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June 30, 2004

RECEIVED FPSC  
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COMMISSION  
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*Via Overnight Delivery*

Florida Public Service Commission  
Division of Administration  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Check received with filing and forwarded  
to Fiscal for deposit. Fiscal to forward  
deposit information to Records.

Initials of person who forwarded check:

RE: Xfone USA, INC.

Dear Sirs:

Enclosed please find an original and six (6) copies of the Application Form for authority to provide alternative local exchange service within the State of Florida, submitted on behalf of Xfone USA, Inc. WS Telecom, Inc. d/b/a eXpeTel Communications, a Florida certificated ALEC, is merging into Xfone USA, Inc., and this application is filed on behalf of Xfone USA in order to obtain authority in its own right as part of that transaction. Appropriate documentation regarding the merger is being filed simultaneously with this application. The requisite \$250.00 filing fee is enclosed herewith.

Please acknowledge receipt of this filing by returning a date stamped copy of this letter in the self-addressed envelope provided.

Thank you for your assistance. Please call with any questions.

Sincerely,

Monica Borne Haab

*Original Price list forwarded to CUP*

Enclosure  
cc: Ted Parsons, eXpeTel/Xfone USA

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**\*\* FLORIDA PUBLIC SERVICE COMMISSION \*\***

**DIVISION OF REGULATORY OVERSIGHT**  
**CERTIFICATION SECTION**

**APPLICATION FORM**  
**for**  
**AUTHORITY TO PROVIDE**  
**ALTERNATIVE LOCAL EXCHANGE SERVICE**  
**WITHIN THE STATE OF FLORIDA**

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Instructions

- This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Page 12).
- Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.
- Use a separate sheet for each answer which will not fit the allotted space.
- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **\$250.00** to:

**Florida Public Service Commission**  
***Division of Records and Reporting***  
**2540 Shumard Oak Blvd.**  
**Tallahassee, Florida 32399-0850**  
**(850) 413-6770**

- If you have questions about completing the form, contact:

**Florida Public Service Commission**  
**Division of Regulatory Oversight**  
**Certification Section**  
**2540 Shumard Oak Blvd.**  
**Tallahassee, Florida 32399-0850**  
**(850) 413-6480**

---

## APPLICATION

1. This is an application for • (check one):

- ) **Original certificate** (new company).
- ) **Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.
- ) **Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.
- ) **Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

XFone USA, Inc.

3. Name under which the applicant will do business (fictitious name, etc.):

same

4. Official mailing address (including street name & number, post office box, city, state, zip code):

2506 Lakeland Drive, Suite 405  
Flowood, Mississippi 39232  
\_\_\_\_\_  
\_\_\_\_\_

**5. Florida address (including street name & number, post office box, city, state, zip code):**

None. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**6. Structure of organization:**

- |   |  |
|---|--|
| <input type="checkbox"/> Individual                     | <input type="checkbox"/> Corporation         |
| <input checked="" type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership            | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Other _____                    |  |

**7. If individual, provide:**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

City/State/Zip: \_\_\_\_\_

Telephone No.: \_\_\_\_\_ Fax No.: \_\_\_\_\_

Internet E-Mail Address: \_\_\_\_\_

Internet Website Address: \_\_\_\_\_

**8. If incorporated in Florida, provide proof of authority to operate in Florida:**

- (a) The Florida Secretary of State corporate registration number:

**9. If foreign corporation, provide proof of authority to operate in Florida:**

**Exhibit A.**

(a) The Florida Secretary of State corporate registration number:

Applied for. Will provide as supplement to Application once available.

**10. If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:**

(a) The Florida Secretary of State fictitious name registration number:

\_\_\_\_\_

**11. If a limited liability partnership, provide proof of registration to operate in Florida:**

(a) The Florida Secretary of State registration number:

\_\_\_\_\_

**12. If a partnership, provide name, title and address of all partners and a copy of the partnership agreement.**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

City/State/Zip: \_\_\_\_\_

Telephone No.: \_\_\_\_\_ Fax No.: \_\_\_\_\_

Internet E-Mail Address: \_\_\_\_\_

Internet Website Address: \_\_\_\_\_

**13. If a foreign limited partnership, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.**

(a) The Florida registration number: \_\_\_\_\_

**14. Provide F.E.I. Number(if applicable): Applied for. Will provide as supplement once available.**

**15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:**

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.

No.

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

Wade Spooner, President and Ted Parsons, Exec. V.P. of XFone USA, Inc. hold the same positions with WS Telecom, Inc. d/b/a eXpeTel Communications, a company operating in Florida, which is being merged into Xfone USA, Inc.

**16. Who will serve as liaison to the Commission with regard to the following?**

(a) The application:

Name: Monica Borne Haab  
Title: Attorney for Applicant  
Address: 3500 N. Causeway Blvd., Suite 1442  
City/State/Zip: Metairie, Louisiana 70002  
Telephone No.: (504) 832-1984 Fax No.: (504) 831-0892  
Internet E-Mail Address: mhaab@nbglaw.com  
Internet Website Address: \_\_\_\_\_

(b) Official point of contact for the ongoing operations of the company:

Name: Wade Spooner  
Title: President  
Address: 2506 Lakeland Drive, Suite 405  
City/State/Zip: Flowood, MS 39232  
Telephone No.: (601) 664-1008 Fax.: (601) 664-1190  
Internet E-Mail Address: wspooner@expetel.com  
Internet Website Address: \_\_\_\_\_

(c) Complaints/Inquiries from customers:

Name: Wade Spooner  
Title: President  
Address: 2506 Lakeland Drive, Suite 405  
City/State/Zip: Flowood, MS 39232  
Telephone No.: (601) 664-1008 Fax No.: (601) 664-1190  
Internet E-Mail Address: wspooner@expetel.com  
Internet Website Address: \_\_\_\_\_

**17. List the states in which the applicant:**

(a) has operated as an alternative local exchange company.

None.

(b) has applications pending to be certificated as an alternative local exchange company.

Applicant is applying for local authority in Alabama, Georgia, Louisiana and Mississippi.

(c) is certificated to operate as an alternative local exchange company.

None.

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None.

- (e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None.

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- (f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None.

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**18. Submit the following:**

- A. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.**  
Exhibit B.

- B. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.**

See Exhibit B.



### C. Financial capability.

**The 10K statement of the Applicant's parent company are submitted as Exhibit C.**

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer **affirming that the financial statements are true and correct** and should include:

1. the balance sheet:
2. income statement: and
3. statement of retained earnings.

**NOTE:** *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.
3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

**THIS PAGE MUST BE COMPLETED AND SIGNED**

**APPLICANT ACKNOWLEDGMENT STATEMENT**

- 1. REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
- 2. GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.
- 3. SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.
- 4. APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

**UTILITY OFFICIAL:**

Wade Spooner  
Print Name

  
Signature

President  
Title

6/17/09  
Date

(601) 664-1008  
Telephone No.

(601) 664-1190  
Fax No.

**Address:** 2506 Lakeland Drive, Suite 405

Flowood, MS 32932

\_\_\_\_\_  
\_\_\_\_\_

**THIS PAGE MUST BE COMPLETED AND SIGNED**

**AFFIDAVIT**

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

**UTILITY OFFICIAL:**

Wade Spooner  
Print Name

President  
Title

(601) 664-1008  
Telephone No.

  
Signature

6/17/04  
Date

(601) 664-1190  
Fax No.

Address: 2506 Lakeland Drive, Suite 405

Flowood, MS 39232

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

1) _____	2) _____
_____	_____
3) _____	4) _____
_____	_____

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

1) _____	2) _____
_____	_____
3) _____	4) _____
_____	_____

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

<u>POP-to-POP</u>	<u>OWNERSHIP</u>
1) _____	_____
2) _____	_____
3) _____	_____
4) _____	_____

# CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

I, \_\_\_\_\_ of \_\_\_\_\_  
\_\_\_\_\_ and current holder of Florida Public  
Service Commission Certificate Number # \_\_\_\_\_, have reviewed  
this application and join in the petitioner's request for a:

- ( ) sale
- ( ) transfer
- ( ) assignment

of the above-mentioned certificate.

## UTILITY OFFICIAL:

Wade Spooner  
Print Name  
President  
Title  
601-664-1008  
Telephone No.

W/S  
Signature  
6/17/04  
Date  
601-664-1190  
Fax No.

Address: 2506 Lakeland Dr., Suite 405  
Jackson, MS 39232  
\_\_\_\_\_  
\_\_\_\_\_

# **EXHIBIT A**

CERTIFICATE OF AUTHORITY ISSUED  
BY THE FLORIDA SECRETARY OF STATE

The Applicant has applied for a Certificate of Authority, and will provide documentation as soon as it is available from the Secretary of State's office.



# **EXHIBIT B**



MANAGEMENT PROFILES

## **Wade Spooner**

### **Chairman, CEO and President**

Prior to founding eXpeTel Communications, Wade Spooner, the Company's Chairman, CEO and President, was the President and Chief Operating Officer of LSCI Telecommunications, Inc., an integrated Regional Local Exchange Carrier with operations in Mississippi and Louisiana. Prior to joining LSCI, Spooner worked with competitive telecommunications service providers, most recently serving as Director of Technical Operations for ITC^DeltaCom, Inc. (NASDAQ: ITCD), a publicly traded Competitive Local Exchange Carrier (CLEC) and fiber optic network provider, and served as Chairman and CEO for I.T. GROUP Communications, a regional, facilities-based, voice and data communications company operating out of Jackson, Mississippi. I.T.GROUP Communications was subsequently acquired by ITC^DeltaCom. Spooner received a B.S. Degree in Petroleum Engineering from Mississippi State University.

## **Ted Parsons**

### **Executive Vice President and Chief Marketing Officer**

Ted Parsons has served as a board member of the Company since its inception, and is the Company's Executive Vice President and Chief Marketing Officer, responsible for business development, regulatory, marketing, product management and sales. Prior to this, Parsons served as Sr. Vice President of Sales, Marketing and Product Management in the wholesale CLEC industry working for Thrifty Call in Austin, Texas from 1999 through 2001. Parsons, while at Thrifty Call, developed and managed the sales and marketing operations to the next level, and was responsible for the successful management of \$100+ million in revenue. Parsons worked with ITC^DeltaCom as Regional Director of Sales for the Mississippi-Arkansas Region, after successfully selling his former Company, I.T. GROUP Communications, a regional, facilities-based, voice and data communications Company operating out of Jackson, Mississippi, to ITC^DeltaCom in 1998. Parsons had a successful career at I.T. GROUP, serving as founder, President and Chief Operations Officer since its inception in 1991. Parsons received a B.S. in Marketing from the University of Mississippi.



## **Ted Carter**

### **Vice President of Internal Operations**

Ted Carter serves as Vice President of Internal Operations, overseeing the daily operations of Customer Service, Provisioning, Billing and Collections. Carter is a founding shareholder and prior to his current position, served as Director of Interconnection Services, Provisioning and Billing. Carter continues to be the point man on all Interconnection Services for the Company. Prior to joining the Company in March 2001, Carter served as Interconnection Manager for LSCI Telecommunications, Inc., and integrated Regional Local Exchange Carrier with operations in Mississippi and Louisiana. Carter played a key role in the development and establishment of the Resale and Facility-based Interconnection Agreement between LSCI and BellSouth Telecommunications, Inc. Carter served as Service Coordinator for ITC^DeltaCom and Circuit Design Engineer for Intermedia Communications, Inc. (ICI) in Tampa, FL, designing Frame Relay circuits for the Florida State Government Agencies. Carter also was a Circuit Design/Provisioner for WorldCom and spent 19 years in many capacities with BellSouth Telecommunications, Inc. Carter received his BLS from Millsaps College in Jackson, Mississippi.

## **Trevor Drake**

### **Director of Sales**

Trevor Drake is a results-oriented professional with over a decade of sales and management experience in the telecommunications industry. Prior to joining eXpeTel, Drake served as Application Sales Engineer for Cavalier Telephone, a CLEC located in Washington, DC. Drake provided voice and data design applications for Major Accounts. Drake also served as Sales Engineer for Advanced Telecom Group in Northern Virginia, providing technical and sales support for the Virginia and Maryland offices. Prior to his career in the telecommunications industry, Drake served as Vice President of Marketing for Factual Data/Credit Services, Inc. a credit reporting company located in Memphis, Tennessee. Drake received his B.S. in Biology from Middle Tennessee State University.

## **Bill Moore**

### **Director of Information Technologies**

Bill Moore serves as Director of Information Technologies, and is responsible for the Company's computer services, networking, Intranet, Internet, and business application needs. Prior to joining eXpeTel, Moore served as Senior Technical Lead and Senior Application Developer for WorldCom, Inc. where he lead a team tasked to build a Human Resources Data Warehouse that would support a suite of business applications and processes. Stationed at the company Corporate Head Quarters for WorldCom, Inc. in Clinton, Mississippi, Moore had the opportunity to be a part of and lead several different IT teams. Some of which dealt with the automation of certain functions of WorldCom's Local and Long Distance service provisioning. Other teams and projects included building a Corporate Intranet and developing business applications that would make internal business more efficient and effective. Moore has gained 10 years of experience in the IT field. Moore received his B.S. in Computer Science from Mississippi State University.

## **Kurt Turner**

### **Director of Network Facilities**

Kurt Turner serves as Director of Network Facilities, overseeing the engineering, planning, provisioning and maintenance of the Company's carrier switch and network. The Company utilizes a Class 5 Carrier telephony switch manufactured by Taqua to deliver feature rich telephony services to its customers. Prior to his role as Director of Network Facilities Turner served as Manager of Provisioning here at eXpeTel Communications. Prior to joining the company Turner worked for Cincinnati Bell, Broadwing where he served as Provisioning Manager successfully forecasting and meeting revenue projections exceeding \$100,000 monthly and overseeing the design, provisioning, installation, and turn up of DS1 and DS3 circuits. Turner has also served MCI, WorldCom as a Circuit Design / Provisioner and Cingular Wireless as a Project Manager / Provisioner. Turner began his telecommunications career in the U.S. ARMY where he was responsible for installation, operation, and maintenance of GTE switching Systems, Cellular Systems, and Digital UHF, SHF, VHF, multi-channel line-of-sight transmission equipment. Relevant Certifications include Taqua Certified OCX OAM&P, and GTE Certified MSE with Honors.

