MICROTEL INTERNATIONAL INC
Form 10-Q
May 14, 2004

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U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended MARCH 31, 2004 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 1-10346

MICROTEL INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	77-0226211
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

9485 HAVEN AVENUE, SUITE 100
RANCHO CUCAMONGA, CALIFORNIA 91730
(Address of Principal Executive Offices) (Zip Code)

(909) 987-9220
(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE
(Former Name, Former Address And Former Fiscal Year, if Changed Since Last Report)

Indicate by check 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes |X| No | |

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

As of May 5, 2004, there were 23,481,866 shares of the issuer's common stock, $0.0033 par value, outstanding.

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PART I
FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MICROTEL INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2004 AND DECEMBER 31, 2003
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

ASSETS	March 31, 2004	December 31, 2003
Current assets:	(unaudited)	
Cash and cash equivalents	$ 1,076	$ 1,174
Accounts receivable, net of allowance for doubtful accounts of $153 and $161, respectively	4,712	5,393
Inventories	6,577	6,683
Prepaid and other current assets	538	555
Total current assets	12,903	13,805
Property, plant and equipment, net	401	322
Goodwill, net of accumulated amortization of $1,075 and $1,050, respectively	2,475	2,447
Other assets	561	595
	$ 16,340	$ 17,169
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 2,320	$ 2,882
Current portion of long-term debt	285	316
Accounts payable	1,432	1,637
Accrued expenses	3,180	3,274
Total current liabilities	7,217	8,109
Long-term debt, less current portion	842	819
Other liabilities	296	325
Total liabilities	$ 8,355	$ 9,253
Stockholders' equity:		
Preferred stock, authorized 10,000,000 shares; Convertible Series B Preferred Stock, $0.01 par value; issued and outstanding 200 shares and 1,000 shares, respectively (aggregate liquidation preferences of $1 and $4, respectively)	1	4
Common stock, $0.0033 par value. Authorized 50,000,000 shares; issued and outstanding 23,482,000 and 23,476,000, respectively	77	77
Additional paid-in capital	25,617	25,613
Accumulated deficit	(17,816)	(17,886)
Accumulated other comprehensive income	106	108
Total stockholders' equity	7,985	7,916
	$ 16,340	$ 17,169

See accompanying notes to condensed consolidated financial statements.

MICROTEL INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED)

	Three months ended March 31, 2004	2003
	(in thousands, except per share amounts)	
Net sales	$ 6,192	$ 5,668
Cost of sales	3,445	3,527
Gross profit	2,747	2,141
Operating expenses:		
Selling, general and administrative	2,217	1,698
Engineering and product development	283	221
Income from operations	247	222
Other expense:		
Interest expense	(96)	(96)
Other expense	(6)	(14)
Income before income taxes	145	112
Income tax expense	75	68
Net income	$ 70	$ 44
Earnings per share:		
Net income		
Basic	$ 0.00	$ 0.00
Diluted	$ 0.00	$ 0.00

See accompanying notes to condensed consolidated financial statements.

MICROTEL INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED)

	Three Months Ended March 31 2004	2003
	(In Thousands)	
Net income	$ 70	$ 44
Other comprehensive income (loss):		
Foreign currency translation adjustment	(2)	28
Comprehensive Income	$ 68	$ 72

See accompanying notes to condensed
consolidated financial statements.

MICROTEL INTERNATIONAL, INC. AND SUBSIDIARIES
THREE MONTHS ENDED MARCH 31, 2004
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(IN THOUSANDS)

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	A
	Shares	Amount	Shares	Amount		
Balance at December 31, 2003	1	$ 4	23,476	$ 77	$ 25,613	
Preferred Series B conversions		(3)	4		3	
Stock option exercise			2		1	
Foreign currency translation adjustment						
Net profit						
Balance at March 31, 2004	1	$ 1	23,482	$ 77	$ 25,617	

See accompanying notes to condensed
consolidated financial statements.

MICROTEL INTERNATIONAL, INC. AND SUBSIDIARIES
THREE MONTHS ENDED MARCH 31, 2004 AND 2003
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months
	2004
	(in tho
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 70
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	59
Provision for doubtful account	--
Provision for obsolete/slow moving inventory	173
Changes in operating assets and liabilities:	
Accounts receivable	681
Inventories	(62)

Other assets	39
Accounts payable and accrued expenses	(328)
Cash provided by operating activities	632
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net purchases of property, plant and equipment	(96)
Cash (used in) investing activities	(96)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net (decrease) in notes payable and long-term debt	(569)
Cash (used in) financing activities	(569)
Effect of exchange rate changes on cash	(65)
Net (decrease) in cash and cash equivalents	(98)
Cash and cash equivalents at beginning of period	1,174
Cash and cash equivalents at end of period	$ 1,076
Cash paid for:	
Income tax	$ 5
Interest	$ 70

See accompanying notes to condensed consolidated financial statements.

