsidiaries never bought or sold anything under what was referred to as the "off-net" revenue program.

3. Neither GlobeTel nor its subsidiaries ever paid the invoices supposedly sent by the suppliers, and neither GlobeTel nor its subsidiaries ever received payment from the customers to whom invoices were supposedly sent.

4. As a result of the fake invoices that GlobeTel received, millions of dollars in unpaid bills accumulated on GlobeTel's books each quarter. If GlobeTel had permitted millions of dollars in unpaid accounts receivable and unpaid liabilities to remain on its books, it would have created the appearance that GlobeTel's customers had failed to pay their bills and that GlobeTel had never paid millions of dollars to its suppliers. GlobeTel never had enough cash to pay the "off-net" invoices.

5. GlobeTel never disclosed the unpaid bills accumulating on its books because two GlobeTel executives, Thomas Y. Jiminez ("Jiminez") and Lawrence E. Lynch ("Lynch"), each of whom served as the company's chief financial officer, eliminated the millions of dollars in unpaid bills by making, or causing to be made, entries in GlobeTel's general ledger that set off the receivables attributable to the "off-net" revenue program against the liabilities attributable to that program. The set off of the receivables and liabilities associated with the "off-net" revenue program was made without any basis, was inconsistent with generally accepted accounting principles ("GAAP") and had the effect of concealing the on-going fraud from investors.

Additionally, Lynch and Jiminez were aware of numerous warning signs ("red flags") that alerted them that "off-net" invoices were suspicious.

6. As a direct result of defendants' scheme, GlobeTel issued periodic reports, registration statements and press releases that misled investors because they materially misstated GlobeTel's financial results for at least the period from the third quarter of 2004 through the second quarter of 2006. In order to pay Monterosso and Vargas for the fake invoices they created, GlobeTel sold about $1.6 million in stock through unregistered sales. Timothy J. Huff ("Huff"), GlobeTel's CEO, accomplished these unregistered sales by causing one of GlobeTel's subsidiaries to sell GlobeTel stock and transfer the proceeds to GlobeTel. Those sales violated the securities laws as discussed below.

7. The SEC brings this action based upon violations of the securities law that the defendants committed in furtherance of these schemes. In addition, GlobeTel also violated the securities laws by making false filings or by failing to make required filings from 2002 to 2006, including the failure to account properly for so-called sales of software and networks in 2002 and the failure to properly account for the purchase of private businesses in 2004 and 2005.

JURISDICTION AND VENUE

8. The Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa]. The defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the acts, transactions, practices and courses of business alleged herein.

9. Venue is proper in this District pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa].

ISSUER AND CORPORATE DEFENDANT

10. **GlobeTel Communications Corp.** ("GlobeTel") is a Delaware corporation with a headquarters in Fort Lauderdale, Florida. Until February 2007, its headquarters was located in Pembroke Pines, Florida. At all relevant times, the common stock of GlobeTel was registered pursuant to Section 12 of the Exchange Act. Its shares traded on the American Stock Exchange ("AMEX") from in or about May 2005 until the AMEX delisted the company on October 11, 2006. Before and after trading on the AMEX, GlobeTel's shares were listed over-the-counter on the Pink Sheets.

11. GlobeTel purported to be in a number of businesses from 2002 to 2006, including the development of an airship to broadcast telecommunications to entire cities and the installation of $600 million in wireless networks in Russia.

12. As part of its efforts to join the AMEX, GlobeTel initiated a 1 for 15 reverse stock split on May 23, 2005.

13. GlobeTel's independent auditor from 2002 through 2006 was Dohan & Co., a Miami firm that GlobeTel dismissed on January 4, 2007.

14. On October 6, 2006, GlobeTel issued a press release to announce that its audit committee had authorized an internal investigation concerning accounting issues raised by the Commission. GlobeTel hired a law firm to conduct the investigation, but by about December

2006, GlobeTel had stopped the investigation. GlobeTel later hired an accountant as its interim chief financial officer who resigned in March 2007.

15. On November 15, 2006, GlobeTel announced in a Form 12b-25 filed with the Commission that it would not file its Form 10-Q for the third quarter of 2006 in light of issues raised by the Commission's investigation. GlobeTel has not filed a quarterly or annual report for any period after June 30, 2006.

16. On May 8, 2007, the company announced in a Form 8-K filed with the Commission that it expected to restate its financial statements from 2004 to 2006, including a restatement of revenue related to its wholly-owned subsidiary, Centerline Communications, LLC ("Centerline"). On June 29, 2007, the company announced in a Form 8-K filed with the Commission that it expected the restatement would involve the elimination of about $120 million in revenue and about $9.9 million in intangible assets.

17. On November 2, 2007, the company filed a restated Form 10-KSB for 2004 in which the company reduced its annual revenue by $17.68 million, reduced its assets by $2.778 million, and increased its net loss by $2.778 million. On December 5, 2007, the company filed a restated Form 10-K for 2005 in which the company reduced its annual revenue by $70.99 million, reduced its assets by $9.9 million, and increased its net loss by $9.9 million.