## **Lisa Dunn**

### **Director of Accounting and Human Resources**

Lisa Dunn serves as Treasurer and Director of Accounting and Human Resources. Dunn is responsible for accounting operations and human resource functions. Dunn, prior to joining the Company in 2002, was co-founder in the Jackson, Mississippi based accounting firm Dunn & Nabors and prior to this Dunn worked as a CPA for Horne CPA Group and Koury Boleware & Associates, both companies located in Jackson, Mississippi. Dunn received her B.S. in Accounting from Belhaven College and earned her Masters of Accountancy from Millsaps College. Dunn earned her CPA designation in 1998.

# **EXHIBIT C**

## FINANCIAL DOCUMENTATION

In support of its financial capability to provide the requested services, the Applicant has provided the most recent 10K report of its parent company, XFone, Inc. As filed with the SEC.

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Originator-Key-Asymmetric:

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ACCESSION NUMBER: 0001144204-04-008334

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CONFORMED PERIOD OF REPORT: 20031231

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COMPANY DATA:

COMPANY CONFORMED NAME:	XPHONE INC
CENTRAL INDEX KEY:	0001126216
STANDARD INDUSTRIAL CLASSIFICATION:	COMMUNICATION SERVICES, NEC [4899
IRS NUMBER:	113618510
STATE OF INCORPORATION:	NV
FISCAL YEAR END:	1231

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STREET 1:	960 HIGH ROAD
CITY:	LONDON UNITED KINGDOM
STATE:	X0
ZIP:	N12 9RY
BUSINESS PHONE:	442084469494

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STREET 1:	960 HIGH ROAD
CITY:	UNITED KINGDOM
STATE:	X0
ZIP:	N12 9RY

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

FORM 10-KSB/A  
AMENDMENT NO. 2

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

COMMISSION FILE NUMBER 333-67232

XFONE, INC.

(Name of small business issuer in its charter)

Nevada  
(State or other jurisdiction  
of incorporation or organization)

11-3618510  
(I.R.S. Employer  
Identification No.)

c/o Swiftnet Ltd. Britannia House  
960 High Road  
London, United Kingdom N12 9RY  
(Address of principal executive offices) (Zip Code)

011.44.845.1087777  
(Registrant's telephone number, including area code)

Registrant 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 and has been subject to such filing requirements for the past 90 days.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$ 5,917,513 as determined by the closing price of \$3.40 on June 4, 2004.

The issuer's revenues for its most recent fiscal year were 7,282,181 United Kingdom Pounds (\$12,962,282)

As of June 7, 2004, there were 6,105,445 shares of our common stock issued and outstanding.

We have incorporated by reference, our Form SB-2 Registration Statement and all amendments thereto.

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

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XFONE, INC.

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PART I.

ITEM 1. DESCRIPTION OF BUSINESS.

BUSINESS

We provide international long distance voice and data communications services solely through our subsidiary, Swiftnet, Ltd., which has conducted communications service operations in the United Kingdom since 1990. Swiftnet's business consists of selling various telecommunication related services, including telephone, facsimile, e-mail, calling cards, and Internet driven applications. Because our operations are conducted solely through Swiftnet, we have provided the same services since our inception. Our customers are located in 75 countries in Europe, Australia, North America, South America, Asia, and Africa. At least 85% of our revenues are derived from our customers located in the United Kingdom.

Our future business plans, as detailed below, include accelerating our program of recruiting resellers and agents, promoting additional services, purchasing new equipment and technology, attempting to negotiate lower rates with carriers, upgrading our database, and creating new marketing initiatives.

Our Principal Services and their Markets:

Although we have our own switch which connects to other telephone operators, our long distance voice and data communications services require the services of other telephone operators that operate switches, which are electronic devices that receive calls from customers on one side and move them on to their destination on the other side. We use the network switching and transport facilities of long distance providers in which calls are transferred either by more established large telephone operators or smaller telephone operators. The more established large telephone operators typically provide a better quality of communications, such as better sound, less interference, and less sudden disconnections; however, the large telephone operators are more expensive compared with small telephone operators which have lower cost prices, but typically less service quality in these areas.

We operate a live customer service center that operates 24 hours a day, 7 days a week.

We provide the following telecommunication services:

- o Indirect telephone service: Using a four digit access code we resell telephone services provided by other carriers or through the use of our own platform. This four digit access code is used so that that people in Great Britain can dial in order to reach certain other carriers. This enables us to take calls originated by customers and route them to different destinations.
  
- c PIN access using 0800 free numbers: Using 0800 free numbers and PIN access codes for client identification, our customers can call from almost any phone, including British Telecom pay phones, to access our platform and make calls to any destination.

- c Mobile access using 0800 free numbers: This service is similar to our PIN access service but uses mobile telephone devices. The identification of the client is automatic and PIN identifier numbers are not required.

<PAGE>

- o Email to Facsimile service: Our Email2Fax service allows customers with an Internet Email account to send facsimiles at a discounted cost. The email arrives at our Internet server which we send via facsimile through high-speed facsimile modems to the proper destination. We issue a confirmation every 15 minutes indicating: (a) all successful or failed facsimile transmissions; and (b) a complete list of transmissions, including date and time of delivery, destination number, pages, duration, subject, and answerback of the transmission. Email2Fax will send a facsimile based on a pre-defined table of retries. If a facsimile does not go through within the pre-defined time, Email2Fax will cancel the facsimile and a report of the failed transmission will be included in the next status report.
- o Print to Facsimile service: Similar to our Email2Fax service, anyone with Windows 95 and an Internet browser will be able to utilize our Print2Fax service to send a facsimile through their printer driver, usually at a discounted cost. Using any Windows application that supports printing, the user selects the printer driver to receive a dialog box that allows entry of: (a) the recipient name and fax number (including multiple recipients, sent directly "To" or copied "CC"; (b) the sender's name; and (c) the subject.
- o Facsimile to Email or Cyber Number: This service allows the user to receive facsimile messages directly to an email address through the use of a personal identification number.
- o Facsimile Broadcast: This service enables our business customers to quickly send thousands of facsimiles to various destinations.
- o Nodal Services: This service enables our business customers to use a small platform located in their respective country, to establish their own messaging services within that country, including sending and receiving customer facsimiles.
- o Auracall: This is a service that was introduced in approximately March 2002, which permits any individual with a British Telecom line to make international calls at a lower cost and without prepayment for setting up an account with another carrier. The Auracall service can be accessed by any business or residential user through our website at [www.auracall.com](http://www.auracall.com). When customers need to make an international or national call they can dial the appropriate designed number for that country and save on calling rates over the current British Telecommunications published rates by gaining access to our switch and providing savings on a per minute basis.
- o Story Telecom: Initiates, markets and distributes prepaid calling cards that are served by our switch and systems. Story supplies the prepaid calling cards to retail stores through its network of dealers. These cards are sold in 5, 10, and 20 United Kingdom pound denominations. The calling card enables the holder to call anywhere in the world by dialing a toll free number from any telephone that routes the holder's call



to our Interactive Voice Response System that automatically asks for the holder's private pin code, validates the code dialed by the customer, and tells the credit balance of the card. The holder is then instructed to dial to his or her desired destination, at which time our Interactive Voice Response System tells the holder how long he or she can speak according to the balance on the card and what the cost per minute is. The holder of the card can use the card repeatedly until the balance is zero.

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- o International Toll Free Calling Card Service: We began offering international toll free calling card service during approximately June 2002 from the United States, Canada, France, Germany, Greece, Israel, Chile, Columbia, Japan, Thailand, Hong Kong, Indonesia, Australia, New Zealand, Belgium, Netherlands, Austria, Italy, Switzerland, Spain, Poland, Hungary, Ireland, Norway, Philippines, South Korea and Sweden. We also offer Story Telecom Ltd.'s branded calling cards.
  
- o Internet Based Customer Service and Billing Interface. In June 2002, we completed the creation of our Internet based customer service and billing interface at [www.xfone.com](http://www.xfone.com), which includes on-line registration, full account control, and payment and billing functions and information retrieval. To complete our Internet based customer service and billing interface, we enhanced our Internet operations by, among other things, fine-tuning our website which consisted of integrating and adding more services, perfecting our billing system, and launching our Internet operations in beta format. During 2003, we plan to continue enhancing this service at an estimated cost of \$100,000.

Carrier Pre Select Service - British Telecom is our main local service provider that manages our local telecom related infrastructure, which represents the lines from our customers to our switch. Therefore, when a customer dials "00" for international access, the call, by default, is channeled through British Telecom, and the customer pays British Telecom for that call. Prior to offering our Carrier Pre-Select Service, the customer would have to dial a special four digit code in order that British Telecom would address the call to our switch. Because many businesses and customers prefer not to dial a special code, we either programmed the customer's switchboard or installed a special add on box so that when dialing "00", it dials our four digit code. This need for this process was eliminated for customers that choose to register for our pre select service offered to our existing as well as our new customers without any additional charge. We initiated this service in October 2003. With this service, we instruct our main local service provider, British Telecom, to route the customer's telephone number when the customer dials "00" to our switch, so to Swiftnet, which allows customers to route their telephone calls through a carrier without dialing a special 4 digit access code, and without our having to program an existing switchboard or install a smart box. For instance, if our customers want to dial the United States, they can dial the standard 011, rather than having to also dial a special 4 digit access code.

Discontinued Service:

From approximately 1990 until January 2002, we offered an Email2telex service

which allowed a user with an Internet email account to send telexes to anywhere in the world at a discounted cost. In January of 2002, we discontinued offering this service due to low demand.

#### Our Platforms:

A platform generally could be any personal computer with telecommunications applications, such as calling cards and transferring call applications. We operate the following platforms in our business:

- o Telesis Switch that enables us to interconnect with other telephone carriers;
- o Calling cards and prepay platforms that enable us to use voice prompts and to accept pin numbers; and
- o Messaging platform that manages facsimile broadcasts and messaging applications.

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#### Revenues:

The percentage of our revenues are derived from the following:

- o Approximately 60% from our telephone services;
- o Approximately 10% from our messaging services, including facsimile, nodal and e-mail related services; and
- o Approximately 30% from our calling cards, including 0800 and pin access.

#### Discount Telephone Rates:

As indicated below, some of our services offer discount rates compared to some other telecom operators, such as United Kingdom's largest telecom operator, British Telecom. For instance:

- o For a call from the United Kingdom to the United States, we charge between 3 United Kingdom pence (\$0.05) per minute while British Telecom charges 17.5 to 20 United Kingdom pence (\$0.32 to \$0.36) per minute;
- o For a call from the United Kingdom to Australia, we charge 3 United Kingdom pence (\$0.05) per minute while British Telecom charges 33.30 to 41.70 United Kingdom pence per minute (\$0.6 to \$0.74); and

This information was obtained from our website at [www.xfone.com](http://www.xfone.com) and British Telecom's website at [www.serviceview.bt.com](http://www.serviceview.bt.com). We have many competitors, however, that also offer discounted rates.

#### Our Customers:

We have four major types of customers:

- o Residential - These customers either must dial a four digit access code or acquire a box that dials automatically.
- o Commercial - Smaller businesses are treated the same as residential customers. Larger businesses have the need for a Private Branch Exchange Unit, otherwise known as a PBX Unit, which is a centralized answering and calling System also known as a switchboard. We program the PBX Unit of our customers so

that all of their calls are routed to us directly, and to save the customer the need to dial a four digit access code.

- o Government Agencies - Includes the United Nations World Economic Forum, the Argentine Embassy, and the Israeli Embassy.
- o Resellers, such as WorldNet and VSAT - We provide them with our telephone and messaging services for a wholesale price. For WorldNet, we also supply the billing system.

#### Our Billing Practices:

We charge our customers based on usage by full or partial minutes. Our rates vary with distance, duration, time, and type of call, but are not dependent upon the facilities selected for the call transmission. The standard terms for our regular telephone customers require that payments are due 21 days from the date of the invoice. Our prepay telephone services represent around 37 percent of our revenues. Our supplier's standard terms are payment within 30 days from invoice date; however, some new suppliers ask for shorter payment terms.

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#### Divisions:

We operate the following divisions:

- o Partner Division - Our Partner Division operates as a separate profit center by attempting to recruit new resellers and agents to market our products and services and to provide support and guidance to resellers and agents. We currently have 20 active resellers and 21 active agents.
- o Operations Division - Our Operations Division provides the following operational functions to our business: (a) 24 hour/7 day a week technical support; (b) inter-company network; (c) hardware and software installations; and (d) operating switch and other platforms.
- o Administration Division - Our Administration Division provides the billing, collection, credit control, and customer support aspects of our business.
- o Research and Development - The function of our Research and Development Division is to develop and improve our billing system, switch and telephony platforms, websites and special projects.
- o Retail - Our Retail Division is responsible our marketing and selling campaigns that target potential and existing retail customers.

#### Geographic Markets:

Our primary geographic market is the United Kingdom. We also have customers in Angola, Australia, Austria, Bangladesh, Belgium, Benin, Brazil, Bulgaria, Cambodia, Cameroon, Canada, China, Congo, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Gibraltar, Greece, Guinea, Hong Kong, India, Indonesia, Iran, Irish Republic, Israel, Italy, Ivory Coast, Japan, North Korea, South Korea, Kuwait, Latvia, Lebanon, Liberia, Lithuania, Malawi, Malaysia, Maldives Isles, Mauritius, Nepal, Netherlands, New Zealand, Niger, Nigeria, Norway, Oman, Pakistan, Panama, Philippines, Poland, Portugal, Qatar, Russia, Saudi Arabia, Sierra Leone, Singapore, Slovak Republic, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Tanzania, Thailand, Togo, Turkey, U.A.E, Uganda, USA and Vietnam.