MICROTEL INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004 AND 2003
(UNAUDITED)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS

MicroTel International Inc. (the "Company") operates through three wholly-owned subsidiaries: CXR Telcom Corporation ("CXR Telcom"), CXR Anderson Jacobson, formerly CXR, SA ("CXR-AJ") and XET Corporation ("XET"). XET and its subsidiaries design, develop, manufacture and market digital and rotary switches, power supplies and subsystem assemblies. CXR Telcom and CXR-AJ design, develop, manufacture and market network access and transmission products and communications test equipment. The Company conducts its operations out of various facilities in the U.S., France, England and Japan and organizes itself in two product line segments: electronic components and communications equipment.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and therefore do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated financial statements do, however, reflect all adjustments, consisting of only normal recurring adjustments, which are, in the opinion of management, necessary to state fairly the financial position as of March 31, 2004 and December 31, 2003 and the results of operations and cash flows for the related interim periods ended March 31, 2004 and 2003. However, these results are not necessarily indicative of results for any other interim period or for the year. It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the Company's audited consolidated financial statements included in its 2003 annual report on Form 10-K.

STOCK-BASED COMPENSATION

The Company applies Accounting Principles Bulletin ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock-based compensation plans. Accordingly, no compensation cost is recognized for its employee stock option plans unless the exercise price of options granted is less than fair market value on the date of grant. The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure."

The following table sets forth the net income, net income available for common stockholders and earnings per share amounts for the periods presented as if the Company had elected the fair value method of accounting for stock options for all periods presented:

MICROTEL INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004 AND 2003
(UNAUDITED)

	Three months ended March 31	
	2004	200
Net income:		
As reported	$ 70,000	$ 44
Add: Stock based compensation expense included in reported net income, net of related tax effect	--	
Deduct: Stock-based compensation expense determined under the fair value-based method	(15,000)	(13

Pro forma	$ 55,000	$ 31
Basic earnings per share:		
As reported	$ 0.00	$
Add: Stock based compensation expense included in reported net income, net of related tax effect	--	
Deduct: Stock-based compensation expense determined under the fair value-based method	--	
Pro forma	$ 0.00	$
Diluted earnings per share:		
As reported	$ 0.00	$
Add: Stock based compensation expense included in reported net income, net of related tax effect	--	
Deduct: Stock-based compensation expensed determined under the fair value-based method	--	
Pro forma	$ 0.00	$

The above calculations include the effects of all grants in the periods presented. Because options often vest over several years and additional awards are made each year, the results shown above may not be representative of the effects on net income or loss in future periods. The calculations were based on a Black-Scholes pricing model with the following assumptions: no dividend yield; expected volatility of 87% to 92%; risk-free interest rate of 3%; expected lives of 7 years. The additional stock-based employee compensation expense determined under the fair value method totaled $15 and $13 for the three months ended March 31, 2004 and 2003, respectively.

MICROTEL INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004 AND 2003
(UNAUDITED)

(2) EARNINGS PER SHARE

The following table illustrates the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three mo ended Mar
	2004
	(in thousands, ex amoun
NUMERATOR:	
Net income	$ 70

Less: accretion of the excess of the redemption value over the carrying value of redeemable preferred stock	--
Income attributable to common stockholders	$ 70
DENOMINATOR:	
Weighted average number of common shares outstanding during the period	23,480
Incremental shares from assumed conversions of warrants, options and preferred stock	915
Diluted weighted average number of outstanding shares	24,395
Basic earnings per share	$ 0.00
Diluted earnings per share	$ 0.00

The computation of diluted loss per share for the three month period ended March 31, 2004 excludes the effect of incremental common shares attributable to the exercise of outstanding common stock options and warrants because their effect was antidilutive due to losses incurred by the Company or such instruments had exercise prices greater than the average market price of the common shares during the periods presented.

The following options and warrants were excluded from the computation of diluted earnings per share as a result of the exercise prices exceeding the average market prices of the underlying shares of common stock.

	Three months ended March 31,	
	2004	2003
Options and warrants to purchase shares of common stock	693,000	308,000
Exercise prices	$1.89 - $3.44	$0.39 - $3.44

MICROTEL INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004 AND 2003
(UNAUDITED)

(3) INVENTORIES

Inventories consist of the following:

	March 31, 2004	December 31, 2003
Raw materials	$ 3,186,000	$ 3,230,000
Work-in-process	1,812,000	1,963,000
Finished goods	1,579,000	1,490,000
	$ 6,577,000	$ 6,683,000

(4) REPORTABLE SEGMENTS

The Company has two reportable segments: electronic components and communications equipment. The electronic components segment operates in the U.S., European and Asian markets and designs, manufactures and markets digital switches and power supplies. The communications equipment segment operates principally in the U.S. and European markets and designs, manufactures and distributes voice and data transmission and networking equipment and communications test instruments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based upon profit or loss from operations before income taxes exclusive of nonrecurring gains and losses. The Company accounts for intersegment sales at prices negotiated between the individual segments.

The Company's reportable segments are comprised of operating entities offering the same or similar products to similar customers. Each segment is managed separately because each business has different customers and different design and manufacturing and marketing strategies.