INDIVIDUAL DEFENDANTS

18. **Timothy M. Huff**, 42, has his primary residence in Broward County, Florida. He was GlobeTel's chief executive officer ("CEO") and a director from April 2002 until September 2006, when he became the company's chief technology officer. As CEO, Huff oversaw the

operations of the entire company. Huff left GlobeTel in March 2007, although he continued to function as a consultant to the company.

19. **Thomas Y. Jimenez**, 48, has his primary residence in Broward County, Florida. He was chief financial officer ("CFO") of GlobeTel and its predecessor from October 1999 until April 2006, when he retired. As CFO, he oversaw all accounting functions and GlobeTel's financial reporting, including financial reports included in GlobeTel's filings with the Commission. Jimenez is a CPA licensed in New York, although the license has lapsed. Jimenez signed four quarterly reports and two annual reports filed with the Commission from August 2004 to March 2006.

20. **Lawrence E. Lynch**, 56, has his primary residence in Broward County, Florida. He was chief operating officer ("COO") of GlobeTel from 2004 to March 31, 2006 when he became the company's acting CFO. GlobeTel terminated him in October 2006 while Monterosso was GlobeTel's COO after Lynch complained to the board of directors about Monterosso's claims that GlobeTel was profitable. Lynch has an MBA with a focus in managerial accounting.

21. As COO, Lynch had responsibility for Centerline, including the financial reporting of transactions with vendors and customers. Lynch helped design the financial controls at Centerline and implemented some controls on transactions in which telecom traffic was actually routed through a GlobeTel-controlled telecom switch, which some GlobeTel executives described as "on-net" transactions.

22. As CFO, Lynch oversaw all accounting functions and GlobeTel's financial reporting, including financial reports included in GlobeTel's filings with the Commission. Lynch signed two quarterly reports filed with the Commission in May and August 2006.

ADDITIONAL GLOBETEL OFFICER

23. **Joseph J. Monterosso**, age 52, has his primary residence in Broward County, Florida. In the summer of 2004, Monterosso began working for GlobeTel as a contractor running GlobeTel's Centerline subsidiary, and in about May 2005, was hired as president of Centerline. Throughout this time period, he reported directly to GlobeTel's CEO, supervised Centerline's employees, negotiated all wholesale telecom contracts, and ran the entire wholesale telecom business. In July 2006, Monterosso began serving as GlobeTel's COO, and he served in that position until he was terminated by GlobeTel in May 2007.

PART I – THE "OFF-NET" REVENUE FRAUD

A. IN 2004, GLOBETEL ENTERED AN AGREEMENT WITH MONTEROSSO TO GENERATE ADDITIONAL WHOLESALE TELECOM REVENUE

24. In 2004, GlobeTel wished to expand the volume of telecom traffic Centerline carried and the amount of revenue it generated, and, to that end, Huff entered into negotiations with Monterosso, who had extensive experience in the wholesale telecom business. Monterosso and his brother owned and operated a telecom switch in Los Angeles, California, and Vargas, who was Monterosso's bookkeeper, had started his own telecom company, Carrier Services, Inc. ("CSI"), utilizing Monterosso's switch. Monterosso handled all negotiations for CSI and often held himself out as the head of the company.

25. Wholesale telecom companies make money by connecting people who want to make telephone calls or other electronic transmissions with companies whose networks have access to the location the customers wish to call. Using "switches" that are either large computer arrays or cable connections, wholesale telecom companies pay by the minute for the right to connect telephone calls to other companies' networks and sell that "termination" service to their customers. A wholesale telecom company's profit is based upon the spread between the price paid to the vendors who provide the termination service and the price it charges its customers for access to the termination service.

26. Huff and Monterosso negotiated a "joint venture" agreement between GlobeTel and CSI pursuant to which CSI would operate Centerline. The purpose of this agreement was "to build telecommunications revenue and client base, utilizing each party's network and financial resources . . . ."

27. The agreement between GlobeTel and CSI provided that Centerline was to generate $50 million in revenue per year and be profitable in its first year of operation, in return for which CSI would receive $1 million of GlobeTel's publicly-traded stock. If Centerline generated $50 million in revenue in the second year of operations, CSI would receive an additional $1 million of GlobeTel's stock.

28. Shortly after CSI entered the joint venture agreement with GlobeTel, Monterosso re-negotiated the agreement with Huff to provide that CSI was only required to generate $25 million in profitable revenue for Centerline, which would result in CSI receiving 5 million (333,333 post-split) shares of GlobeTel's publicly-traded stock. There was no provision in the

agreement for compensating either Monterosso or Vargas if the minimum revenue goal of $25 million was not achieved.

29. GlobeTel reported that CSI had achieved the joint venture agreement's $25 million revenue goal in January 2005 and, therefore, was entitled to receive 5 million shares of GlobeTel's publicly-traded stock.

30. In or about March 2005, Huff and Monterosso negotiated another agreement under which CSI would receive one million shares of GlobeTel's restricted stock if it was able to generate $10 million in revenue for Centerline. On May 15, 2005, Monterosso reported to GlobeTel that Centerline had achieved the $10 million revenue goal.