## Our Distribution and Marketing Methods:

We use the following distribution methods to market our services:

- o We actively recruit independent contractor agents and resellers who purchase telephone traffic directly from us at an approximately 25% discount, and who then resell this telephone traffic to their customers at a mark-up according to their own price lists;
- o We use direct marketing, primarily using facsimile broadcasts and newspaper advertisements;
- o We utilize agents that sell our services directly to customers at our established prices; these agents receive a commission of approximately 10% of the total sale amount less any bad debts;
- o We attend telecommunications trade shows in the United Kingdom to promote our services;
- o We advertise on a monthly basis in "Comms Dealer", a telecommunications agents/resellers trade magazine; and
- o We utilize the Internet as an additional distribution channel for our services. We utilize Xfone.com as our brand name for our new e-commerce telecommunications operations. We plan to build a brand name with "xfone.com" by advertising our Internet services, partnering with other websites, and offering attractive rates and quality of lines.

We do not have in-house sales personnel.

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## Future Business Plans

Our future business plans during 2004 will include the following

### Recruitment

We plan to accelerate our program of recruiting resellers and agents during 2004, as follows:

- o advertising in telecoms trade publications;
- o an on-going targeted email campaign supported by telephone marketing by our in-house staff to potential re-sellers who have been identified as ideal candidates to become reseller partners;
- o should our reseller base increase, we will employ account managers whose job will be to manage their own group of newly recruited resellers; account managers will receive a fixed salary and performance related bonuses and will report to our Director of Sales and Marketing; and
- o two senior sales personnel will be recruited to sell our fixed line and mobile services to the corporate market; we will emphasize to potential corporate clients, our combination of low cost high quality fixed line telephony together with a range of competitively priced mobile price plans.

We estimate that our recruitment related costs will be approximately \$5,000 per

month.

#### New Products

##### Swiftnet Dial Direct

Swiftnet Dial Direct is a new service where residential and small business clients can immediately have access to low cost international calls without setting up an account, prepayment, or the purchase of a calling card. As this service is totally automatic and requires no billing or account maintenance, we can offer low prices coupled with low cost to us. In March 2004, we plan to recruit self employed agents to sell this service. We estimate that our costs pertaining to this new service will be approximately \$3,000 per month.

##### Wholesale Line Rental

Beginning in April 2004, we will be able to take over British Telecom's BT line, which is the telephone line supplied by British Telecom that connects the client with the national telephone network. We will accomplish this by purchasing the BT line at wholesale rates and then reselling the line to our clients. We will bill our customers with one bill for their telephone line and their calls. This gives us complete control of the client, who only has one place to go to order additional lines and services, as well as calls. This will also give us the opportunity to offer bundled packages which for a fixed amount per month will offer line rental, a mobile phone handset, and inclusive mobile and fixed line minutes. We estimate that our costs associated with the wholesale line rental will be approximately \$8,000 per month.

##### Broadband Internet Connection

Beginning in April 2004, we will be offering a Swiftnet branded broadband Internet connection to our existing residential and business clients. We estimate that our costs associated with the Broadband Internet Connection will be approximately \$2,000 per month.

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#### New Software

New software to supply SMS broadcasting to mobile phones is being developed by a specialized software house. SMS broadcasting allows the simultaneous sending of a text message to several thousand recipients. We plan to supply SMS broadcasting to our reseller and client base in approximately May 2004. We estimate total costs of approximately \$20,000 associated with the new software.

#### New Marketing Initiatives

We will be seeking partnerships with charities and groups or entities with a loyal client or supporter base, providing that they have a minimum of 1000 supporters. We will initially target over 1000 soccer clubs located in the United Kingdom to offer affinity deals, where supporters receive low cost telephone calls and the clubs receive a monthly percentage of the call revenue. We will also be looking at other opportunities in the sporting arena together with retailers who have their own loyalty card customer base and credit card companies.

Direct fax broadcasting and email and SMS marketing will continue to be used as tools to attract new end user clients. We are also considering setting up an outbound telemarketing operation which will be outsourced to a specialist call centre in Asia.

We estimate that our costs associated with the new marketing initiatives will be approximately \$10,000 per month.

#### Carriers and Negotiating Lower Rates

Our increased sales in 2003 have enabled us to negotiate significantly lower rates with the carriers we use to carry our international call traffic, which gives us the opportunity to increase our margins or offer significant reductions to secure deals with major clients. Should our sales increase, we will continue to negotiate for lower rates should our sales increase.

#### IT and Software Development

We are in the process of upgrading our database which the core of our client maintenance and billing system. This will give us daily access to sales and profitability per client and enable us to check carrier rates on a daily basis. We are also introducing new Customer Relationship Management software to track our prospects and clients. We estimate that our IT and software development related costs will be approximately \$30,000, which we plan to fund from our operations.

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#### Material Agreements:

##### RESELLER AGREEMENTS

We have agreements with approximately 20 resellers. The following agreements represent our principal reseller agreements.

##### Worldnet Reseller Services Agreement

Our wholly owned subsidiary, Swiftnet, Ltd, has a March 8, 2000 reseller agreement with Worldnet Global Communications, Ltd., which is located in London, United Kingdom. In this agreement, Worldnet agrees to sell the telecommunications services supplied by Swiftnet and to use its best endeavors to promote Swiftnet's services, but agrees not to refer directly or indirectly to Swiftnet or use any of Swiftnet's trade names or literature or hold it out to be in any way connection to Swiftnet. The agreement further provides that Swiftnet reserves the right to reject any customer and the right to use any carrier and/or subcontractor to perform some or all of its obligations. Swiftnet may without prejudice terminate the agreement immediately by serving written notice to the reseller if Worldnet becomes Insolvent or fails to make any payment when due under the agreement after having received 7 days written notice to do so from Swiftnet. Worldnet may terminate this agreement immediately by serving written notice on Swiftnet if Swiftnet becomes Insolvent or its license is revoked or altered so that it is not permitted by law to provide the services.

##### Story Telecom Ltd. Agreement

Our subsidiary, Swiftnet, owns a 40% interest in Story Telecom Ltd. This 40% interest was conveyed to Swiftnet in accordance with the terms of a September 30, 2002 agreement. The parties to the agreement, us, Swiftnet, Ltd., and Mr. Nir Davidson who is the Managing Director of Story Telecom, Ltd, agreed to establish a joint business to develop, sell, market, and distribute telecommunications products bearing the name of Story Telecom Ltd.

Under the agreement, Swiftnet will supply Story Telecom Ltd. with:

- (a) Cost plus 6% prices (to cover certain costs) with the base cost plus percentage for the first three months of operations at 4%;
- (b) Its technological backbone, which includes Swiftnet's hardware and software capabilities, including its switch and billing system;

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- (c) Technical help service (24 Hours/7 Days a week); and
- (d) Use of relevant software and hardware, including switch, billing, and an Interactive Voice Response System. An Interactive Voice Response System is a voice recognition system that allows the customer to listen to the amount of minutes remaining on an individual's calling card and dial a desired telephone number without the need for an operator.

Under the agreement, Nir Davidson will supply Story Telecom Ltd. with the following:

- (a) Marketing and sales;
- (b) Distribution channels; and
- (c) Management in which Nir Davidson will function as the Managing Director of Story Telecom Ltd.

In addition, the agreement provides that Nir Davidson will have the right to receive options to purchase our shares of common stock if by September 2003, the Story Telecom project meets the sales and profit formula specified in paragraph 28 of the agreement. Because Story Telecom failed to meet the sales and profit criteria, on September 30, 2003, the right for the options was cancelled.

Separate and apart from this agreement, because Story Telecom achieved growth since its inception, which has enabled us to attain certain achievements in our business plan, our Board of Directors issued a resolution on September 3, 2003 which provided that we or our major shareholders, Mr. Keinan, who is our Chairman of the Board, Vision Consultants, an affiliated entity, and Campbeltown Business Ltd., also an affiliated entity, in order to provide an incentive to Mr. Davidson and to enhance his loyalty to us, will grant him options to purchase 500,000 shares of common stock. The September 3, 2003 resolution further provides that these major shareholders have the first right to sell to Mr. Davidson their own shares or a portion of them at the same terms, rather than our issuing such shares. Immediately after the September 3, 2003 resolution was passed, the major shareholders, Vision Consulting and/or Abraham Keinan and/or Campbeltown Business, Ltd., notified Mr. Davidson and us that they decided to exercise their first right by granting Mr. Davidson the options to purchase the 500,000 shares from their own shares of our common stock. Therefore, as of the date of this notice we were no longer under the obligation to grant an option or issue shares of common stock to Mr. Davidson under this resolution.

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#### Newco Agreement

Our wholly owned subsidiary, Swiftnet, Ltd., has an October 16, 2001 agreement titled "Formation of Newco" which became Auracall Limited. The agreement provides that Dr. Nissim Levy and Swiftnet, will establish a company, Newco, for the purpose of developing telecommunication business based on non-geographic numbers, which are identified in the agreement as using Swiftnet premium numbers bands for customers to call international or national destinations paying British Telecom directly while British Telecom pays Newco through Swiftnet. Swiftnet premium numbers bands are special numbers, such as "0870" that Swiftnet can provide for Auracall's customers to call international or national destinations in which such customers pay British Telecom directly while British Telecom pays Swiftnet and Swiftnet pays Auracall. The agreement further provides that:

- a) The first stage of the budget for the company will not exceed 100,000 United Kingdom pounds;

- b) Dr. Levy will finance by way of a loan, 75% of the ongoing expenses for 100% of the shares in Auracall;
- c) Swiftnet will finance by way of a loan, 25% of the ongoing expenses and provide cost plus prices as well as management advice and technical support, for an option to be exercised at any time to receive 50% of the shares of Newco or in case of a dilution, to receive the same amount of shares as Dr. Levy;
- d) Newco will repay the loans only from net profits. In case Swiftnet does not exercise its options, it will be entitled to management fees equal to the monies that Dr. Levy will be entitled to receive from Newco. Once the loans are repaid, Swiftnet and Dr. Levy (or assignees) will be entitled to the exact same amounts as a fee/profit share.
- e) Newco will receive 10% of the paid turnover of customers that it will introduce to Swiftnet, except for mobile phones where the percentage will be 7.
- f) Newco will have the right to sell other services and products that Swiftnet offers or will offer in the future for the beset wholesale price available.

In May 2002, Swiftnet exercised its option to receive 50% of the shares of Auracall and both Swiftnet and Dr. Levy agreed to give 5% of Auracall's shares to Mr. Kirschner; therefore, the shares of Auracall were allocated as follows:

- (a) Swiftnet, Ltd - 475 shares, representing 47.5% of Auracall's shares;
- (b) Dr. Nissim Levy - 475 shares, representing 47.5% of Auracall's shares; and
- (c) Dan Kirschner, acting as Auracall's Managing Director - 50 shares, representing 5.0% of Auracall's shares.

In practice, Dr. Levy, and Swiftnet each provided a loan to Auracall to the level of about 45,000 and 15,000 United Kingdom pounds, respectively.

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Agreement between Dan Kirschner and Swiftnet, Ltd.

On August 21, 2003, Dan Kirschner, the Managing Director of Auracall, Ltd. completed an agreement with Swiftnet providing that Swiftnet will not object that Dr. Nissim Levy will sell all of his shares in Auracall to Mr. Kirschner once the current agreement between Swiftnet and Dr. Levy concerning the payout of profits to cover debt/investments and other conditions are fulfilled.

Kirschner and Swiftnet agreed to accept the following conditions **which were** affirmed in the original agreement between Dr. Levy and Swiftnet:

- a) Any increase in Auracall's budget will require the approval of Kirschner and Swiftnet;
- b) Swiftnet will provide cost plus prices as well as management advice and technical support. Swiftnet will sell the service to Auracall and will be responsible for the technical side. Swiftnet undertakes to exhibit to Auracall all licenses, price lists, or other permissions/documents necessary for the operation of its business;
- c) Any decision about payments of loans, dividends, salaries, grants or similar expenses will have to be decided by the board of directors



with veto rights to both sides;

- d) Auracall will receive ten percent of the paid turnover of customers that it will introduce to Swiftnet, except for mobile phones where the percentage will be seven;
- e) Auracall will have the right to sell other services and products that Swiftnet offers or will offer in the future for the best wholesale price available;
- f) Auracall's board of directors will be comprised of 4 members: 2 nominated by Swiftnet and 2 by Mr. Kirschner;
- g) Auracall will operate according to an agreed business plan and decide on each investment and expense based on the viability of the opportunity; and
- h) Both parties will make available their contacts, connections and influence for the success of Auracall.

The agreement further provides that once the current agreement between Swiftnet and Dr. Levy concerning the payout of profits to cover debt/investments is fulfilled, Kirschner's salary will be reinstated to 50,000 pounds and Swiftnet will receive 24,000 pounds as management/consultancy fees. Further salary/fees will be agreed together mutually.

The agreement further provides that as a bonus, Auracall will issue to Mr. Kirschner further shares from treasury to the level that Mr. Kirschner will hold 67.5% of Auracall and Swiftnet will hold only 32.5% of Auracall.

This bonus is subject to the following pre-conditions:

- (a) Mr. Kirschner will purchase from Dr. Levy his shares of Auracall.
- (b) Mr. Kirschner will still act as Auracall's Managing Director.
- (c) Mr. Kirschner will hold no less than 40% of Auracall's shares.
- (d) Auracall will reach a monthly turnover of 150,000 pounds within two years from the date that the arrangement between Swiftnet and Dr. Levy will be finalized.

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The agreement between Mr. Kirschner and Swiftnet also provides that it will take effect only after the arrangement between Mr. Kirschner and Dr. Levy will be finalized.

In January 2004, Dr. Levy sold all of his 475 shares to Mr. Dan Kirschner. Therefore, Mr. Kirschner now owns 52.5% of Auracall's shares and Swiftnet owns 47.% of Auracall's shares.

#### SUPPLIER AGREEMENTS

We have approximately 10 agreements with suppliers of telephone routing and switching services. The following represent material supplier agreements.

Wholesale Master Services Agreement with WorldCom International, Ltd.