There were no differences in the basis of segmentation or in the basis of measurement of segment profit or loss from the amounts disclosed in the Company's audited consolidated financial statements included in its 2003 annual report on Form 10-K. Selected financial data for each of the Company's operating segments is shown below:

	Three months ended March 31, 2004	Three months ended March 31, 2003
Sales to external customers:		
Electronic Components	$ 3,905,000	$ 3,471,000
Communications Equipment	2,287,000	2,197,000
	$ 6,192,000	$ 5,668,000
Segment pretax profits (losses):		
Electronic Components	$ 783,000	$ 674,000
Communications Equipment	(11,000)	(132,000)
	$ 772,000	$ 542,000

MICROTEL INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2004 AND 2003
(UNAUDITED)

	March 31, 2004	December 31, 2003
Segment assets:		
Electronic Components	$ 8,716,000	$ 9,466,000
Communications Equipment	7,134,000	6,969,000
	$15,850,000	$16,435,000

The following is a reconciliation of the reportable segment income and assets to the Company's consolidated totals:

	Three months ended March 31, 2004	Three months ended March 31, 2003
Total income for reportable segments	$ 772,000	$ 542,000
Unallocated amounts:		
Unallocated general corporate expenses	(627,000)	(430,000)
Consolidated income (loss) before income taxes	$ 145,000	$ 112,000

	March 31, 2004	December 31, 2003
Assets		
Total assets for reportable segments	$15,850,000	$16,437,000
Other assets	490,000	732,000
Total consolidated assets	$16,340,000	$17,169,000

(5) NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements are discussed under the heading "Impacts of New Accounting Pronouncements" on page 10 of this report.

(6) INCOME TAXES

The effective tax rate for the three-month period ended March 31, 2004 is different than the 34% U.S. statutory rate primarily because of foreign taxes on foreign source income that cannot be offset by domestic tax loss carryforwards.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and notes to financial statements included elsewhere in this document. This report and our condensed consolidated financial statements and notes to financial statements contain forward-looking statements, which generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance and our current beliefs regarding revenues we might earn if we are successful in implementing our business strategies. The forward-looking statements and associated risks may include, relate to or be qualified by other important factors, including, without limitation:

- the projected growth or contraction in the electronic components and communications equipment markets in which we operate;
- our business strategy for expanding, maintaining or contracting our presence in these markets;
- anticipated trends in our financial condition and results of operations; and
- our ability to distinguish ourselves from our current and future competitors.

We do not undertake to update, revise or correct any forward-looking statements.

The information contained in this document is not a complete description of our business or the risks associated with an investment in our common stock. Before deciding to buy or maintain a position in our common stock, you should carefully review and consider the various disclosures we made in this report, and in our other materials filed with the Securities and Exchange Commission that discuss our business in greater detail and that disclose various risks, uncertainties and other factors that may affect our business, results of operations or financial condition. In particular, you should review our annual report on Form 10-K for the year ended December 31, 2003, and the "Risk Factors" we included in that report.

Any of the factors described above could cause our financial results, including our net income or loss or growth in net income or loss to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

OVERVIEW

Through our three wholly-owned operating subsidiaries, XET Corporation ("XET"), CXR Telcom Corporation ("CXR Telcom"), and CXR Anderson Jacobson, formerly CXR, SA ("CXR-AJ"), and through the divisions and subsidiaries of those subsidiaries, we design, develop, manufacture, assemble, and market products and services in the following two material business segments:

- Electronic Components
  - digital and rotary switches
  - electronic power supplies
  - subsystem assemblies

- Communications Equipment
  - network access and transmission products
  - communications test instruments

Our sales are primarily in North America, Europe and Asia. Revenues are recorded when products are shipped if shipped FOB shipping point or when received by the customer if shipped FOB destination.

Sales to customers in the electronic components segment, primarily to aerospace customers, defense contractors and industrial customers, were 63.4%, 59.1% and 46.1% of our total net sales during 2003, 2002 and 2001, respectively, and 63.1% of our total net sales during the three months ended March 31, 2004. Sales of communications equipment and related services, primarily to private customer premises and public carrier customers, were 36.6%, 40.9% and 53.9% of our total net sales during 2003, 2002 and 2001, respectively, and 36.9% of our total net sales during the three months ended March 31, 2004.

During the three months ended March 31, 2004, we achieved sales volume increases in our electronic components and communications equipment segments of 12.5% and 4.1%, respectively, as compared to the three months ended March 31, 2003. Although sales volumes of our communications products are still historically low, these sales volumes did increase during the three months ended March 31, 2004 as compared to the comparable prior year period. As discussed below, our cost reductions and Asian outsourcing have reduced the breakeven point in our communications equipment segment, which enabled us to produce a small operating profit in this segment despite the historically low sales volume.

In 2003, our communications equipment segment sales increased slightly from the historically low level experienced in 2002. As a result of the general business downturn in 2002, we experienced significant reductions in sales and gross profit as well as changes in our product mix. Consequently, during 2003 we shifted our overall focus toward growing our electronic components business. However, we also continued working to improve the growth and performance of our communications equipment business, particularly customer premises network access and transmission products. These efforts continued during the first quarter of 2004.