B. MONTEROSSO WAS UNSUCCESSFUL IN GENERATING REVENUE THROUGH "PARTNER AND INCENTIVE AGREEMENTS"

31. GlobeTel's agreement with Monterosso and CSI envisioned that revenue would be generated for Centerline as a result of "Partner and Incentive Agreements" with other wholesale telecom companies. Beginning in about July 2004, Monterosso tried to convince other telecom companies to enter into "Partner Incentive and Financing Agreements" and shift their wholesale telecom traffic to Centerline. Specifically, Monterosso sought to have other telecom companies route their telecom traffic through the switch in Los Angeles that he owned and which he allowed CSI to use.

32. Monterosso did successfully negotiate three "Partner Incentive and Financing Agreements" for Centerline. However, none of these "partners" ever did any "off-net" business with Centerline or any of its subsidiaries.

33. In March 2005, GlobeTel reported that Centerline and its subsidiaries had entered into "Partner Incentive and Financing Agreements" with companies that provided wholesale telecom services "to produce profitable revenues using the Calling Services of the partners for an initial period of two (2) years."

C. THE "OFF-NET" REVENUE PROGRAM

34. Because Centerline was unable to generate sufficient revenue through partner incentive and financing agreements, in or about October 2004, Monterosso, Vargas and GlobeTel executives devised an "off-net" revenue program. The "off-net" program was different from the "Partner Incentive and Financing Agreements" that were part of the original "joint venture" agreement. GlobeTel employees called this revenue "off-net" to distinguish it from "on-net" transmissions that actually passed through GlobeTel's telecom switch in Los Angeles. However, GlobeTel never distinguished between "off-net" and "on-net" revenue in its filings with the Commission or in its press releases.

35. From 2004 to 2006, Monterosso and Vargas, at Monterosso's direction, provided GlobeTel's finance department with hundreds of invoices that purported to show $119 million in "off-net" sales and an approximately equal amount of purchases. The hundreds of "off-net" invoices that GlobeTel's finance department received from Monterosso and Vargas appeared to show transactions between three GlobeTel subsidiaries, Centerline, Volta Communications, LLC ("Volta"), and Lonestar Communications, LLC ("Lonestar"), and five other telecom companies.

36. The "off-net" sales were accompanied by hundreds of invoices supposedly showing "off-net" purchases from vendors, so the overall effect on GlobeTel's net income or profit was generally negligible. However, GlobeTel touted its overall revenue in many press

releases from mid-2004 to mid-2006, including press releases on Sept. 28, 2004, Oct. 13, 2004, March 31, 2005, and May 16, 2005.

37. In order to record revenue, GlobeTel's finance department required documents to substantiate the amount of sales and cost of goods sold. With respect to revenue generated by Centerline, the accountants who worked directly or as consultants for GlobeTel asked Monterosso and Vargas for the invoices sent to customers and received from vendors and for "call detail records" ("CDRs"). CDRs are technical documents that record information, such as the date, length, origin and destination for each telephone call. In this respect, a CDR is similar to a large telephone bill that documents all the telephone calls that are placed through a "switch."

38. Monterosso and Vargas knew that GlobeTel could not record revenue generated by Centerline's "off-net" telecom business without invoices and CDRs to substantiate that Centerline and its wholly owned subsidiaries actually engaged in the telecom transactions that were the basis for the revenue they reported.

D. ALL THE "OFF-NET" REVENUE WAS FICTITIOUS

39. GlobeTel's subsidiaries, Centerline, Volta, and Lonestar, conducted no business as part of these "off-net" transactions. They bought nothing and sold nothing. In fact, Volta and Lonestar never conducted any business at all. Therefore, all of Centerline's "off-net" revenue was fictitious.

40. All the "off-net" invoices Monterosso and Vargas, at Monterosso's direction, created from 2004 to 2006 were false. They were false because they created the false impression that Centerline, Volta and Lonestar were buying and selling "minutes" with other wholesale

telecom companies. In total, these fake invoices appeared to record $119 million in "off-net" revenue.

41. As part of this scheme, Monterosso and Vargas created invoices that appeared to have been generated by two private companies where they did not work, XSTEL and World Communication Carrier Services ("WCCS"). These invoices purported to record sales by those companies to Volta and Lonestar. They also created invoices on Volta and Lonestar letterhead that appeared to record sales to private companies, Mercury Telecom ("Mercury") and Telmetriks. Although Monterosso and Vargas knew who owned XSTEL, Mercury Telecom, WCCS and Telmetriks, they did not provide the owners with copies of the invoices that appeared to be sent by or to their companies.

42. Between September 2004 and June 2006, Monterosso and Vargas also generated false CDRs to support the fictitious $119 million in "off-net" revenue contained in the false invoices. The CDRs were false because they did not record any calls that involved Centerline, Volta or Lonestar even though Monterosso and Vargas held them out as recording the calls listed in the "off-net" invoices.

43. Monterosso and Vargas, at Monterosso's direction, provided the false invoices along with the false CDRs to GlobeTel's accountants, knowing that those accountants would provide them to GlobeTel's auditors. Although the invoices generally covered seven-day periods, it was Vargas' regular practice to provide invoices for extended periods of time, on some occasions not until after, or near, the end of the quarter.