Swiftnet has a 1998 agreement with Worldcom International, Ltd. in which Worldcom provides telephone connection services to Swiftnet as its customer. Such services are provided by Swiftnet providing Worldcom with service orders in the form proscribed by Worldcom. Swiftnet is required to pay the invoices submitted by Worldcom to Swiftnet within one month. Swiftnet is prohibited under

the agreement with: (a) referring to Worldcom in any marketing or services literature, unless it obtains the written consent of Worldcom; (b) purport to act on behalf of or represent itself as acting on behalf of Worldcom; or (c) seek to resell the services of Worldcom to other Worldcom customers. Our agreement with WorldCom International, Ltd. may be terminated by either party with thirty days notice. In addition, the contract may be terminated immediately if either other party has committed a material breach of the agreement that is incapable of remedy. Any breach capable of remedy must be corrected within 15 days. We do not have an exclusive agreement with WorldCom International, Ltd.; Worldcom International, Ltd. provides these same services to our competitors.

#### Open Air Agreement

Swiftnet has an April 2, 2003 agreement with Easyair Limited which is located in London, United Kingdom, and is otherwise known as Openair. In this agreement, OpenAir agrees to sell and Swiftnet agrees to purchase goods and services that Swiftnet orders according to OpenAir's price list. In practice, this price list has changed on a daily or weekly basis. OpenAir reserves the right, by written notice to Swiftnet, to increase the price of goods or services to reflect any

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increase in OpenAir's cost. Swiftnet is required to pay OpenAir's invoices within 45 days of the date of the invoice. If Swiftnet fails to pay the invoice within that 45 day period, OpenAir may charge Swiftnet interest on the outstanding amount at 4% per annum of the Yorkshire Bank Plc base rate and may suspend delivery of goods and services. The agreement further provides that Swiftnet is required to perform certain obligations to OpenAir, including: (a) use its reasonable endeavors to promote the resale of goods and services to customers; (b) conform and adhere to OpenAir's manual for the soliciting and processing of orders from customers; (c) inform OpenAir of any changes in Swiftnet's ownership or organization or methods of doing business which might affect the performance of or financial ability to comply with Swiftnet's obligations under the agreement; and (d) cooperate fully with OpenAir to resolve any complaints from customers. Swiftnet and OpenAir are required to use their best endeavors to keep secret and confidential all confidential information. The terms of the agreement is one year and continues thereafter unless written notice is provided.

#### British Telecommunications Agreement

Swiftnet has an August 8, 2000 agreement with British Telecommunications, a public limited company registered in the United Kingdom. This agreement provides that British Telecommunications, as a Schedule 2 Public Operator, which permits it to sell local and national telephone connection services, will connect its systems to our operator system to furnish us with telecom related services and facilities. We are required to pay to British Telecommunications charges specified in their carrier price list. If Swiftnet or British Telecommunications are in receipt of any confidential information regarding the other party, such information is required to be kept confidential.

#### Teleglobe International Agreement

Swiftnet has a May 13, 1996 agreement with Teleglobe International (United Kingdom) Ltd., a company located in London, England. In this agreement, Swiftnet and Teleglobe agree to connect and keep connected their respective telecommunication systems allowing Swiftnet to convey international outbound calls via Teleglobe. Teleglobe agrees to convey calls received from Swiftnet's telecommunications system to the telephone number called or to another telecommunications system connected to Teleglobe's system. The term of the agreement is for an initial term of 6 months and continues in effect unless terminated in writing by Swiftnet or Teleglobe by giving notice of not less than 6 months. The rates payable by Swiftnet to Teleglobe may vary upon thirty days

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written notice to Swiftnet. The billing of the services is based on the total call seconds per month per destination. Teleglobe and Swiftnet are required to keep in confidence all confidential information. Teleglobe and Swiftnet may terminate the agreement without prejudice to the other party by written notice in the case of a material breach of the agreement, any license of either party is revoked or is terminated, or if there is an arrangement or composition with creditors generally or by a court application or bankruptcy order.

#### ITXC Corporation Services Agreement

Swiftnet has a February 20, 2003 agreement with ITXC Corporation, a Delaware corporation, in which ITXC at its sole cost, is required to purchase and furnish to Swiftnet equipment necessary to assist it in the performance of Swiftnet's telecom services, including IP telephony gateways. ITXC is also required under the agreement to provide Swiftnet with remote management, maintenance, operation and support of the ITXC equipment. ITXC is required to route subscribers Internet Telephony to be routed over ITXC.net. The current ITXC prices for exchange rates are to be provided by Swiftnet by written notice and ITXS has the sole discretion in setting the rates.

Swiftnet is responsible under the agreement to provide all end-user or caller related services to its subscribers, such as billing, collections and customer care and is required to independently operate gateways for use by its subscribers and charge its subscribers such rates as Swiftnet deems appropriate. Swiftnet is required to pay for the services furnished by ITXC in connection with the equipment or as otherwise provided in the agreement. Swiftnet is required to meet a minimum monthly commitment of 75,000 minutes of use per month and if it fails to achieve this monthly requirement, Swiftnet is required to pay ITXC a monthly service charge in the amount of \$1,000. The agreement further provides that title to the equipment will remain with ITXC. The term of the agreement is 1 year with successive 90 days terms renewed automatically.

#### CONSULTING AGREEMENT

##### Stern & Company Consulting Agreement

On January 9, 2004, we executed an agreement with Stern and Company, a business consultant, to provide us with the following services: (a) become familiar with

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our business and operations and review and analyze our formal and informal strategic, marketing, financial and business plans; and (b) advise us in strategic planning matters and assist in the implementation of short and long term strategic planning initiatives to enhance and accelerate the commercialization of our business objectives. The term of the agreement is 6 months from the date of acceptance by us. In return for the services furnished by Stern and Company to us, we agree to issue Stern and Company: (a) 17,500 shares of our common stock; (b) 17,500 warrants at \$3.50 which expire 10 days after our commencement of trading on NASDAQ small cap or the AMEX; (c) 17,500 warrants at \$5.50 which expire in 5 years. As further provided in the agreement, the shares and warrant shares have anti-dilution provisions, piggy-back registration rights and cashless exercise rights.

#### PUBLIC RELATIONS AND INVESTOR RELATIONS AGREEMENT

##### Portfolio PR Agreement

On December 23, 2003, we executed an agreement with Portfolio PR, Inc., to provide us with public relations and investor relations services. Under the

agreement, Portfolio PR agrees to provide the following services during the first two months of the agreement: (a) develop a branding statement and "story" pertaining to us; (b) incorporate into a strategic corporate profile and power point presentation; and (c) advise our management on how to make our website more investor-friendly; produce a marketing-oriented and cost-effective annual report. Further, under the agreement, Portfolio PR agrees to provide us with the following additional services: (a) develop a strategic press release program; (b) build a media campaign around our cost-effective services; (c) work with management to demonstrate its expertise by developing articles and white papers for distribution to trade groups and organizations, conferences, and trade shows; (d) build an appropriate investor database; (e) plan, arrange, and manage road shows with targeted money managers, investors, retail brokers, and media in major financial cities; (f) if appropriate, develop a virtual road show program; (g) update the corporate profile and media fact sheet quarterly or as needed; (h) be available on a special projects basis to handle event programming opportunities; and (i) serve as investor relations counsel to address a range of issues, such as Regulation FD disclosure.

In return for the above services that entitles us to 50 hours of services per month, we agree to pay Portfolio PR: (a) until we are listed on NASDAQ, if ever,

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\$3,500 a month and 1000 shares per month; (b) if we are listed on NASDAQ, \$4,000 per month and 1,200 shares per month. In addition, we agree to provide Portfolio PR with the following warrants: (a) 50,000 warrants to buy shares for \$10 per share; (b) if we become listed on NASDAQ within 6 months, an additional: (i) 50,000 warrants to buy shares for \$6 per share; and (ii) 100,000 warrants to buy shares for \$10 per share. The warrants expire within twelve months. The warrant exercise price of \$6 and \$10 are totally arbitrary and bears no relationship to the present or future fair market value of our common stock.

Subsequent to the reporting period ending December 31, 2003, on April 23, 2004, we canceled our agreement with Portfolio PR Inc. "for cause". In June 2004, Portfolio PR agreed to receive from us \$7,209.09 in cash and 4,000 shares of our common stock as total and final consideration and further agreed that we would have no further obligation to pay it any additional cash, shares, warrants, or any other consideration in connection with this agreement.

#### SELLING SHAREHOLDER RELATED AGREEMENTS

In connection with our January/February 2004 private placement, we entered into the following agreements with the Selling Shareholders:

- o Shares and Warrant Purchase Agreement;
- o Registration Rights Agreement;
- o Warrant A Agreement; and
- o Warrant B Agreement

These agreements contain standard representations and warranties by us to the selling shareholders. Additionally, each selling shareholder that purchased our common stock was required to sign an Irrevocable Proxy which appointed our Chief Executive Officer, Guy Nissenson, as proxy for each selling shareholder, and which grants to our Chief Executive Officer an aggregate of 969,237 shares that he may vote for the selling shareholders. These agreements further provide, as follows:

#### Shares and Warrant Purchase Agreement

In connection with a private placement we conducted during January and February 2004, we sold to the selling shareholders an aggregate of 969,237 shares of our common stock at a purchase price of \$3.00 per share. Each selling shareholder who purchased common stock was also granted one Warrant A and one Warrant B for each share of common stock purchased. This agreement also provides for the

following under A-C below:

#### A. Successors and Assigns

We may not assign the common stock purchase agreement, or any of our rights or obligations under the agreement without the prior written consent of the Purchasers. The Purchasers may assign any or all of its rights under the common stock purchase agreement to any party. Accordingly, the assignee will have the benefit of the provisions of the common stock purchase agreement that are intended to protect Purchaser until the underlying common stock may lawfully be resold to the public in compliance with applicable securities laws.

#### B. Governing Law

The Shares and Warrant Purchase Agreement, and the related transaction

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documents, are governed by the internal laws of the State of New York, and all legal proceedings in connection with the common stock purchase agreement must be commenced exclusively in the state and federal courts sitting in the City of New York. Thus, all questions concerning the validity, enforcement and interpretation of the common stock purchase agreement and the related transaction documents, will be determined by reference to New York law.

#### C. Liquidated Damages

This agreement provides for varying terms which vary based upon the negotiations we conducted with each respective selling shareholders, as described below under A and B:

A. Legend Removal Failure - We agreed to remove the restrictive legends on the selling shareholder certificates in compliance with state and federal laws. The penalties vary among the selling shareholders, but are either:

- o Within 12 months of the purchase date, if we fail to cause the legend to be removed as of the 14th business day after the selling shareholder has made a request for the legend removal, the selling shareholder may require us to pay him or her an amount equal to 130% of his purchase price for all or a portion of the shares and warrant shares he or she purchased;
- o Within 24 months of the purchase date, if we fail to remove the restrictive legend after 3 trading days following delivery of the certificate to either our transfer agent or to us (the Legend Removal Date), the shareholder may require us to pay him either: (i) \$10 per trading day per \$1000 worth of purchased shares and/or warrant shares, the worth being based upon the stock's closing price on the Legend Removal Date, and after 5 trading days, \$20 per trading day per \$1000 worth of purchased shares and/or warrant shares; or (ii) an amount equal to 130% of his purchase price for all or a portion of the shares and warrant shares he purchased.

B. Rights of Participation in Additional Financing - We may be required to allow selling shareholders the right to participate in any subsequent financings that we may offer. The terms vary as to the maximum percentage of the financings in which each selling shareholder may participate, and, if our subsequent financing

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has the effect of issuing shares below the \$3.00 per share price paid by the

selling shareholders, we may be required to adjust the selling shareholder's purchase price to that same lower price.

#### Registration Rights Agreement

This agreement obligates us to register the common stock covered by this Prospectus and contains certain mutual indemnification provisions indemnifying us and the selling shareholders and any officers, directors, agents and employees associated with us or the selling shareholders.

#### Warrant A Agreement

This agreement provides that each Warrant A grants the shareholder the right to purchase our common stock at a price of \$5.50 per share. The Warrant A is exercisable until five years after the purchase date, which is January or February 2009.

#### Warrant B Agreement

This agreement provides that each Warrant B grants the shareholder the right to purchase our common stock at a price of \$3.50 per share. The Warrant B is exercisable until the earlier of: (i) 10 days after our registration statement is effective or 10 days after the Company's common stock is traded on the NASDAQ Small Cap or the American Stock Exchange; or (ii) the date that is 375 days following the date of the purchase date.

#### Competitive Business Conditions

The communications and information services industry is highly competitive and varied. We have only approximately 0.3% of the market share of the United Kingdom based long distance and international telecom market, based on our revenues of \$12,962,282 (approximately 7.3 United Kingdom pounds) during 2003, compared with a \$4.1 billion dollar long distance and international telecom market in the United Kingdom (approximately 2.3 billion United Kingdom pounds), according to the United Kingdom regulatory oversight of these companies, the Office of Communications - United Kingdom, otherwise known as Ofcom, the website of which may be accessed at [www.ofcom.org.uk](http://www.ofcom.org.uk). Many of our existing and potential competitors, including approximately 160 licensed telecom carriers in the United Kingdom, have greater financial, personnel, marketing, customer bases and other financial resources significantly greater than ours. Our competitors include:

- o Large regional carriers in the United Kingdom such as British Telecom;
- o Other regional carriers in the United Kingdom such as OneTel, Telediscount, Alpha, and Primus;
- o Smaller regional carriers such as Quip.com;
- o Wireless telecommunications providers such as Vodafone, T-Mobile, and Orange; and
- o International carriers.

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Many of our competitors have the flexibility to introduce new service and pricing options that may be more attractive to our existing as well as our future potential customers. As a result: (a) these competitors have greater growth and profit potential than us; (b) competition may adversely affect our telecommunications related market share; (c) our competition may lead to a decrease in the rate at which we add new customers; and (d) price competition or promotional incentives offered by our competitors may lead to decreases in the rates that we charge, which may adversely affect our potential profitability.

We will attempt to overcome the competitive advantages of our competitors by:

- o Enhancing our personal contact with our customers and local agents;
- o Providing our customers with the option to control and see their account over the Internet;
- o Negotiating volume discounts with our underlying carriers; and
- o Increasing our ability to direct customer call traffic over the transmission networks of more than one carrier.