In addition to shifting our overall focus toward growing our electronic components business, during the first half of 2003 we reduced costs at CXR Telcom by reducing its work force and increasing our sourcing of test equipment components from Asian manufacturers that produce components for lower prices than we previously paid to our former suppliers. We have also reduced costs in our communications equipment segment and lowered the breakeven point both in our United States and France operations through various cost-cutting methods, such as using Asian contract manufacturers, reducing facility rent expense and downsizing our administrative office in Paris, France. These cost-cutting efforts were a major factor in restoring our communications equipment segment to profitability in 2003 and the first quarter of 2004. However, we cannot predict if the recent improvement in telecom sales indicates the end of the severity of the telecommunications market downturn or the extent to which the downturn may continue to negatively affect our ability to sell our products and services to customers in the telecommunications industry. A further reduction in sales would have reduced our accounts receivable balances, which in turn would adversely affect our financial position by reducing cash availability under our lines of credit.

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CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in the notes to the consolidated financial statements that are included in our annual report on Form 10-K for the year ended December 31, 2003. We believe our most critical accounting policies include inventory valuation, foreign currency translation and goodwill impairment.

INVENTORY VALUATION

We value our inventory at the lower of the actual cost to purchase or manufacture the inventory or the current estimated market value of the inventory. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements for the next twelve months. Demand for our products can fluctuate significantly. A significant increase in the demand for our products could result in a short-term increase in the cost of inventory purchases, while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand.

In addition, the communications equipment industry is characterized by rapid technological change, frequent new product development, and rapid product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand. Also, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. In the future, if our inventory is determined to be overvalued, we would be required to recognize such costs in our cost of goods sold at the time of such determination. Likewise, if our inventory is determined to be undervalued, we may have over-reported our costs of goods sold in previous periods and would be required to recognize additional operating income at the time of sale. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results.

FOREIGN CURRENCY TRANSLATION

We have foreign subsidiaries that together accounted for 68.8% of our net revenues, 70.6% of our assets and 70.3% of our total liabilities as of and for the year ended December 31, 2003, and 68.9% of our net revenues, 71.8% of our assets and 45.7% of our total liabilities as of and for the three months ended March 31, 2004. In preparing our consolidated financial statements, we are required to translate the financial statements of our foreign subsidiaries from the currencies in which they keep their accounting records into United States dollars. This process results in exchange gains and losses which, under relevant accounting guidance, are either included within our statement of operations or as a separate part of our net equity under the caption "cumulative translation adjustment."

Under relevant accounting guidance, the treatment of these translation gains or losses depends upon our management's determination of the functional currency of each subsidiary. This determination involves consideration of relevant economic facts and circumstances affecting the subsidiary. Generally, the currency in which the subsidiary transacts a majority of its transactions, including billings, financing, payroll and other expenditures, would be considered the functional currency. However, management must also consider any dependency of the subsidiary upon the parent and the nature of the subsidiary's operations.

If management deems any subsidiary's functional currency to be its local currency, then any gain or loss associated with the translation of that subsidiary's financial statements is included in a cumulative translation adjustment. However, if management deems the functional currency to be United

States dollars, then any gain or loss associated with the translation of these financial statements would be included within our statement of operations.

If we dispose of any of our subsidiaries, any cumulative translation gains or losses would be realized into our statement of operations. If we determine that there has been a change in the functional currency of a subsidiary to United States dollars, then any translation gains or losses arising after the date of the change would be included within our statement of operations.

Based on our assessment of the factors discussed above, we consider the functional currency of each of our international subsidiaries to be each subsidiary's local currency. Accordingly, we had cumulative translation gains of $108,000 and $106,000 that were included as part of accumulated other comprehensive income within our balance sheets at December 31, 2003 and March 31, 2004, respectively. During the year ended December 31, 2003 and the three months ended March 31, 2004, we included foreign currency translation adjustments of a gain of approximately $705,000 and a loss of $2,000, respectively, under other comprehensive income or loss.

If we had determined that the functional currency of our subsidiaries was United States dollars, these gains or losses would have decreased or increased our loss for these periods. The magnitude of these gains or losses depends upon movements in the exchange rates of the foreign currencies in which we transact business as compared to the value of the United States dollar. These currencies include the euro, the British pound and the Japanese yen. Any future translation gains or losses could be significantly higher or lower than those we recorded for these periods.

GOODWILL IMPAIRMENT

We periodically evaluate acquired businesses for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses.