44. Between mid-2004 and mid-2006, Monterosso and Vargas, at Monterosso's direction, submitted invoices to GlobeTel that gave the false appearance that Centerline bought

telecom "minutes" worth about $34.31 million from CSI and sold an equivalent amount of "minutes" to CSI.

45. Between mid-2004 and mid-2006, Monterosso and Vargas, at Monterosso's direction, submitted invoices to GlobeTel that gave the appearance that Volta bought telecom "minutes" worth about $30.3 million from WCCS and sold an equivalent amount of telecom "minutes" to Mercury.

46. Between mid-2004 and mid-2006, Monterosso and Vargas, at Monterosso's direction, submitted invoices to GlobeTel that gave the false appearance that Lonestar bought telecom "minutes" worth about $55.15 million from XSTEL and sold an equivalent amount of telecom "minutes" to Telmetriks.

E. THE SET OFF OF ACCOUNTS RECEIVABLE AND LIABILITIES RELATED TO THE "OFF-NET" REVENUE PROGRAM

47. Jimenez and Lynch made or caused to be made entries in GlobeTel's general ledger based on the "off-net" invoices provided by Monterosso and Vargas, at Monterosso's direction, that caused GlobeTel to record and report about $119 million in revenue and cost of goods sold. They did this despite their knowledge of the red flags discussed below.

48. Jimenez, Lynch and their employees in GlobeTel's finance department used the fake "off-net" invoices that appeared to have been issued by Centerline, Volta and Lonestar to their customers to record revenue and the fake invoices that appeared to have been issued to Centerline, Volta and Lonestar from their vendors to record the cost of goods sold in GlobeTel's books. They also used the fake invoices to enter the amount of the sale or purchase and the name of the company that bought from or sold to GlobeTel's subsidiaries in GlobeTel's books.

49. When GlobeTel's finance department employees recorded the revenue on the company's books, they also recorded an equivalent amount of accounts receivable to reflect money owed to GlobeTel's subsidiaries by their customers. When GlobeTel's finance department employees recorded the cost of goods sold on the company's books, they also recorded an equivalent liability to reflect money owed by GlobeTel's subsidiaries to their suppliers. These entries were standard accounting in accordance with GAAP.

50. Because the "off-net" invoices were fake, GlobeTel's subsidiaries did not pay their supposed suppliers CSI, WCCS and XSTEL, and their supposed customers CSI, Mercury and Telmetriks did not pay GlobeTel's subsidiaries. Consequently, at the end of every quarter between mid-2004 and mid-2006, GlobeTel's books reflected millions of dollars in accounts receivable and an equal amount of liabilities.

51. If GlobeTel had reported that it had millions of dollars in unpaid accounts receivable and unpaid liabilities on its books, it would have created the appearance that GlobeTel's customers had failed to pay their bills and that GlobeTel had never paid millions of dollars to its suppliers. GlobeTel never had enough cash to pay the liabilities that it recorded as a result of the "off-net" invoices.

52. From in or about October 2004 until each man left the company, Jimenez and Lynch made, or caused to be made, entries in GlobeTel's general ledger that set off accounts receivable attributable to the "off-net" revenue program against liabilities attributable to the "off-net" revenue program. By making the off-setting entries at or after the end of each quarter, Jimenez and Lynch caused GlobeTel to report relatively steady accounts receivables and liabilities – never exceeding $2.58 million and $9.9 million respectively.

53. There was no contract with or correspondence from Centerline's "off-net" customers or vendors, or any other basis, that justified Jiminez's and Lynch set off of accounts receivable attributable to the "off-net" revenue program against liabilities attributable to the "off-net" revenue program.

54. In addition, the set off of entries related to the Volta and Lonestar transactions was inconsistent with Generally Accepted Accounting Principles ("GAAP"), which are standards, rules and conventions that are established by the Financial Accounting Standards Board and other related bodies. Under Commission regulations, financial statements that are filed with the Commission must be prepared in conformity with GAAP.

55. GlobeTel was required to comply with Accounting Principles Board Opinion No. 10 (APB 10), the GAAP accounting standard pertaining to the set off of accounts receivable against liabilities. APB 10 provides that assets, such as accounts receivable, may only be set off against liabilities when four conditions are met:

a. Each of two parties owes the other determinable amounts;
b. The reporting party has the right to set off the amount owed with the amount owed by the other party;
c. The reporting party intends to set off; and
d. The right of set off is enforceable at law.

56. From in or about October 2004 until in or about September 2006, GlobeTel set off a total of approximately $119 million in "off-net" accounts receivable against approximately $119 million in "off-net" liabilities. About $85 million of the off-setting entries related to the transactions supposedly done by Volta and Lonestar. Jimenez and Lynch relied upon the "off-net" invoices to account for those transactions. Those invoices indicated that the transactions involved three parties: a GlobeTel subsidiary (Volta or Lonestar); its supposed customer and its

supposed vendor. The off-setting entries that Lynch and Jiminez made or caused to be made involved setting off money Volta allegedly owed WCCS against money Volta was allegedly owed by Mercury. The off-setting entries also included setting off money Lonestar allegedly owed XSTEL against money Lonestar was allegedly owed by Telmetriks.