Principal Suppliers:

Our principal suppliers of telephone routing and switching services according to the percentage that each provides are:

- o Teleglobe International -- 35%
- o British Telecommunications -- 24%
- o Worldcom -- 20%
- o ITXC Corporation -- 15%

Dependence on Major Customers:

During 2003, there were two customers that accounted for more than 10% of our revenues: (a) our affiliate, Story Telecom, represented approximately 36% of our total revenues; and (b) British Telecom represented approximately 18% of our total revenues. Collectively, the United Kingdom accounts for approximately 90% of our revenues. We do not anticipate that any other customers will account for more than 10% of our revenues during 2004.

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Patents, trademarks and licenses:

On January 9, 2004, we received notification from the Trademarks Registry Office of Great Britain that as of August 8, 2003, our trademark, "Xfone", was registered by that government agency. We do not have any other patents or trademarks, nor have we filed any other applications for patents or trademarks. Our subsidiary, Swiftnet, Ltd., is licensed in the United Kingdom as an international telecommunication carrier.

Regulatory Matters:

In 1996, our subsidiary, Swiftnet, Ltd., was granted a license to operate a telecommunications system from the Secretary of State for Trade and Industry of the United Kingdom. The license may be revoked by this agency upon thirty days notice in the event of certain conditions such as misconduct or breach of various telecommunications laws.

We are affected by regulations introduced by Secretary of State for Trade and Industry of the United Kingdom. Since the break up of the United Kingdom telecommunications duopoly consisting of British Telecom and Mercury in 1991 it has been the stated goal of Secretary of State for Trade and Industry to create a competitive marketplace. Secretary of State for Trade and Industry has imposed mandatory rate reductions on British Telecom in the past, which are expected to continue for the near future. We do not believe that any regulations introduced by Secretary of State for Trade and Industry will interfere with or substantially hurt our business.

Our business operates in at least 75 countries, all of which have different regulations, standards and controls related to licensing, telecommunications, import/export, currency and trade. We believe that we are in substantial compliance with these laws and regulations.

Since only messaging services but no calls by our customers originate in the United States, we do not believe that we are subject to any telecommunications laws or regulations in the United States. In the future, if our services expand, it is possible that we will become subject to the telecommunications laws and regulations of the United States. If this occurs, compliance with such laws will involve higher costs than we now have in Europe.

#### Cost of Compliance with Environmental Laws

We currently have no costs associated with compliance with environmental regulations. We do not anticipate any future costs associated with environmental compliance; however, there can be no assurance that we will not incur such costs in the future.

#### Research and Development:

Other than developing and expanding our telecommunications applications and our website, we do not intend to undertake any significant research and development activities. During fiscal year 2002, we spent \$56,960 US on research and development. During 2003, we spent \$79,304 US on research and development.

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#### Employees

We have 12 full-time employees consisting of:

- o 1 Chief Executive Officer/President that directs our overall operations;
- o 1 Chairman of the Board, whose duties apart from being our Chairman of the Board, are to initiate and assist with telecom related projects;
- o 1 Research and Development Manager that directs and initiates various technological and software related projects;
- o 1 Marketing Manager, that directs our marketing initiatives, including marketing pertaining to resellers and agents, advertising and direct marketing;
- o 1 Operational Manager, that directs the technical and operational aspects of all telecom related matters pertaining to our business;
- o 1 Financial Controller, that directs our financial operations; and
- o 6 employees in our administration department that perform secretarial, filings, and other administrative duties and provide our customers with technical and billing information and support.

We also have 3 part-time employees that operate in shifts, assisting our administrative employees.

#### REPORTS TO SECURITY HOLDERS

We are subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and other reports and information with the Securities and Exchange Commission. You may read and copy these reports in Washington, D.C. Our filings are also available to the public from commercial document retrieval services and the Internet world wide website maintained by the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).



## ITEM 2. DESCRIPTION OF PROPERTY.

Our corporate headquarters are located at 960 High Road, London N12 9RY - United Kingdom. This 3,000 square foot facility has seven offices, one board room, one computer room, one operation room that controls the computer room, entrance hall, main hall, accounting, secretarial and administration and 2 kitchens. Our office is located on the fifth floor of a six floor building with a concierge, two elevators and parking facilities. Our premises were leased on a 5 year term, which was due to expire on December 12, 2001. The yearly lease payments are approximately \$23,421.00 (15,900 Pound Sterling). On December 20, 2002, we renewed our lease for a period of 10 years, with a five year cancellation option. Our current lease expires on December 20, 2012. The yearly lease payments have been increased to \$34,320 (24,000 Pound Sterling).

Our offices are in good condition and are sufficient to conduct our operations.

We do not own any property nor do we have any plans to acquire any property in the future. We do not intend to renovate, improve or develop any properties. We are not subject to competitive conditions for property and currently have no property to insure. We have no policy with respect to investments in real estate or interests in real estate and no policy with respect to investments in real estate mortgages. We have no policy with respect to investments in securities of or interests in persons primarily engaged in real estate activities.

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## ITEM 3. LEGAL PROCEEDINGS.

In August 2002, we filed a summary procedure lawsuit in the court of Tel - Aviv, Israel against MG Telecom Ltd. and its Chief Executive Officer, Mr. Avner Shur. In this lawsuit, we allege an unpaid debt due to us in the amount of \$50,000 from MG Telecom for services rendered by us to MG Telecom. The debt arose from an agreement between us and MG Telecom, a provider of calling card services, in which traffic originating from MG Telecom calling cards was delivered through our system in London, England. Mr. Shur signed a personal guarantee agreement to secure MG Telecom's obligations under the agreement. During October 2002, Mr. Shur filed a request for leave to defend. The court has not rendered a judgment in the matter and we are unable to determine the future disposition of this matter. The court session for the hearing of the evidence was scheduled for February 24, 2004, but postponed to March 22, 2004, at which time an evidentiary hearing was held. An additional evidentiary hearing will be held on September 6, 2004.

Other than the above, we are not a party to any material pending legal proceeding, nor is any of our property the subject of such a legal proceeding. However, we may become subject to dispute and litigation in the ordinary course of our business. None of these matters, in the opinion of our management, is material or likely to result in a material effect on us based upon information available at this time.

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

Not Applicable

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## PART II.

## ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Below is the market information pertaining to the range of the high and low bid information of our common stock for each quarter since our common stock has been

quoted on the OTC Bulletin Board. Our common stock is quoted under the symbol XFNE on the OTC Bulletin Board and on the Berlin (Germany) Stock Exchange. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

2004 ----	Low ---	High ----
First Quarter	\$3.35	\$5.75

  

2003 ----	Low ---	High ----
Fourth Quarter	\$3.15	\$6.25
Third Quarter	\$0.51	\$3.60
Second Quarter	\$0.30	\$0.64
First Quarter	\$0.30	\$0.77

  

2002 ----	Low ---	High ----
Fourth Quarter	\$0.66	\$1.45
Third Quarter	\$0.70	\$1.33
Second Quarter	\$0.70	\$3.65
First Quarter	\$0.00	\$0.00

The source of the above information is [www.OTCBB.com](http://www.OTCBB.com) Data Products, Historical Data Service.

There is a limited trading market for our common stock. There is no assurance that a regular trading market for our common stock will develop, or if developed will be sustained. A shareholder in all likelihood, therefore, will not be able to resell their securities should he or she desire to do so when eligible for public resales. Furthermore, it is unlikely that a lending institution will accept our securities as pledged collateral for loans unless a regular trading market develops.

#### PENNY STOCK CONSIDERATIONS.

Our Shares are "penny stocks" as that term is generally defined in the Securities Exchange Act of 1934 as equity securities with a price of less than \$5.00. Our shares are subject to rules that impose sales practice and disclosure requirements on broker-dealers who engage in certain transactions involving a penny stock.

Under the penny stock regulations, a broker-dealer selling a penny stock to anyone other than an established customer or "accredited investor" must make a special suitability determination regarding the purchaser and must receive the purchaser's written consent to the transaction prior to the sale, unless the broker-dealer is otherwise exempt. Generally, an individual with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 individually or \$300,000 together with his or her spouse is considered an accredited investor.

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In addition, under the penny stock regulations the broker-dealer is required to:

- o Deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt;
- o Disclose commission payable to the broker-dealer and its registered representatives and current bid and offer quotations for the securities;
- o Send monthly statements disclosing recent price information

pertaining to the penny stock held in a customer's account, the account's value and information regarding the limited market in penny stocks.

- o Make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction, prior to conducting any penny stock transaction in the customer's account.

Because of these regulations, broker-dealers may encounter difficulties in their attempt to sell shares of our common stock, which may affect the ability of shareholders to sell their shares in the secondary market and have the effect of reducing the level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities. In addition, the liquidity for our securities may be adversely affected, with a corresponding decrease in the price of our securities. Our shares are subject to such penny stock rules and our shareholders will, in all likelihood, find it difficult to sell their securities.

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HOLDERS.

At June 7, 2004, there were 145 holders of record of our common stock. We have one class of common stock outstanding.

DIVIDENDS.

On December 19, 2002, we declared our first cash dividend in the amount of \$0.02 per common share. The cash dividend was payable on January 15, 2003 to our common stockholders of record at the close of business on December 31, 2002. On December 30, 2003, we declared a cash dividend of \$.03 per shares on our common stock for all shareholders of record of our common stock at the close of business on December 31, 2003. We paid this dividend on February 16, 2004.

Apart from this dividend, we have not declared any cash dividends on our common stock since our inception and we do not anticipate at the present time paying further dividends in the foreseeable future. Currently, we plan to retain future earnings, if any, for use in our business. Any decisions as to future payment of dividends will depend on our earnings and financial position and such other factors, as the Board of Directors deems relevant.

Securities Authorized for Issuance under Equity Compensation Plans.   
Not applicable.

RECENT SALES OF UNREGISTERED SECURITIES

On August 21, 2003, we issued 400,000 options to acquire shares of our restricted common stock to Abraham Keinan. These options were issued to Abraham Keinan for services rendered by Abraham Keinan as the Chairman of our Board of Directors. These options are exercisable at a price of \$0.475 per share. Each option is convertible into one (1) share of stock. These options vested immediately and expire on August 21, 2008. We relied upon Section 4(2) of the Act for the offers and sales to Abraham Keinan. We believed that Section 4(2) was available because the offer and sale did not involve a public offering. On March 1, 2004, our Board of Directors cancelled these options. This cancellation was in accordance with our August 21, 2003 board resolution signed by all members of the Board of Directors, including Messsrs Keinan and Nissenson, the proposed recipients of the options, which states that the "options are cancelable at the sole discretion of Xfone for a period not exceeding 210 days from the date these options are granted.

On August 21, 2003, we issued 200,000 options to acquire shares of our restricted common stock to Guy Nissenson. These options were issued to Guy

Nissenson for services rendered by Mr. Nissenson as our President and Principal Executive Officer. These options are exercisable at a price of \$0.475 per share. Each option is convertible into one (1) share of stock. These options vested immediately and expire on August 21, 2008. We relied upon Section 4(2) of the Act for the offers and sales to Guy Nissenson. We believed that Section 4(2) was

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available because the offer and sale did not involve a public offering. On March 1, 2004, our Board of Directors cancelled these options. This cancellation was in accordance with our August 21, 2003 board resolution signed by all members of the Board of Directors, including Messrs Keinan and Nissenson, the proposed recipients of the options, which states that the "options are cancelable at the sole discretion of Xfone for a period not exceeding 210 days from the date these options are granted.

On September 30, 2002 we entered into an agreement with Nir Davidson. Nir Davidson had the option to our shares of common stock 12 months after the September 30, 2002 agreement, if the Story Telecom project generated a sufficient amount of sales and profits according to a specified formula in the agreement; however, the project failed to meet the profits criteria and on September 30, 2003 the right for the options was cancelled.

Separate and apart from this agreement, because Story Telecom achieved growth since its inception, which has enabled us to attain certain achievements in our business plan, our Board of Directors issued a resolution on September 3, 2003 which provided that we or our major shareholders, Mr. Keinan, who is our Chairman of the Board, Vision Consultants, an affiliated entity, and Campbeltown Business Ltd., also an affiliated entity, in order to provide an incentive to Mr. Davidson and to enhance his loyalty to us, will grant him options to purchase 500,000 shares of common stock. The September 3, 2003 resolution further provides that these major shareholders have the first right to sell to Mr. Davidson their own shares or a portion of them at the same terms, rather than our issuing such shares. Immediately after the September 3, 2003 resolution was passed, the major shareholders, Vision Consulting and/or Abraham Keinan and/or Campbeltown Business, Ltd., notified Mr. Davidson and us that they decided to exercise their first right by granting Mr. Davidson the options to purchase the 500,000 shares from their own shares of our common stock. Therefore, as of the date of this notice we were no longer under the obligation to grant an option or issue shares of common stock to Mr. Davidson under this resolution.

On January 1, 2004, we granted the following warrants to Portfolio PR, a New York corporation owned and controlled by Paul Holm, in exchange for services: (a) 50,000 warrants to purchase 50,000 shares of our common stock at an exercise price of \$6.00 per share; and (b) 50,000 warrants to purchase 50,000 shares of our common stock at an exercise price of \$10 per share. The warrants expire on January 1, 2005. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Mr. Holm had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

In conjunction with this agreement, from January 2004 to April 2004, we paid Portfolio PR, Inc. \$7,000 but we made not stock issuances to Portfolio PR, Inc. In addition, Portfolio PR, Inc. did not exercise any warrants. On April 23,

2004, we cancelled the agreement with Portfolio PR, Inc. "for cause". In June 2004, Portfolio PR, Inc. agreed to receive from us \$7,209.09 in cash and 4,000 shares of our common stock as total and final consideration and further agreed that we would have no further obligation to pay it any additional cash, shares, warrants, or other consideration in connection with this agreement.