In assessing potential impairment of goodwill, we consider these factors as well as forecasted financial performance of the acquired businesses. If forecasts are not met, we may have to record additional impairment charges not previously recognized. In assessing the recoverability of our goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of those respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets that were not previously recorded. If that were the case, we would have to record an expense in order to reduce the carrying value of our goodwill. On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," or SFAS No. 142, and were required to analyze our goodwill for impairment issues by June 30, 2002, and then at least annually after that date. At December 31, 2003, the reported goodwill totals $2,447,000 (net of accumulated amortization of $1,070,000). During 2003 and the three months ended March 31, 2004, we did not record any impairment losses related to goodwill and other intangible assets.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

The following table sets forth, for the periods indicated, certain statement of operations data expressed as a percentage of total net sales:

	Three months ended March 31, 2004	Three months ended March 31, 2003
Net sales	100.0%	100.0%
Cost of sales	55.6	62.2
Gross profit	44.4	37.8
Selling, general and administrative expenses	35.8	30.0
Engineering and product development expenses	4.6	3.9
Operating income	4.0	3.9
Interest expense	(1.6)	(1.7)
Other income	(0.1)	(0.2)
Income before income tax expense	2.3	2.0
Income tax expense	1.2	1.2
Net income	1.1%	0.8%

NET SALES. Net sales for the three months ended March 31, 2004 increased by $524,000 (9.2%) to $6,192,000 as compared to $5,668,000 for the three months ended March 31, 2003.

Net sales of our electronic components increased by $434,000 (12.5%) to $3,905,000 for the three months ended March 31, 2004 as compared to $3,471,000 for the three months ended March 31, 2003. Net sales of power supplies by XCEL Power Systems Ltd. ("XPS") decreased by $539,000 (25.4%) to $1,570,000 for the three months ended March 31, 2004 as compared to $2,109,000 for the three months ended March 31, 2003 due to a decrease in the number of products shipped under long-term programs. We anticipate that during the remainder of 2004 we will experience general decreases in net sales of power supplies as compared to 2003 due to the scheduling of deliveries under our contracts. Despite the decrease in net sales of power supplies, during the three months ended March 31, 2004, XPS exceeded its total net sales for the comparable prior year period due to a $387,000 increase in sales of electronic subsystem assemblies. Net sales of digital switches manufactured by XET Corporation's Digitran Division increased by $255,000 (20.7%) to $1,489,000 for the three months ended March 31, 2004 as compared to $1,234,000 for the three months ended March 31, 2003. The increase in net sales of digital switches was a result of increased orders from our customers for military equipment spares that we believe were partially due to the war in Iraq. Sales of electronic subsystem assemblies manufactured by the Digitran Division were negligible in the current period and the comparable prior year period.

Net sales of our communications equipment products and services for the three months ended March 31, 2004 increased by $90,000 (4.1%) to $2,287,000 as compared to $2,197,000 for the three months ended March 31, 2003. The increase was primarily due to an improvement in net sales of test equipment by CXR Telcom. Test equipment net sales increased by $191,000 (65.6%) to $482,000 as compared to $291,000 in the prior year period primarily due to an increase in the capital budgets of the U.S. telecommunications companies for the purchase of CXR-Telcom test equipment and $115,000 of sales related to a contract for test equipment for an agency of the Department of Homeland Security. We believe that there is a high probability of follow-on orders for this project.

CXR-AJ, our French subsidiary, produces all of our network access equipment and transmission products. Total net sales by CXR-AJ decreased $179,000 (9.5%) to $1,715,000 for the three months ended March 31, 2004 as compared to $1,894,000 for the three months ended March 31, 2003. Net sales of network access equipment and transmission products manufactured by CXR-AJ decreased by $111,000 (6.5%) to $1,601,000 as compared to $1,712,000 in the prior year period. Because the economy in France and Europe was somewhat slow during the three months ended March 31, 2004, CXR-AJ started the first quarter of 2004 with lower backlog than CXR-AJ had at the same time last year. Also, regional elections scheduled in France for April 2004 resulted in a freeze on some local projects that may have used CXR-AJ's products.

GROSS PROFIT. Gross profit as a percentage of total net sales increased to 44.4% for the three months ended March 31, 2004 as compared to 37.8% for the comparable period in 2003. In dollar terms, total gross profit increased by $606,000 (28.3%) to $2,747,000 for the three months ended March 31, 2004 as compared to $2,141,000 for the comparable period in 2003.

Gross profit for our electronic components segment increased in dollar terms by $271,000 (19.8%) to $1,641,000 for the three months ended March 31, 2004 as compared to $1,370,000 for the three months ended March 31, 2003, and increased as a percentage of related net sales to 42.0% for the three months ended March 31, 2004 from 39.5% for the three months ended March 31, 2003. This increase primarily resulted from increased profit margins of digital switches due to changes in product mix and increased volume, which reduced the cost burden on a unit basis, and an increase in sales of spare parts that usually carry a higher gross profit than original equipment. The gross profit for power supplies increased slightly to $609,000 from $597,000 in the prior year period, but decreased as a percentage of net sales to 25.8% from 27.2%.

Gross profit for our communications equipment segment increased in dollar terms by $335,000 (43.5%) to $1,106,000 for the three months ended March 31, 2004 as compared to $771,000 for the comparable period in 2003, and increased as a percentage of net sales to 48.4% for the three months ended March 31, 2004 from 35.1% for the three months ended March 31, 2003. The increase in gross profit was due to the increase in sales volume at CXR Telcom, the reduction in costs due to outsourcing and the sale of demo equipment. These factors were instrumental in improving our gross profit in test instruments and related sales to $361,000 as compared to a gross loss of $24,000 in the prior period. CXR-AJ's decrease to $744,000 from $795,000 in the prior year period primarily was due to lower sales of network access products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased by $519,000 (30.6%) to $2,217,000 for the three months ended March 31, 2004 as compared to $1,698,000 for the three months ended March 31, 2003. Selling, general and administrative expenses also increased as a percentage of total net sales, to 35.8% of net sales during the three months ended March 31, 2004 from 30.0% of net sales during the comparable period in 2003. The increase in selling, general and administrative expenses was due to several factors discussed below.