57. The set off of entries related to the "off-net" transactions of Volta and Lonestar was inconsistent with GAAP because Jiminez and Lynch had previously recorded or caused GlobeTel to record the "off-net" invoices as bona fide transactions; GlobeTel's subsidiaries did not have a legally enforceable right of set-off; and the debts involved three parties, not two. If Jiminez and Lynch had applied GAAP, as stated in APB 10 and FASB Interpretation No. 39, to the Volta and Lonestar transactions reported to them by Monterosso and Vargas, the amount of accounts receivable and liabilities GlobeTel would have reported would have each exceeded $85 million by August 2006. The understatements for each reporting period were cumulative because no one ever paid the balances due. Consequently, the understatement in each quarter was the sum of all past understatements plus the alleged new revenue from Lonestar and Volta in that quarter.

58. Lynch personally made the off-setting entries during 2004, and from 2005 until he was terminated, he directed finance department employees to make them. Lynch knew that, with respect to the "off-net" program, Centerline, Volta and Lonestar did not pay their vendors and did not get paid by their customers. Lynch discussed the entries relating to the "off-net" program with Jimenez, who was responsible for GlobeTel's accounting as its CFO until March 31, 2006. However, neither Jimenez nor Lynch discussed the off-setting entries with GlobeTel's auditors or with an accounting consultant who helped draft GlobeTel's public filings.

59. In the summer of 2005, GlobeTel hired a controller, who reported to Jimenez. The controller discussed the off-setting entries with both Lynch and Jiminez. At some point, while he was still employed at GlobeTel, Lynch told the company's controller that they needed to set off the liabilities and accounts receivables associated with the "off-net" revenue because GlobeTel was never going to receive payments. Lynch and Jimenez told the controller that the off-setting entries were consistent with industry practice. Upon information and belief, the entries were not consistent with industry practice or GAAP.

60. Because of actions by Jimenez and Lynch, GlobeTel never disclosed that neither its subsidiaries nor its subsidiaries' alleged customers were paying the millions of dollars in bills associated with the "off-net" transactions. Therefore, the set off of accounts receivable against liabilities concealed from investors the existence of unpaid bills.

61. Jimenez and Lynch knew or were reckless in not knowing that the setting off of liabilities against accounts receivable attributable to the "off-net" revenue program was improper because there was no basis for the set offs and because it was inconsistent with GAAP. Jimenez and Lynch knew that the off-setting entries in the general ledger would cause GlobeTel to report lower accounts receivables and liabilities in periodic reports and registration statements because it is general practice to use entries in the general ledger to create the financial statements in those reports and statements.

62. Upon information and belief, the following chart depicts the magnitude of the set offs made or caused to be made by Jiminez and Lynch and thus the magnitude of the unpaid bills hidden from investors in GlobeTel's filings with the Commission. The chart also depicts the revenue GlobeTel reported each quarter and the CFO who signed the filing:

Period	Date of filing with the Commission	CFO who signed the filing	Reported revenue ($000,000)	Current quarter's set offs from Volta and Lonestar ($000,000)	Cumulative total of set offs from Volta and Lonestar ($000,000)
Q3 2004	Nov. 15, 2004	Jimenez	$7.50	$2.21	$2.21
Q4 2004	Mar. 31, 2005	Jimenez	$14.48	$8.74	$10.95
Q1 2005	May 16, 2005	Jimenez	$18.01	$10.58	$21.53
Q2 2005	Aug. 12, 2005	Jimenez	$19.70	$11.28	$32.81
Q3 2005	Nov. 14, 2005	Jimenez	$22.29	$13.51	$46.32
Q4 2004	Mar. 31, 2006	Jimenez	$21.13	$13.39	$59.61
Q1 2006	May 12, 2006	Lynch	$22.94	$13.52	$73.13
Q2 2006	Aug. 14, 2006	Lynch	$21.62	$12.25	$85.38

F. THROUGHOUT THE "OFF-NET" PROGRAM, GLOBETEL'S EXECUTIVES KNEW OF IRREGULARITIES IN THE "OFF-NET" INVOICES AND CDRS

63. During the existence of the "off-net" revenue program Jimenez and Lynch were aware – at a minimum – of red flags that alerted them that the invoices submitted by Monterosso and Vargas did not represent actual telecom business conducted by Centerline.

64. Jimenez and Lynch made and approved the journal entries that recorded revenue and the journal entries that concealed unpaid bills, as discussed above, even while they were aware of the following red flags concerning the "off-net" revenue program.

1. GlobeTel's Subsidiaries Did Not Pay Their "Off-Net" Vendors Or Get Paid By Their "Off-Net" Customers

65. Jimenez and Lynch were responsible for monitoring collections and payments to vendors as well as managing GlobeTel's cash. They knew that GlobeTel's subsidiaries did not pay their "off-net" vendors or get paid by their "off-net" customers, and they knew that no one complained when they unilaterally wrote off millions of dollars in liabilities that GlobeTel's subsidiaries supposedly owed its vendors.