On January 9, 2004, we granted 17,500 restricted shares of our common stock, 17,500 Warrants A, and 17,500 Warrants B to Stern & Company, a limited liability company registered in New York which is owned, managed and controlled by Shai Stern, in exchange for strategic planning related services. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 17,500 shares of common stock, the 17,500 shares underlying the Warrants A and the 17,500 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 9, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Stern and Company had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 9, 2004, we sold 16,667 restricted shares of our common stock, 16,667 Warrants A, and 16,667 Warrants B to WEC Partners, LLC, a Delaware limited liability company owned and controlled by Ethan Benovitz, Daniel Saks, and Jaime Hartman, in exchange for \$50,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 16,667 shares of common stock, the 16,667 shares underlying the Warrants A and the 16,667 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 9, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

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- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. WEC Partners had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 9, 2004, in exchange for \$300,000, we sold 100,000 restricted shares of our common stock, 100,000 Warrants A, and 100,000 Warrants B to Platinum Partners Value Arbitrage, a Cayman Islands based limited partnership; Mark Nordlicht is the Managing Member of Platinum Management LLC, the General Partner

of this limited partnership, which is a limited liability company registered in new York. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 100,000 shares of common stock, the 100,000 shares underlying the Warrants A and the 100,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 9, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Platinum Management LLC had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 9, 2004, we sold 50,000 restricted shares of our common stock, 50,000 Warrants A, and 50,000 Warrants B to Countrywide Partners, LLC, a Delaware limited liability company owned, managed, and controlled by Harry Adler, in exchange for \$150,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 50,000 shares of common stock, the 50,000 shares underlying the Warrants A and the 50,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 9, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Countrywide Partners had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

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On or about January 15, 2003, we sold 5,000 restricted shares of our common stock to WorldNet Global.com Ltd., a United Kingdom corporation controlled by Vic Chhabria, at a price of \$0.50 per share or an aggregate purchase price of \$2,500. On or about February 17, 2003, we sold an additional 5,650 restricted shares of our common stock to WorldNet Global.com Ltd. at a price of \$0.44 per share or an aggregate purchase price of \$2,500. On or about April 24, 2003, we sold an additional 20,000 restricted shares of our common stock to WorldNet Global.com Ltd. at a price of \$0.25 per share or an aggregate purchase price of \$5,000. On or about May 16, 2003, we sold an additional 9,615 restricted shares of our common stock to WorldNet Global.com Ltd. at a price of \$0.26 per share or an aggregate purchase price of \$2,500. On or about August 28, 2003, we sold an additional 11,750 restricted shares of our common stock to WorldNet Global.com Ltd. at a price of \$0.425 per share or an aggregate purchase price of \$5,000. On

or about September 3, 2003, we sold an additional 4,780 restricted shares of our common stock to WorldNet Global.com Ltd. at a price of \$0.523 per share or an aggregate purchase price of \$2,500. On or about October 27 2003, we sold an additional 1,025 restricted shares of our common stock to WorldNet Global.com Ltd. at a price of \$2.43 per share or an aggregate purchase price of \$2,500. We relied upon Section 4(2) of the Act for the offers and sales to WorldNet Global.com, Ltd. We believed that Section 4(2) was available because the sales did not involve a public offering and there was no general solicitation or general advertising involved in the sales. WorldNet Global.com Ltd. had a pre-existing relationship with us as a reseller of our telecommunications services. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act of 1933 and set forth the restrictions on their transferability and sale.

On January 15, 2004, we sold 5,000 restricted shares of our common stock, 5,000 Warrants A, and 5,000 Warrants B to Arik Ecker in exchange for \$15,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 5,000 shares of common stock, the 5,000 shares underlying the Warrants A and the 5,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Arik Ecker had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 15, 2004, we sold 8,500 restricted shares of our common stock, 8,500 Warrants A, and 8,500 Warrants B to Zwi Ecker in exchange for \$25,500. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 8,500 shares of common stock, the 8,500 shares underlying the Warrants A and the 8,500 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Zwi Ecker had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 15, 2004, we sold 13,000 restricted shares of our common stock, 13,000 Warrants A, and 13,000 Warrants B to Simon Langbart in exchange for \$39,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 13,000 shares of common stock, the 13,000 shares underlying the Warrants A and the 13,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Simon Langbart had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 15, 2004, we sold 5,000 restricted shares of our common stock, 5,000 Warrants A, and 5,000 Warrants B to Robert Langbart in exchange for \$15,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 5,000 shares of common stock, the 5,000 shares underlying the Warrants A and the 5,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Robert Langbart had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

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On January 15, 2004, we sold 3,000 restricted shares of our common stock, 3,000 Warrants A, and 3,000 Warrants B to Michael Derman in exchange for \$9,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 3,000 shares of common stock, the 3,000 shares underlying the Warrants A and the 3,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:



- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Michael Derman had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 15, 2004, we sold 7,000 restricted shares of our common stock, 7,000 Warrants A, and 7,000 Warrants B to Errol Derman in exchange for \$21,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 7,000 shares of common stock, the 7,000 shares underlying the Warrants A and the 7,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Errol Derman had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 15, 2004, we sold 8,000 restricted shares of our common stock, 8,000 Warrants A, and 8,000 Warrants B to Yuval Haim Sobel in exchange for \$24,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 8,000 shares of common stock, the 8,000 shares underlying the Warrants A and the 8,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

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- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Yuval Haim Sobel had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 15, 2004, we sold 8,000 restricted shares of our common stock, 8,000 Warrants A, and 8,000 Warrants B to Zvi Sobel in exchange for \$24,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at

an exercise price of \$3.50 per share. We agreed to register the 8,000 shares of common stock, the 8,000 shares underlying the Warrants A and the 8,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Zvi Sobel had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 15, 2004, we sold 8,400 restricted shares of our common stock, 8,400 Warrants A, and 8,400 Warrants B to Tenram Investments, Ltd. in exchange for \$25,200. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 8,400 shares of common stock, the 8,400 shares underlying the Warrants A and the 8,400 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

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- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Tenram Investments, Ltd. had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 15, 2004, we sold 10,000 restricted shares of our common stock, 10,000 Warrants A, and 10,000 Warrants B to Michael Zinn in exchange for \$30,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 10,000 shares of common stock, the 10,000 shares underlying the Warrants A and the 10,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 15, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;

iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and

iv. Michael Zinn had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 22, 2004, we granted 100,000 Warrants A to Hamilton, Lehrer & Dargan, P.A. in exchange for legal services rendered to us. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. We agreed to register the 100,000 shares of common stock underlying the Warrants A. The Warrants A are exercisable at any time before January/February 2009. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

i. the offer and sale did not involve a public offering;

ii. all certificates were marked with restrictive legends;

iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and

iv. Hamilton, Lehrer & Dargan, P.A. had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 25, 2004, we sold 20,000 restricted shares of our common stock, 20,000 Warrants A, and 20,000 Warrants B to Michael Weiss in exchange for \$60,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 20,000 shares of common stock, the 20,000 shares underlying the Warrants A and the 20,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 25, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

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i. the offer and sale did not involve a public offering;

ii. all certificates were marked with restrictive legends;

iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and

iv. Michael Weiss had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 30, 2004, we sold 16,667 restricted shares of our common stock, 16,667 A Warrants, and 16,667 B Warrants to Oded Levy in exchange for \$50,000. Each A Warrant is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each B Warrant is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 16,667 shares of common stock, the 16,667 shares underlying the A Warrants and the 16,667 shares underlying the B Warrants. The A Warrants are exercisable at any time before January 30, 2009. The B Warrants are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We paid a finders fee in the amount of \$4,000 to Oberon Group, LLC, a limited liability company registered in New York, which is owned, managed and controlled by Adam Breslawsky, in connection with the sale. We relied upon the exemption from

registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment.

On January 30, 2004, we sold 66,667 restricted shares of our common stock, 66,667 A Warrants, and 66,667 B Warrants to Southridge Partners, LP, a limited partnership registered in Delaware, in exchange for \$200,000. Stephen Nicks is the President of the limited partnership's general partner, Southridge Capital Management. Each A Warrant is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each B Warrant is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 66,667 shares of common stock, the 66,667 shares underlying the A Warrants and the 66,667 shares underlying the B Warrants. The A Warrants are exercisable at any time before January 30, 2009. The B Warrants are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We paid a finders fee in the amount of \$16,000 to Oberon Group, LLC, a limited liability company registered in New York, which is owned, managed and controlled by Adam Breslawsky, in connection with the sale. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Southridge Partners, LP had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

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On January 30, 2004, we sold 5,000 restricted shares of our common stock, 5,000 A Warrants, and 5,000 B Warrants to Adam Breslawsky in exchange for \$15,000. Each A Warrant is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each B Warrant is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 5,000 shares of common stock, the 5,000 shares underlying the A Warrants and the 5,000 shares underlying the B Warrants. The A Warrants are exercisable at any time before January 30, 2009. The B Warrants are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We paid a finders fee in the amount of \$1,200 to Oberon Group, LLC, a limited liability company registered in New York, which is owned, managed and controlled by Adam Breslawsky, in connection with the sale. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to

evaluate the merits of the investment; and

iv. Adam Breslawsky had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On January 30, 2004, we sold 6,667 restricted shares of our common stock, 6,667 Warrants A, and 6,667 Warrants B to Michael Epstein in exchange for \$20,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 6,667 shares of common stock, the 6,667 shares underlying the Warrants A and the 6,667 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 30, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We paid a finders fee in the amount of \$1,600 to Oberon Group, LLC, a limited liability company registered in New York, which is owned, managed and controlled by Adam Breslawsky, in connection with the sale. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment

On January 30, 2004, we sold 13,334 restricted shares of our common stock, 13,334 Warrants A, and 13,334 Warrants B to Stephen Frank in exchange for \$40,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 13,334 shares of common stock, the 13,334 shares underlying the Warrants A and the 13,334 shares underlying the Warrants B. The Warrants A are exercisable at any time before January 30, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We paid a finders fee in the amount of \$3,200 to Oberon Group, LLC, a limited liability company registered in New York, which is owned, managed and controlled by Adam Breslawsky, in connection with the sale. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment.

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On January 30, 2004, we sold 66,667 restricted shares of our common stock, 66,667 Warrants A, and 66,667 Warrants B to Southshore Capital Fund LTD, a Cayman Islands corporation, in exchange for \$200,000. Navigator Management is the Corporate Director of Southshore Capital Fund, Ltd. and the Director and control person of Navigator Management is David Sims. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 66,667 shares of common stock, the 66,667 shares underlying the Warrants A and the 66,667 shares

underlying the Warrants B. The Warrants A are exercisable at any time before January 30, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We paid a finders fee in the amount of \$16,000 to Oberon Group, LLC, a limited liability company registered in New York, which is owned, managed and controlled by Adam Breslawsky, in connection with the sale. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment

On February 2, 2004, we sold 500,000 restricted shares of our common stock, 500,000 Warrants A, and 500,000 Warrants B to Crestview Capital Master, LLC, a limited liability company registered in Delaware which is controlled by Richard Levy and Stuart Flink, in exchange for \$1,500,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 500,000 shares of common stock, the 500,000 shares underlying the Warrants A and the 500,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before February 2, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We paid a finders fee in the amount of \$120,000 to Oberon Group, LLC, a limited liability company registered in New York, which is owned, managed and controlled by Adam Breslawsky, in connection with the sale. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment.

On February 11, 2004, we sold 3,334 restricted shares of our common stock, 3,334 Warrants A, and 3,334 Warrants B to Joshua Lobel in exchange for \$10,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 3,334 shares of common stock, the 3,334 shares underlying the Warrants A and the 3,334 shares underlying the Warrants B. The Warrants A are exercisable at any time before February 11, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We paid a finders fee in the amount of \$800 in connection with the sale. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and

iv. Joshua Lobel had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On February 11, 2004, we sold 8,334 restricted shares of our common stock, 8,334 Warrants A, and 8,334 Warrants B to Joshua Kazam in exchange for \$25,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 8,334 shares of common stock, the 8,334 shares underlying the Warrants A and the 8,334 shares underlying the Warrants B. The Warrants A are exercisable at any time before February 11, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

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- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. Joshua Kazam had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

On February 12, 2004, we sold 20,000 restricted shares of our common stock, 20,000 Warrants A, and 20,000 Warrants B to The Oberon Group, LLC, a limited liability company registered in New York, which is owned, managed and controlled by Adam Breslawsky, in exchange for \$60,000. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. Each Warrant B is exercisable into one share of common stock at an exercise price of \$3.50 per share. We agreed to register the 20,000 shares of common stock, the 20,000 shares underlying the Warrants A and the 20,000 shares underlying the Warrants B. The Warrants A are exercisable at any time before February 12, 2009. The Warrants B are exercisable until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange or up until the date that is 375 days following the date of purchase. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. the Oberon Group, LLC had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

During February 2004, we granted 50,000 Warrants A to The Oberon Group, LLC., a limited liability company registered in New York, in exchange for services rendered to us. Each Warrant A is exercisable into one share of common stock at an exercise price of \$5.50 per share. We agreed to register the 50,000 shares of common stock underlying the Warrants A. The Warrants A are exercisable at any time before February 2009. We relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. We believed Section 4(2) was available because:

- i. the offer and sale did not involve a public offering;
- ii. all certificates were marked with restrictive legends;
- iii. each investor represented they were sophisticated enough to evaluate the merits of the investment; and
- iv. the Oberon Group had a preexisting relationship with Guy Nissenson, our Principal Executive Officer and President.

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#### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion provides information that we believe is relevant to our financial condition and results of operations and should be read in conjunction with our financial statements and related notes appearing elsewhere in this Form 10-KSB. This discussion contains forward-looking statements based on our current expectations, assumptions, and estimates. The words or phrases "believe," "expect," "may," "anticipates," or similar expressions are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward-looking statements as a result of a number of risks and uncertainties pertaining to our business. The terms "we," "our" or "us" are used in this discussion refer to Xfone, Inc. Statements made herein are as of the date of the filing of this Form 10-KSB with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

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#### DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### OVERVIEW.