Sales commissions increased by $72,000 due to higher sales volume, and selling expenses increased by $180,000 due to sales force expansion.

Administrative expenses increased due to executive bonus accruals, which were not accrued in the first quarter of the prior year because of the modest net income, legal fee increases, additional investor relations expenses and higher auditing and accounting costs. These administrative expenses increased because

we incurred legal fees and consulting expenses related to searching for and analyzing potential acquisitions and also incurred other expenses in the three months ended March 31, 2004. Also, we recorded a bonus accrual of $53,000 for the three months ended March 31, 2004, but there was no similar accrual during the comparable prior year period because of modest net income in the first quarter of 2003. We anticipate that selling, general and administrative expenses for the remainder of 2004 will remain at levels higher than those we experienced last year due to our increased activity in searching for and analyzing potential acquisitions, our expansion of our investor relations program and our increased corporate governance activities in response to the Sarbanes-Oxley Act of 2002 and the recent adoption of rules and regulations of the Securities and Exchange Commission.

ENGINEERING AND PRODUCT DEVELOPMENT EXPENSES. Engineering and product development expenses consist primarily of research and product development activities. These expenses increased by $62,000 (28.1%) to $283,000 as compared to $221,000 in the prior year period. The majority of the increase was due to additional research and engineering for new products at the Digitran Division. We expect this higher level of expense to continue throughout 2004 as we develop our new family of rotary switches.

OTHER INCOME AND EXPENSE. Interest expense was unchanged at $96,000 for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003. Other expense was $6,000 for the three months ended March 31, 2004 as compared to $14,000 for the three months ended March 31, 2003.

INCOME TAX EXPENSE. Income tax expense for the three months ended March 31, 2004 was $75,000 as compared to $68,000 for the comparable prior year period. The majority of the tax relates to the recording by XCEL Corporation Ltd. ("XCL") of a provision for U.K. income tax that was required because XCL is expected to produce greater taxable income for 2004 than in 2003 and has utilized its net operating loss carryforwards.

NET INCOME. The net income for the three months ended March 31, 2004 increased $26,000 (59.1%) to $70,000 as compared to the net income of $44,000 for the three months ended March 31, 2003. The largest contribution to this positive change was the increase in net sales and gross profit of CXR Telcom in our communications equipment segment, which improved its operating income by $294,000. We continue to closely monitor costs throughout our operations and have reduced costs through staffing reductions in our communications equipment operations in the United States and France and through various other cost-cutting methods, such as using contract manufacturers, reducing facility rent expense and downsizing our administrative office in Paris, France. These actions have substantially reduced the sales volume required for profitability at both CXR Telcom and CXR-AJ.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2003 and the three months ended March 31, 2004, we funded our operations primarily through revenue generated from our operations and through our lines of credit with Wells Fargo Business Credit, Inc. and various foreign banks. As of March 31, 2004, we had working capital of $5,686,000, which was relatively unchanged from working capital of

$5,696,000 at December 31, 2003. Also at March 31, 2004, we had an accumulated deficit of $17,816,000, accumulated other comprehensive gains of $106,000, cash and cash equivalents of $1,076,000, and $4,712,000 of accounts receivable. At December 31, 2003, we had an accumulated deficit of $17,886,000, accumulated other comprehensive gains of $108,000, cash and cash equivalents of $1,174,000, and $5,393,000 of accounts receivable.

Cash provided by our operating activities total $632,000 for the three months ended March 31, 2004 as compared to cash provided by our operating activities of $468,000 for the three months ended March 31, 2003. This $164,000 increase in cash provided by operations during the three months ended March 31, 2004 primarily resulted from accounts receivable collections.

Cash used in our investing activities totaled $96,000 for the three months ended March 31, 2004 as compared to $4,000 for the three months ended March 31, 2003. Included in the results for the three months ended March 31, 2004 are $96,000 of fixed asset purchases.

Cash used in our financing activities totaled $569,000 for the three months ended March 31, 2004 as compared to $814,000 of cash used in our financing activities for the first three months of 2003, due to repayments of bank debt in both periods.

On August 16, 2000, our subsidiaries, CXR Telcom and XET, together with MicroTel acting as guarantor, obtained a credit facility from Wells Fargo Business Credit, Inc. In April 2002, the maturity date of the facility was extended by two years to August 16, 2005. Since April 17, 2002, the facility has provided for a revolving loan of up to $3,000,000 secured by inventory and accounts receivable and a term loan in the amount of $687,000 secured by machinery and equipment. On March 31, 2004, the interest rate was the prime rate (then 4%) plus 1%, subject to a minimum interest charge of $13,500 per month. The balances outstanding at March 31, 2004 were $783,000 on the revolving loan and $96,000 on the term loan, and we had available to us $145,000 of additional borrowings under the revolving loan. The credit facility contains restrictive financial covenants that are set by mutual agreement each year. At May 6, 2004, we had not received confirmation of the new 2004 covenants. We do not expect the 2004 covenants to be more restrictive than the 2003 covenants.