66. The failure of GlobeTel's subsidiaries to pay their vendors was extremely unusual in the wholesale telecom industry where companies, including GlobeTel and its subsidiaries, normally pre-pay for traffic or sign credit contracts. Although GlobeTel and its subsidiaries either pre-paid vendors or signed credit contracts in its "on-net" telecom business, they did neither in their "off-net" business.

2. In At Least One Quarter, Monterosso And Vargas Created Invoices And Revenues After The Quarter Had Closed

67. As part of the deal negotiated with GlobeTel in March 2005, Monterosso and Vargas were to deliver $5 million in telecom revenue in the first quarter of 2005, which ended March 31, 2005.

68. GAAP requires that revenue be recognized when earned. Consequently, GlobeTel would violate GAAP if it recorded revenue in its first quarter based upon business conducted in April or May 2005.

69. Between April 5 and 21, 2005, Monterosso and Vargas sent multiple emails and reports to Huff and Lynch stating they would deliver $5 million of revenue for the completed first quarter.

70. On or about April 27, 2005, a GlobeTel executive asked Monterosso whether he could provide an additional $1.6 million worth of revenue for GlobeTel's first quarter. The GlobeTel executive who requested the extra revenue said that he wanted the $1.6 million so GlobeTel could report what he believed were "proper revenue growth scales," because he believed that too much revenue was going to fall into the second quarter.

71. On or about April 27, 2005, Vargas sent Lynch and Jimenez a spreadsheet showing weekly revenue amounts purportedly from early February through March – totaling \$5.03 million under the heading "Original Revenue-Actual" and an additional \$1.6 million under the heading "Additional \$1.6 million."

72. In early May 2005, Monterosso notified Huff, Jimenez and Lynch that he would deliver extra revenue for the first quarter by creating invoices based upon CDRs that he had received from another carrier.

73. In May 2005, Vargas sent Lynch a set of invoices that appeared to report purchases and sales from early February to late March 2005. These additional invoices added up to about \$1.6 million.

74. GlobeTel recorded an additional \$1.6 million in revenue in the first quarter of 2005, based upon invoices GlobeTel requested in April 2005 that it did not receive until May 2005, even though the invoices purported to report purchases and sales in February and March 2005. The \$1.6 million accounted for almost nine percent of GlobeTel's revenue for the first quarter of 2005.

3. Monterosso And Vargas Provided "Off-Net" Invoices At The End Of Each Quarter

75. Jimenez and Lynch knew that Monterosso and Vargas usually provided GlobeTel off-net invoices for extended periods of time, on some occasions not until after, or near, the end of the quarter. In contrast, invoices related to "on-net" telecom transactions generally were created and provided to GlobeTel by Monterosso and Vargas within days of the transmission to be billed.

76. In August 2005, GlobeTel's controller asked Vargas for an estimate of off-net revenues to date for the third quarter of 2005. Vargas responded to the request by sending Lynch and the controller a list of revenue for the prior four weeks, stating that his list "does not take into account should additional revenue be requested in which case these amounts will definitely change."

77. In response to the August 2005 request for an estimate of off-net revenue, Monterosso sent an email to Jimenez, Lynch and the controller, suggesting that GlobeTel delay its requests for vendor invoices in case it wanted to add more revenue:

> If we ask the vendors to provide exact invoices we will not be able to add to them later in the event that additional off-net revenue is needed. In the past we have provided invoices and CDRs at the end of the quarter. I am concerned that we will back ourselves into a corner before the end of the quarter.

4. Monterosso Said He Was Paying Other Companies For Their Invoices And CDRs

78. Monterosso repeatedly told Huff, Jiminez and Lynch that he was paying other companies to obtain invoices and CDRs – as opposed to paying them to transmit telecom communications. On October 4, 2004, Monterosso told Huff, Jimenez and Lynch that he had "assist[ed] the quarter's revenues" by obtaining invoices from a California businessman, Ron Hay: "Ron Hay was gracious enough to let me use his invoices and customers the past few weeks to assist in the quarter's revenues."

79. In July 2005, after Monterosso had become president of Centerline, Monterosso asked Jimenez about getting extra compensation for revenue that he provided. When Jimenez recommended against asking Huff for more money, Monterosso reminded Jimenez that he was "paying cash for the use of the customers and CDRs."

5. <u>The "Off-Net" Transactions Occurred Even While The Los Angeles Switch Was Disassembled And Being Moved to a New Location</u>

80. Jimenez and Lynch knew that GlobeTel shut down the Los Angeles telecom switch near the end of 2004 to move it to a new building and that it did not become operational again until about June 2005. They also knew that no telecom traffic was run on the Los Angeles switch during the months that it took to disassemble and move the computer and other equipment. During this same time period, Monterosso and Vargas reported "off-net" revenue that Jiminez and Lynch recorded for GlobeTel.

6. <u>GlobeTel Treated The "Off-Net" Revenue Separately From Its Other Business</u>

81. Throughout 2004 to 2006, the "off-net" revenue was discussed in separate reports sent to GlobeTel executives.

82. "Off-net" revenue was normally not recorded until after the end of a reporting period.