We are a holding company that operates entirely through our subsidiary, Swiftnet, Ltd., a United Kingdom based telecommunication service provider and international licensed telecommunication carrier. As of June 3, 2004, Swiftnet, Ltd. is and has been our source of income. Through Swiftnet, we sell and develop telecommunication services, including telephony, fax messages, calling cards, and Internet driven applications and mainly in the United Kingdom and Europe. In addition, Swiftnet provides services and telecom solutions to resellers and partners worldwide.

On October 4, 2000, we acquired Swiftnet which had a business plan to provide comprehensive telecommunication services and products by integrating new and old products, services and ideas through one website. Swiftnet was incorporated in 1991 under the laws of the United Kingdom. Until 1999, the main revenues for Swiftnet were derived from messaging and fax broadcast services. During the year 2000, Swiftnet shifted its business focus and our focus has remained on telephony voice services offering comprehensive support packages to resellers and new services. Utilizing automation and proprietary software packages, Swiftnet's strategy is to grow without the need of heavy investments and with lower expenses for operations and registration of new customers.

Approximately 90% of our revenues are derived from our customers located in the United Kingdom. Our integrated revenue approach led to revenue from each source as described below and is partially driven by the activities of other revenue sources. Our revenues are dependent upon the following factors:



- o Price competition in telephone rates;
- o Demand for our services;
- o Individual economic conditions in our markets
- o Our ability to market our services

We have four major types of customers:

- o Residential - These customers either must dial a special 4 digit code to access our switch or acquire a box that dials automatically.
- o Commercial - Smaller business are treated the same as residential customers. Larger businesses' PBX (Telephony system) units are programmed to dial the 4 digit code automatically.

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- o Governmental agencies - Includes the United Nations World Economic Forum, the Argentine Embassy and the Israeli Embassy.
- o Resellers, such as WorldNet - We provide them with our telephone and messaging services for a wholesale price, calling cards are treated by resellers. For WorldNet we also provide the billing system.

Our revenues are derived from the following:

- o 55% from our telephone minute billing plus messaging services, including facsimile, nodal, and e-mail related services.
- o 7% from our mobile phone services.
- o 38% from calling cards.

The breakdown of our revenues is reflected in the table below:

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Amounts in UK sterling

	Telephone & messaging services	Mobile phones	Calling c
<S>	<C>	<C>	<C>
Commercial and Residential Customers	2,981,802.00	36,1517.00	
Story Telecom			2,715,23
Government agencies	5,663.00		
Resellers	1,009,317.00	141,958.00	66,69
Totals	3,996,782.00	503,475.00	2,781,92

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Converted into US dollars for convenience

	Telephone & messaging services	Mobile phones	Calling car
<S>	<C>	<C>	<C>
Commercial and Residential Customers	5,307,607.56	643,500.26	
Story Telecom	0.00	0.00	4,833,11
Government agencies	10,080.14	0.00	
Resellers	1796584.26	252685.24	11871
Totals	7,114,271.96	896,185.50	4,951,82

Because both have similar economic characteristics, such as prices that we charge and the nature of the services, we have combined residential and commercial customers as one segment.

#### Financial Information - Percentage of Revenues

	Year ended December 31			
	2003	2002	2001	2000
Revenues	100.0%	100.00%	100.00%	100.00%
Cost of Revenues	-60.8	-58.66%	-61.29%	-64.90%
Gross Profit	39.2%	41.34%	38.71%	35.10%
Operating Expenses:				
Research and Development	-0.6%	-0.86%	-1.16%	-2.15%
Marketing and Selling	-15.0%	-8.56%	-8.24%	-8.29%
General and Administrative	-14.5%	-23.48%	-20.46%	-17.45%
Total Operating Expenses	-30.0%	-32.90%	-29.86%	-27.89%
Income before Taxes	8.6%	8.39%	7.72%	6.34%
Net Income	5.8%	6.44%	5.48%	5.13%

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In April 2004, we plan on introducing our Broadband Internet connection and Wholesale Line Rental services; however, we do not expect our revenues to be materially impacted with the introduction of these services until 2005, if ever.

Years ended December 31, 2003 and 2002

The US Dollars amounts for 2003 and 2002 are presented herein at the then current rate of (pound)1 to \$1.78.

#### Consolidated Statement of Operations

Revenues. Revenues for the year ended December 31, 2003 increased 95% to (pound)7,282,181 (\$12,962,282) from (pound)3,741,436 for the same period in 2002. The increase in our Revenues is primarily attributable to the revenues that derive from the usage of calling cards sold by our affiliate, Story Telecom. All traffic generated by the Story Telecom calling cards is delivered through our systems. The following table reflects a breakdown of our Revenues according to cost of revenues characteristics and major resellers:

<TABLE>  
<CAPTION>

	2003	2002
<S>	<C>	<C>
Regular telephony voice service and others:	(pound)4,015,448 (\$8,129,171)	(pound)3,737,720
Story Telecom	(pound)2,715,231 (\$4,833,111)	(pound) 3,716
Worldnet	(pound)551,502 (\$981,673)	(pound) 567,694

Total Revenues (pound)7,282,181 (\$12,962,282) (pound)3,741,436  
</TABLE>

Story Telecom started its operations in September 2002 and contributed only (pound)3,716 during fiscal year 2002. The 22% growth in the regular telephony services is mainly attributable to an increase of approximately 450 customers in fiscal year 2003.

For the year ended December 31, 2003 approximately 4.4% of our revenues were generated by our affiliated entity, Auracall, as compared with 3.2% for the year ended December 31, 2002.

Our revenues attributable to our affiliated Story Telecom amounted to 37% of our revenues during the year ended December 31, 2003 as compared with 0.1% for the year ended December 31, 2002. This increase is due to Story Telecom starting its operations at the end of 2002.

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In the year ended December 31, 2003, the percentage of our revenues is derived from the following:

- o 55% from our telephone minute billing plus messaging services, including facsimile, nodal, and e-mail related services.
- o 7% from our mobile phone services.
- o 38% from calling cards.

We believe that during the year 2004 same type of services and customers will continue to generate most of our Revenues. We will offer some new services and billing alternatives to strengthen the connection with our registered customers and to enable easy usage of our services to non registered users. Our agreement with resellers can be terminated within a relatively short notice of 7-60 days. Our largest non affiliated reseller is Worldnet that generated approximately 6% of our Revenues in 2003, Worldnet can terminate the agreement with a 7 days notice, which would adversely affect our Revenues. We have approximately 20 additional active resellers, none of which generated more than 3% of our annual revenues. We anticipate that Worldnet will continue to contribute approximately the same amount of UK Pounds to our Revenues.

Cost of Revenues. Cost of revenues consists primarily of traffic time purchased from telephone companies and other related charges. Cost of revenues increased 101% to (pound)4,427,939 (\$7,881,731) for the year ended December 31, 2003, from (pound)2,194,792 for the year ended December 31, 2002, representing 60.8% and 58.7% of the total revenues for the year ended December 31, 2003 and December 31, 2002, respectively. The increase in the cost of revenues as a percentage of revenues is attributable to the increase of our revenues that derive from the Story Telecom project that currently focuses on Calling Cards services. The Story Telecom Project, which accounts for approximately 37% of our Revenues in the year ended December 31, 2003 and less than 1% in the year ended December 31, 2002, our cost of revenues as a percentage of revenues in the Story Telecom project is approximately 94% and for Worldnet is 55%, while the cost of revenues as a percentage of the rest of our revenues was 39% for the year ended December 31, 2003 and 58.6% for the year ended December 31, 2002. This decrease of the cost of revenues as a percentage of revenues for non Story Telecom related revenues is mainly attributable to lower prices negotiated with our new and old suppliers and to the fact that we haven't reduced the prices for our services proportionally.

Cost of revenues breakdown:

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<TABLE>  
<CAPTION>

	2003	2002
<S>	<C>	<C>
Regular Telephony Services and others	1,563,293 (\$2,782,662)	2,191,287
Story Telecom	2,561,320 (\$4,559,150)	3,505
Worldnet	303,326 (\$539,920)	(a)
Total:	(pound)4,427,939 (\$7,881,731)	(pound)2,194,792

(a) We do not have the cost of revenues related to Worldnet for the year ended December 31, 2002.

Cost of Revenues attributable to our affiliated entity, Auracall, Ltd. were approximately 2.8% of the total cost of revenues for the year ended December 31, 2003 as compared with approximately 1.9% for the year ended December 31, 2002.

Cost of revenues attributable to Story Telecom accounted for 58% of our total cost of revenues as compared with 0.15% for the year ended December 31, 2002. This increase is attributable to the growth in the revenues related to Story Telecom.

Should Story Telecom calling cards related revenues or Worldnet generated revenues grow faster than our other business segments, our Cost of Revenues as a percentage of Revenues will continue to increase. If market conditions, such as lower prices proposed by competitors in the market, forces us to lower the prices that we charge our customers, our cost of revenues as percentage of revenues will increase.

Gross Profit. Gross profit is total revenues less cost of revenues. Gross profit excludes general corporate expenses, finance expenses and income tax. For the year ended December 31, 2003 and 2002, respectively, gross profit was (pound)2,854,242 (\$5,080,551) and (pound)1,546,644 which represents an 85% (105% in USD) increase. The gross profit as a percentage of revenues decreased to 39.2% for the year ended December 31 2003, from 41.3% for the year ended December 31, 2002.

Research and Development. Research and development expenses were (pound)44,553 (\$79,304) and (pound)32,000 for the year ended December 31, 2003 and 2002, respectively. Which Represents 0.6% and 1% of revenues for the years ended December 31, 2003 and 2002, for the same periods, respectively. These expenses consist of labor costs of our research and development manager and other related

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costs. Main developments relate to the development of the Xfone web site and its interconnections, the upgrade of software for our telephone platforms, billing systems, messaging services and the resellers support package.

Marketing and Selling Expenses. Marketing and selling expenses increased to (pound)1,091,012 (\$1,942,001) from (pound)320,418 for the year ended December 31, 2003 and 2002, respectively. Marketing and selling expenses as percentage of revenues were 15% and 8.6% for the year ended December 31, 2003 and 2002, respectively. The increase in marketing expenses is attributable to the increasing revenues derived from commission related activities, including commissions for agents that promote, through our customer British Telecom, the usage of non geographical numbers similar to 1-800 or 1-900 with no specific geographical place.

For the year ended December 31, 2003 we paid commissions to our affiliated company Auracall in the amount of UKP165,389 (\$294,392) that represent 17% of the total commissions paid during the year ended December 31, 2003. For year ended December 31, 2002 commissions paid to Auracall represented 42% of total commissions. The decrease in the percentage of total commissions is attributable

to growth in commission related Revenues that are related to Auracall.

General and Administrative Expenses. General and administrative expenses increased by (pound)173,685 (\$309,161) to (pound)1,052,310 (\$1,873,112) for the year ended December 31, 2003 from (pound)878,624 (\$1,563,951) from (pound)878,624 for the year ended December 31, 2002. As a percentage of revenues, general and administrative expenses decreased to 14.5% for the year ended December 31, 2003 from 23.5% for the year ended December 31, 2002. The increase in our General and Administrative Expenses is mainly attributable to: (a) an increase of (pound)141,140 (\$251,229) in the salaries and benefits paid to our management and related employees; and (b) an increase of (pound)81,224 (\$144,579) in the professional fees related to the growth in our operations, our status as a public company and legal fees. Our bad debt decreased by (pound)117,452 (\$209,064) to (pound)109,532 (\$194,966) from (pound)226,984 in the year ended December 31, 2002, the decrease of which is attributable to two of our customers having filed for bankruptcy during 2002, which caused the increased bad debt figures for December 31, 2002. The decrease in total General and Administrative expenses as a percentage of revenues is mainly attributable to: (a) our 95% growth in revenues; and (b) to the lesser increase of 20% in our General and Administrative expenses, which was achieved from improvements in our credit controls, controlling expenses and the usage of automation and computers.

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Financing Expenses. Financing expenses, net, increased to (pound)44,284 (\$78,824) for the year ended December 31, 2003 from (pound)12,837 for the year ended December 31, 2002.

Income before Taxes. Income before taxes for the year ended December 31, 2003 increased by 103% to (pound)637,901 (\$1,135,464) from (pound)313,794 for the year ended December 31, 2002. The increase of the income before taxes is attributable primarily to the increase of 95% in our revenues. Income before taxes as a percentage of revenues was 8.6% for the year ended December 31, 2003 and 8.4% for the year ended December 31, 2002.

Taxes on Income. United Kingdom companies are usually subject to income tax at the corporate rate of 20%-30%. Taxes on income for the year ended December 31, 2003, amounted to (pound)216,456 (\$385,292) which represents 34% of the income before taxes as compared with (pound)72,813 for the year ended December 31, 2002 that represents 23% of the income before taxes. The increase in the percentage of taxes on such income before taxes is attributable primarily to the higher tax brackets that we are due to pay for our income in the year ended December 31, 2003 and the lower Net operating loss carry forward in the year ended December 31, 2003.

Net Income. Net income for the year ended December 31, 2003 increased by 75% to (pound)421,445 (\$750,173) as compared to (pound)240,981 for the year ended December 31, 2002. Net income as percentage of revenues were 5.8% and 6.4% for the years ended December 31, 2003 and 2002 respectively.

Earning per share

The earning per share of common stock for the year ended December 31, 2003 was (pound)0.08 (\$0.15) for the basic weighted average 5,089,286 Shares and (pound)0.08 (\$0.13) for diluted number of shares, including the options to buy 500,000 shares. Earning per share for the year ended December 31, 2002 was (pound)0.05 for the basic weighted average 5,030,444 shares and (pound)0.04 for the diluted 5,530,444 shares.

Balance Sheet

Current Assets. Current assets amounted to (pound)2,635,846 (\$4,691,806) as of December 30, 2003 as compared to (pound)1,658,835 as of December 31, 2002. This increase in our current assets is mainly attributable to the growth of

(pound)303,095 (\$539,509) in the account receivables and to the (pound)501,200 growth in our cash positions.

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As of December 31, 2003 34% of our account receivables are attributable to our affiliated company, Story Telecom as compared with less than 1% for December 31, 2002. The 34% of our receivables is due to the fact that 37% of our revenues are generated by Story Telecom.