As of March 31, 2004, our foreign subsidiaries had credit facilities, including lines of credit and term loans, with Venture Finance PLC, a subsidiary of the global Dutch ABN AMRO Holdings, N.V. financial institution, in England, IFN Finance, a subsidiary of ABN AMRO Holdings, N.V., Banc National de Paris, Societe Generale in France and Sogelease and Johnan Shinkin Bank in Japan. At March 31, 2004, the balances outstanding under our U.K., France and Japan credit facilities were $1,180,000, $1,155,000 and $69,000, respectively.

XCEL Japan Ltd., or XJL, obtained a term loan on November 29, 2002 from Johnan Shinkin Bank. The loan is amortized over five years and carries an annual fixed interest rate of 3.25%. The balance of the loan as of March 31, 2004 was $69,000 using the exchange rate in effect at that date for conversion of Japanese yen into United States dollars.

Our U.K. subsidiary, XPS, obtained a credit facility with Venture Finance PLC as of November 12, 2002. This credit facility expires on November 15, 2005. Using the exchange rate in effect at March 31, 2004 for the conversion of British pounds into United States dollars, the facility is for a maximum of $2,760,000 and includes a $644,000 unsecured cash flow loan, a $147,000 term loan secured by fixed assets and the remainder is a loan secured by accounts receivable and inventory. The interest rate is the base rate of Venture Finance

PLC (4% at March 31, 2004) plus 2%, and is subject to a minimum rate of 4% per annum. There are no financial performance covenants applicable to this credit facility.

On April 8, 2003, CXR-AJ obtained a credit facility from IFN Finance, a subsidiary of ABN AMRO N.V. The credit line is for a maximum of $1,464,000, based on the exchange rate in effect at March 31, 2004 for the conversion of euros into United States dollars. This represents a substantial increase over the total of the credit lines that CXR-AJ had with its former lenders. In addition, CXR-AJ has outstanding term loans with two other French banks totaling $82,000. The IFN Finance facility is secured by accounts receivable and carries an annual interest rate of 1.6% above the French "T4M" rate. The French T4M rate was 2.0% as of March 31, 2004.

Our backlog was $9,830,000 as of March 31, 2004 as compared to $11,815,000 as of March 31, 2003. The reduction in backlog was primarily due to substantial shipments under long-term contracts by XPS in the U.K. Our backlog as of March 31, 2004 was 96.8% related to our electronic components business, which business tends to provide us with long lead-times for our manufacturing processes due to the custom nature of the products, and 3.2% related to our communications equipment business, which business tends to deliver standard products from stock as orders are received. The amount of backlog orders represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has not yet been initiated or with respect to which work is currently in progress. However, there can be no assurance that we will be successful in fulfilling such orders and commitments in a timely manner or that we will ultimately recognize as revenue the amounts reflected as backlog.

We took various actions to reduce costs in 2003. These actions were intended to reduce the cash outlays of our telecommunications equipment segment to match its revenue rate. We also have contracted with Asian manufacturers for production of test equipment components at lower prices than we previously paid to our former suppliers and have received shipments of quality components from these suppliers.

We included in our annual report on Form 10-K for the year ended December 31, 2003 a contractual obligations table that outlines payments due from us or our subsidiaries under our lines of credit and other significant contractual obligations through 2008, exclusive of interest. During the quarter ended March 31, 2004, no material changes in this information occurred outside the ordinary course of business.

We believe that current and future available capital resources, revenues generated from operations, and other existing sources of liquidity, including the credit facilities we and our subsidiaries have, will be adequate to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months. If, however, our capital requirements or cash flow vary materially from our current projections or if unforeseen circumstances occur, we may require additional financing. Depressed global economic conditions may cause prolonged declines in investor confidence and accessibility to capital markets. Our failure to raise capital, if needed, could restrict our growth, limit our development of new products or hinder our ability to compete.

EFFECTS OF INFLATION

The impact of inflation and changing prices has not been significant on the financial condition or results of operations of either our company or our operating subsidiaries.

IMPACTS OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain

Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of this statement has not adversely affected our financial statements.

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a guarantor to recognize a liability, at the inception of the guarantee, for the fair value of obligations it has undertaken in issuing the guarantee and also to include more detailed disclosures with respect to guarantees. FIN 45 is effective for guarantees issued or modified after December 31, 2002 and requires the additional disclosures for interim or annual periods ended after December 15, 2002. The initial recognition and measurement provisions of FIN 45 have not adversely affected our results of operations or financial position.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51." FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46 requires that its provisions are effective immediately for all arrangements entered into after January 31, 2003. For arrangements entered into prior to January 31, 2003, the FIN 46 provisions were required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003. The provisions of FIN 46 have not adversely affected our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and otherwise became effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 has not adversely affected our consolidated financial condition or results of operations.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits," an amendment of SFAS Nos. 87, 88 and 106, and a revision of SFAS No. 132. The statement is effective for fiscal years and interim periods ending after December 15, 2003. The statement revises employers' disclosures about pension plans and other post-retirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS Nos. 87, 88 and 106. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other post-retirement benefit plans. We do not expect the adoption of this statement to adversely affect our financial condition or results of operations.