83. "Off-net" transactions generally involved no profit because identical revenue and cost of goods sold associated with these transactions were reported to GlobeTel.

G. <u>GLOBETEL FALSELY CLAIMED THAT REVENUE WAS CREATED BY "PARTNER" AGREEMENTS AND FAILED TO DISCLOSE ITS SIGNIFICANT CUSTOMERS AND RELATED-PARTY TRANSACTIONS</u>

84. As the "off-net" revenues rose, GlobeTel's filings with the Commission explained the source of the revenue was "partner" agreements with other telecom companies. In a Form 10-KSB filed on March 31, 2005, and in a Form 10-K filed on March 31, 2006, GlobeTel explained that Centerline's partners provided profitable revenue using "a proprietary call

processing platform, technologies, software and other equipment." Both filings were signed by Huff and Jiminez.

85. GlobeTel's description of the deals that allegedly created revenue for Centerline were similar to the "partnership" agreements that Monterosso had attempted, with only limited success, to get other companies to sign when he first started working with GlobeTel in 2004. However, GlobeTel was aware that no one ever did any business with GlobeTel's subsidiaries under any of those partnership agreements. GlobeTel implemented the "off-net" program after Monterosso's industry contacts rejected the partnership proposals. In the Form 10-K filed on March 31, 2006, GlobeTel acknowledged that all Centerline's "partner" agreements were terminated in February 2005.

86. Centerline's subsidiaries had no contract with Mercury, WCCS, XSTEL or Telmetriks, and Centerline had no contract with CSI for the purchase and sale of telecom minutes under the "off-net" program.

87. None of GlobeTel's filings disclosed that: the source of the bulk of GlobeTel's revenue was the "off-net revenue" program; Monterosso was paying for invoices and CDRs; or that Monterosso was creating some revenue after the end of a quarter. Further, none of the filings disclosed that GlobeTel was setting off accounts receivable related to the "off-net" program owed to its subsidiaries against liabilities related to the "off-net" program that its subsidiaries owed to their suppliers.

88. In addition, GlobeTel's disclosures never identified Centerline's "off-net" customers or its "off-net" vendors, even though those five companies accounted for the majority of GlobeTel's revenue in 2004 and 2005. CSI purported to have done millions of dollars in off-

net business with Centerline even while CSI's owner, Vargas, and one of its executives, Monterosso, were agents and employees running Centerline.

89. Commission regulations required GlobeTel to discuss its significant customers in its annual reports. GlobeTel failed to make those required disclosures with respect to the customers involved in the "off-net" revenue program reported in its Form 10-KSB filed on March 31, 2005, and reported in its Form 10-K filed on March 31, 2006. Jiminez signed both filings.

90. GAAP required GlobeTel to disclose related-party transactions in its annual reports. GlobeTel failed to make those required discloses in its Form 10-K filed on March 31, 2006, when it failed to disclose the status of Monterosso and Vargas as the principals of one of Centerline's vendors and customers at the same time they served as agents and employees of Centerline.

H. GLOBETEL'S MATERIALLY FALSE AND MISLEADING STATEMENTS AND DISCLOSURES

91. As a direct result of the fraudulent scheme to create fictitious telecom revenue, GlobeTel overstated its revenue during fiscal years 2004 through 2006 by approximately $119 million – about 80 percent of all revenue recognized by GlobeTel during that period. Consequently, GlobeTel overstated its revenue in its periodic filings and registration statements filed with the Commission and in press releases.

92. Monterosso knew or was reckless in not knowing that the invoices and CDRs were false and that the fictitious "off-net" purchases and sales he and Vargas reported to GlobeTel in the false invoices and CDRs would be recorded by GlobeTel in its books and

records and incorporated into the revenue reported by GlobeTel in periodic reports, registration statements and press releases.

93. Specifically, Monterosso knew that GlobeTel's accountants would rely upon the invoices to record the revenue and would rely upon the CDRs to confirm that the invoices were true. When GlobeTel's accountants requested the documents from Monterosso, they told him that the auditors had requested the CDRs to compare to the invoices.

94. At the same time they knew that Monterosso's invoices were suspicious, Jimenez and Lynch made, or caused to be made, entries in GlobeTel's general ledger that recorded the revenue based upon the "off-net" invoices. They then made, or caused to be made, entries in GlobeTel's general ledger that set off the accounts receivable against liabilities. As a result, GlobeTel did not disclose that no one paid the invoices associated with the "off-net" revenue.

1. <u>Globetel Overstated Its Revenue In Eight Periodic Filings</u>

95. As a direct result of the fraudulent scheme to create and report fictitious revenue for Centerline, Volta and Lonestar, GlobeTel's annual reports for fiscal years 2004 and 2005 and its quarterly reports for the fiscal quarters ended September 30, 2004, through June 30, 2006, contained materially false and misleading statements and disclosures.