In December 2003, the FASB issued FASB Staff Position No. ("FSP") 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The guidance is effective for initial interim or annual fiscal periods ending after December 7, 2003. FSP 106-1 permits employers that sponsor post-retirement benefit plans (plan sponsors) that provide prescription drug benefits to retirees to make a one-time election to defer accounting for any effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act"). Without FSP 106-1, plan sponsors would be required under SFAS No. 106 to account for the effects of the Act in the fiscal period that includes December 8, 2003, the date the President signed the Act into law. We do not expect the adoption of this statement to adversely affect our financial condition or results of operations.

In December 2003 the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. ("SAB") 104, Revenue Recognition. SAB 104 codifies, revises and rescinds certain sections of SAB 101, in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. Accordingly, there is no impact to our results of operations, financial position or cash flows as a result of the issuance of SAB No. 104.

In December 2003, the FASB issued FASB Interpretation No. FIN 46R, "Consolidation of Variable Interest Entities" ("FW 46R"). FIN 46R requires the application of either FIN 46 or FIN 46R by public entities to all special purpose entities ("SPEs") created prior to February 1, 2003, as of December 31, 2003 for calendar year-end companies. FIN 46R is applicable to all non-SPEs created prior to February 1, 2003 at the end of the first interim or annual period ending after March 15, 2004. For all entities created subsequent to January 31, 2003, public entities were required to apply the provisions of FIN 46. The adoption of FIN 46 did not adversely affect our consolidated financial position, results of operations or cash flows. The adoption of FIN 46R for SPEs did not impact our consolidated financial position, results of operations or cash flows, and we do not believe the adoption of FIN 46R for non-SPEs will adversely affect our consolidated financial position, results of operations or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We have established and acquired international subsidiaries that prepare their balance sheets in the relevant foreign currency. In order to be included in our consolidated financial statements, these balance sheets are converted, at the then current exchange rate, into United States dollars, and the statements of operations are converted using weighted average exchange rates for the applicable period. Accordingly, fluctuations of the foreign currencies relative to the United States dollar could have an effect on our consolidated financial statements. Our exposure to fluctuations in currency exchange rates has increased as a result of the growth of our international subsidiaries. However, because historically the majority of our currency exposure has related to financial statement translation rather than to particular transactions, we do not intend to enter into, nor have we historically entered into, forward currency contracts or hedging arrangements in an effort to mitigate our currency exposure.

A substantial portion of our notes payable and long-term debt have variable interest rates based on the prime interest rate and/or the lender's base rate, which exposes us to risk of earnings loss due to changes in such interest rates. Our annual report on Form 10-K for the year ended December 31, 2003 contains information about our debt obligations that are sensitive to changes in interest rates under "Item 7A. Quantitative and Qualitative Disclosures About Market Risk." There were no material changes in those market risks during the three months ended March 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES.

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of March 31, 2004, that the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated, recorded, processed, summarized and reported to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended March 31, 2004, there were no changes in our "internal controls over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not a party to any material pending legal proceedings.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES.

RECENT SALES OF UNREGISTERED SECURITIES

In January 2004, we issued 3,703 shares of common stock to an investor upon conversion of shares of Series B Convertible Preferred Stock.

In February 2004, we issued 2,000 shares of common stock to an employee upon exercise of an incentive stock option.

Exemption from the registration provisions of the Securities Act of 1933 for the transactions described above is claimed under Section 4(2) of the Securities Act of 1933, among others, on the basis that such transactions did not involve any public offering and the purchasers were sophisticated with access to the kind of information registration would provide.

DIVIDENDS

We have not paid dividends on our common stock to date. Our line of credit with Wells Fargo Business Credit, Inc. prohibits the payment of cash dividends on our common stock. We currently intend to retain future earnings to fund the development and growth of our business and, therefore, do not anticipate paying cash dividends on our common stock within the foreseeable future. Any future payment of dividends on our common stock will be determined by our board of directors and will depend on our financial condition, results of operations, contractual obligations and other factors deemed relevant by our board of directors.

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

Number	Description
31	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICROTEL INTERNATIONAL, INC.

Dated: May 14, 2003

By: /S/ CARMINE T. OLIVA
Carmine T. Oliva, Chairman of the Board, Chief Executive Officer (principal executive officer) and President

By: /S/ RANDOLPH D. FOOTE

Randolph D. Foote, Chief Financial Officer
(principal financial and accounting officer)

EXHIBITS ATTACHED TO THIS REPORT

EXHIBIT NUMBER	DESCRIPTION
31	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002