96. Upon information and belief, the following chart describes the annual and quarterly reports filed by GlobeTel that contained false and misleading statements concerning the amount of GlobeTel's total revenue. The chart also describes the total revenue GlobeTel reported, the amount of fictitious "off-net" revenue included in the total revenue reported, and the percentage of GlobeTel's total revenue represented by the fictitious "off-net" revenue:

Period	Date of filing with the Commission	Total revenue GlobeTel reported	Total fictitious "off-net" revenue	Percentage of total revenue created by off-net revenue
Q3 2004 Form 10-QSB	Nov. 15, 2004	$7.50 million	$3.27 million	44%
FY 2004 Form 10-KSB	**Mar. 31, 2005**	**$28.99 million**	**$16.82 million**	**58%**
Q1 2005 Form 10-QSB	May 16, 2005	$18.01 million	$13.27 million	74%
Q2 2005 Form 10-Q	Aug. 12, 2005	$19.70 million	$17.03 million	86%
Q3 2005 Form 10-Q	Nov. 14, 2005	$22.29 million	$20.24 million	91%
FY 2005 Form 10-K	**Mar. 31, 2006**	**$81.14 million**	**$63.85 million**	**79%**
Q1 2006 Form 10-Q	May 12, 2006	$22.29 million	$20.50 million	92%
Q2 2006 Form 10-Q	Aug. 14, 2006	$21.62 million	$18.56 million	86%
Cumulative Eight Quarters		**$147.06 million**	**$119.75 million**	**81%**

97. On June 9, 2006, GlobeTel filed amended versions of its Form 10-KSB for 2004 and its Form 10-K for 2005. Both filings contained the statements of revenue contained in the originally filed statements and, therefore, were materially false and misleading because they included the fictitious "off-net" revenue.

98. Upon information and belief, GlobeTel overstated its revenues in every filing, including an overstatement of 138 percent in its 2004 annual report and an overstatement of 369 percent in its 2005 annual report. During the entire eight quarters including the first half of 2006, GlobeTel overstated its revenue by 439 percent.

2. <u>Globetel Overstated Its Revenue In Press Releases</u>

99. GlobeTel never made any significant profit from Centerline's wholesale telecom business, but its press releases regularly touted the revenue Centerline had generated and predicted record future revenue. Between September 2004 and September 2006, GlobeTel issued numerous press releases concerning its actual revenue and projected revenue. These press releases incorporated the fictitious "off-net" revenue created by Monterosso and Vargas.

100. On or about September 28, 2004, GlobeTel issued a press release that stated:

> GlobeTel Communication Corp. (OTCBB:GTEL), today released expected revenues for the third quarter ending September 30, 2004 as well as a statement of expectations for the fourth quarter.
>
> GTEL management is pleased to announce that it is expected to report that third quarter 2004 revenues will be in excess of $5,000,000 and that based on the third quarter performance, GTEL will be on a $20,000,000 annual run rate. Annual run rate is revenue at the current rate projected over a 12-month period from that time forward.
>
> Management believes that, based on product acceptance, accelerated product marketing and other positive business developments, GTEL should be generating revenues of $4 million to $5 million per month by the end of the fourth quarter ending December 31, 2004, producing an annual run rate of $48,000,000 to $60,000,000. These revenue numbers are consistent with management's previous statements and revenue forecasts and objectives.

101. The $5 million in quarterly revenue GlobeTel reported in the September 28, 2004, press release for the third quarter of 2004 was overstated by about $3.27 million because those figures included the fictitious "off-net" revenue created by Monterosso and Vargas.

102. The "annual run rate" GlobeTel reported in the September 28, 2004, press release was also false because it also included the fictitious "off-net" revenue created by Monterosso and Vargas.

103. On or about October 13, 2004, GlobeTel issued a press release that stated:

> GlobeTel Communications Corp. (OTCBB:GTEL), today released guidance on revenues in the fourth quarter which will end December 31, 2004.
>
> GTEL management announced that revenue in the beginning of the fourth quarter has been exceeding $900,000 per week. The company expects the traffic to average $4,000,000 to $5,000,000 per month for the fourth quarter 2004. If the company is successful in continuing this pattern, fourth quarter revenues will exceed $12,000,000, meeting expectations as had been announced in the prior month.

104. The "$900,000 per week" in revenue GlobeTel reported in the October 13, 2004, press release was materially overstated because it included the fictitious "off-net" revenue created by Monterosso and Vargas.

105. On or about March 31, 2005, GlobeTel issued a press release that stated: "GlobeTel Communications Corp. (OTCBB:GTEL), with its filing of its SEC Form 10-KSB, today announced that the Company had revenues of $28,996,213 in fiscal year 2004 resulting in a net loss of $13,166,869."

106. As described above, GlobeTel also filed its annual report on Form 10-KSB on or about March 31, 2005. In that report, GlobeTel reported about $29.99 million in revenue for 2004, which included about $14.48 million in revenue for the fourth quarter of 2004.

107. The annual revenue GlobeTel reported in the March 31, 2005, press release was materially overstated by about $16.82 million for 2004 and the revenue it reported for the fourth quarter of 2004 was overstated by about $13.54 million because those figures included the fictitious "off-net" revenue created by Monterosso and Vargas.