We provided Story Telecom a shareholder loan that balanced UKP15,960 (\$28,408) and UKP14,725 (\$26,210) for years ended December 31, 2003 and 2002 respectively.

As of December 31, 2003 our Affiliated Auracall owed us UKP4,533 (\$8,068) as compared with UKP16,196 (\$28,829) for December 31, 2002, this debt is due to a shareholders loan provided to Auracall for operations.

Loan to Shareholder. Loan to the shareholder, Mr. Keinan our Chairman of the Board of Directors amounted to (pound)286,736 (\$510,390) as of December 31, 2003, as compared to (pound)303,130 as of December 31, 2002. The decrease represents a repayment of (pound)16,394 (\$29,181). There was an increase in the loan amount that occurred after September 30, 2003 which was due to an expense advance provided to Mr. Keinan, which was later expensed out of that account when Mr. Keinan submitted his expense report to us. We no longer permit expense advances to be temporarily assigned to the Loan to Shareholder account. Out of the total amount, (pound)54,070 are classified as current assets as Mr. Keinan agreed with the company to repay this amount during fiscal year 2004. On March 2004 Mr. Keinan signed a note to repay his loan in four installments:

2004	(pound) 54,070	(\$96,245)
2005	(pound)116,333	(\$207,073)
2006	(pound)116,333	(\$207,073)

Fixed assets. Fixed assets after accumulated depreciation increased to (pound)421,715 (\$750,652) as of December 31, 2003 as compared with (pound)252,894 as of December 31, 2002. Growth in fix assets reflects investments in equipment and systems to enhance our efficiency and throughput.

Current Liabilities. As of December 31, 2003, current liabilities increased to (pound)2,174,283 (\$3,870,224) as compared with (pound)1,462,027 as of December 31, 2002. The increase in our current liabilities results mainly from an increase of (pound)461,247 (\$821,020) in our trade payables attributable to the growth in our revenues. As of December 31, 2003 and 2002, trade payables to our affiliated entity, Auracall, Ltd., accounted for 1% of the total trade payables.

Liquidity and Capital resources December 31 2003.

Cash as of December 31, 2003 amounted to (pound)977,008 (\$1,739,074) as compared

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with (pound)471,963 for the year ended December 31, 2002 an increase of (pound)505,045, the increase was generated by net cash provided by operating activities.

Net cash provided by operating activities for the Twelve month ended December 31, 2003 was (pound)719,604 (\$1,280,895). The cash provided by operating activities was mainly attributable to the (pound)180,464 increase in our net income, the (pound)461,247 (\$821,019) increase in trade payables and (pound)183,271 (\$326,222) increase in other trade payables that mainly consists Income Taxes.

During fiscal year 2003 we used (pound)108,270 (\$192,721) for the purchase of capital equipment and (pound)55,862 (\$99,434) for the repayment of capital lease obligations. In the year ended December 31, 2002 we used (pound)152,757 for the purchase of equipment.

We have lease commitments to pay (pound)78,091 (\$139,002) during fiscal year 2004 and additional (pound)99,488 (\$177,089) till the end of 2007. Our capital investments are primarily for the purchase of equipment and software for services that we provide or intend to provide.

In the fiscal year 2004 we may procure additional equipment to enhance our capacity in the UK for the amount of app (pound)100,000 (\$178,000). In case that we manage to establish or acquire an operation in a new country, we anticipate an investment of approximately (pound)600,000 (\$1,000,000) in equipment, infrastructure and software.

We shall continue to finance our operations and fund the current commitments for capital expenditures mainly from the cash provided from operating activities. During January and February 2004 we completed a private placement in which we raised gross proceeds that amounted to \$2,907,711. Net new cash proceeds of the financing, approximately \$2.7 million are expected to be used for general working capital and/or investment in equipment and/or for acquisitions and/or business development. We are currently looking for possible acquisitions of the same nature of the current services provided by our subsidiary in the U.K. We are also evaluating the establishment of subsidiaries or affiliates in two countries to provide Telecom services of the same nature that we provide through our United Kingdom subsidiary, Swiftnet. The establishment of a subsidiary might require, in addition to an investment in equipment and working capital, bank guarantees as required by local authorities. We may use our cash to enable the Bank Guarantee.

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We believe that our future cash flow from operations together with our current cash will be sufficient to finance our operation activities through the years 2004 and 2005. We will consider raising additional capital through a public or private placement to fund possible acquisitions and business development activities.

Impact of Inflation and Currency Fluctuations.

As of December 31, 2003 our functional currency remains the U.K. Pound, we do business also with U.S. Dollars. Even when we do business in other countries rather than the United Kingdom or the United States we sell and buy in either U.K. Pounds or U.S. Dollars.

Most of our revenues and current assets are in British Pounds, the long-term loan to a shareholder is all in U.K. Pounds. Major part of our cash is in U.S. Dollars.

Our cost of revenues is all in British Pounds, most of our liabilities, operating and financing expenses are in U.K. Pounds. The remainder of the assets, liabilities, revenues and expenditures are in U.S. Dollars.

A devaluation of the U.K. Pound in relation to the U.S. Dollar will have the effect of decreasing the Dollar value of all assets or liabilities that are in U.K. Pounds.

Conversely, any increase in the value of the U.K. Pound in relation to the Dollar has the effect of increasing the Dollar value of all U.K. Pounds assets and the Dollar amounts of any U.K. liabilities and expenses.

Inflation would affect our operational results if we shall not be able to match our Revenues with growing expenses caused by inflation.

If rate of inflation will cause a raise in salaries or other expenses and the market conditions will not allow us to raise prices proportionally, it will have a negative effect on the value of our assets and on our potential profitability.

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ITEM 7. FINANCIAL STATEMENTS

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Xfone, Inc. and Subsidiary  
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CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2003

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XPHONE, INC. AND SUBSIDIARY  
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CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2003

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Statement of Changes in Shareholders' Equity	F-5
Statements of Cash Flows	F-6 - F-7
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of  
Xfone, Inc. and Subsidiary  
-----

We have audited the accompanying consolidated balance sheet of Xfone, Inc. and Subsidiary as of December 31, 2003 the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial



statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used in significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of Xfone, Inc. and Subsidiary as of December 31, 2003 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

CHAIFETZ & SCHREIBER, P.C.  
 21 Harbor Park Drive N.  
 Port Washington, NY 11050  
 March 31, 2004

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<PAGE>

-----  
 XPHONE, INC. AND SUBSIDIARY  
 -----

CONSOLIDATED BALANCE SHEET

<TABLE>  
 <CAPTION>

	DECEMBER 31, ----- 2003 -----	DECEMBER 3 ----- 2003 ----- Convenience translation -----
<S>	<C>	<C>
CURRENT ASSETS		
Cash	(pound) 977,008	\$ 1,739,074
Accounts receivable, net	1,263,824	2,249,607
Prepaid expenses, other receivables and deposits	340,944	606,880
Loan to shareholder	54,070	96,245
	-----	-----
TOTAL CURRENT ASSETS	2,635,846	4,691,806
	-----	-----
Loan to shareholder	232,666	414,145
	-----	-----
FIXED ASSETS		
Cost	559,786	996,419
Less - accumulated depreciation	(138,071)	(245,767)
	-----	-----
TOTAL FIXED ASSETS	421,715	750,652
	-----	-----
TOTAL ASSETS	(pound) 3,290,227	\$5,856,603

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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 XPHONE, INC. AND SUBSIDIARY  
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CONSOLIDATED BALANCE SHEET

<TABLE>  
 <CAPTION>

	DECEMBER 31,	£
	2003	
		-----
		Convenience tr
		-----
<S>	<C>	<C>
CURRENT LIABILITIES		
Trade payables	(pound) 1,637,430	\$
Dividend payable	86,270	
Notes payable - current portion	4,000	
Other liabilities and accrued expenses	379,809	
Obligations under capital leases - current portion	66,774	
	-----	-----
TOTAL CURRENT LIABILITIES	2,174,283	
Deferred taxes	36,109	
Notes payable	3,166	
Obligation under capital leases	86,563	
	-----	-----
TOTAL LIABILITIES	2,300,121	-----
		-----
SHAREHOLDERS' EQUITY		
Preferred stock - 50,000,000 shares authorized, none issued		
Common stock:		
25,000,000 shares authorized, (pound).0006896 par value;		
5,117,684 issued and outstanding	3,530	
Contributions in excess of shares	193,514	
Retained earnings	793,062	
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	990,106	
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	(pound) 3,290,227	\$
	-----	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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 XPHONE, INC. AND SUBSIDIARY  
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CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
 <CAPTION>

YEARS ENDED	
DECEMBER 31,	
-----	-----

	2003	2002	2001
			Convenience
<S>	<C>	<C>	<C>
Revenues	(pound) 7,282,181	(pound) 3,741,436	\$ 12,962
Cost of revenues (exclusive of depreciation shown separately in Note (13))	(4,427,939)	(2,194,792)	(7,881)
	2,854,242	1,546,644	5,080
<b>OPERATING EXPENSES:</b>			
Research and development	(44,553)	(32,000)	(79)
Marketing and selling	(1,091,012)	(320,418)	(1,942)
General and administrative	(1,052,310)	(878,624)	(1,873)
Total operating expenses	(2,187,875)	(1,231,042)	(3,894)
Operating profit	666,367	315,602	1,186
Financing expenses - net	(44,283)	(12,837)	(78)
Other income	15,817	11,029	28
Income before taxes	637,901	313,794	1,135
Taxes on income	(216,456)	(72,813)	(385)
Net income	(pound) 421,445	(pound) 240,981	\$ 750
<b>EARNINGS PER SHARE:</b>			
Basic	(pound) 0.08	(pound) 0.05	\$ =
Diluted	(pound) 0.08	(pound) 0.04	\$ =

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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XFOONE, INC. AND SUBSIDIARY  
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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	NUMBER OF ORDINARY SHARES	SHARE CAPITAL	CONTRIBUTIONS IN EXCESS OF PAR VALUE	
<S>	<C>	<C>	<C>	<C>
Balance at January 1, 2002	5,000,000	(pound) 3,448	(pound) 140,903	(pc
Issuance of shares	60,889	42	39,316	
Net income	--	--	--	
Dividend	--	--	--	
Balance at December 31, 2002	5,060,889	(pound) 3,490	(pound) 180,219	(pc

Balance at January 1, 2003	5,060,889	3,490	180,219	
Issuance of shares	56,795	40	13,295	
Net income	--	--	--	
Dividend	--	--	--	
Balance at December 31, 2003	<u>5,117,684</u>	<u>(pound) 3,530</u>	<u>(pound) 193,514</u>	<u>(pc</u>
CONVENIENCE TRANSLATION INTO U.S. \$:				
Balance at January 1, 2003	5,060,889	\$ 6,212	\$ 320,790	
Issuance of shares	56,795	71	23,665	
Net income	--	--	--	
Dividend	--	--	--	
Balance at December 31, 2003	<u>5,117,684</u>	<u>\$ 6,283</u>	<u>\$ 344,455</u>	

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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 XPHONE, INC. AND SUBSIDIARY  
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CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>  
 <CAPTION>

	YEARS ENDED		
	DECEMBER 31,		
	2003	2002	
			Conve
<S>	<C>	<C>	<
CASH FLOW FROM OPERATING ACTIVITIES			
Net income	(pound) 421,445	(pound) 240,981	\$
Adjustments to reconcile net income to net cash provided by operating activities	298,159	48,145	--
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>719,604</u>	<u>289,126</u>	--
CASH FLOW FROM INVESTING ACTIVITIES			
Investments	--	(515)	
Purchase of equipment	(108,270)	(71,553)	
NET CASH USED IN INVESTING ACTIVITIES	<u>(108,270)</u>	<u>(72,068)</u>	--
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of long term debt	(4,001)	(34,921)	
Repayment of capital lease obligation	(55,862)	--	
Proceeds from sale of fixed assets	3,500	--	
Proceeds from issuance of common stock	13,335	10,583	
Dividend paid	(63,261)	--	
NET CASH USED IN FINANCING ACTIVITIES	<u>(106,289)</u>	<u>(24,338)</u>	--
Net increase in cash	505,045	192,720	
Cash, beginning of year	471,963	279,243	

Cash, at end of year	(pound) 977,008	(pound) 471,963	\$
Supplement disclosures of cash flow information:			
NET CASH PAID DURING THE YEAR FOR:			
Income taxes	(pound) 14,044	(pound) 41,723	
Interest	(pound) 11,213	(pound) 12,816	

<CAPTION>

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:  
For the year ended December 31:

	2003	2002	Conve
<S>	<C>	<C>	
Convenience translation into U.S.\$			
Acquired equipment under capital lease obligation	(pound) 86,316	(pound) 26,002	
Issuance of 45,014 shares of common stock for	--	28,775	
Compensation for professional services			

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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XFONE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

(1) ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

<TABLE>  
<CAPTION>

	YEARS ENDED		
	DECEMBER 31,		
	2003	2002	2003
<S>	<C>	<C>	<C>
Depreciation	(pound) 89,592	(pound) 58,300	\$ 159
Bad debt expense	109,532	226,984	194
Stock issued for professional services	--	28,775	
	199,124	314,059	354
CHANGES IN ASSETS AND LIABILITIES:			
Increase in accounts receivable	(412,627)	(460,754)	(734)
Increase in other receivables	(160,359)	(65,570)	(285)
Decrease (increase) in shareholder loans	16,394	(20,783)	29
Increase in trade payables	461,247	214,607	821
Increase in other payables	183,271	61,586	326
Increase in deferred taxes	11,109	5,000	19

Total adjustments	99,035	(265,914)	176
	(pound) 298,159	(pound) 48,145	\$ 530

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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XFFONE, INC. AND SUBSIDIARY  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

- A. Xfone, Inc. ("Xfone") was incorporated in Nevada, U.S.A. in September, 2000 and is a provider of long distance voice and data telecommunications services, primarily in the United Kingdom. The financial statements consolidate the operations of Xfone and Swiftnet, Limited ("Swiftnet"), its wholly owned U.K. subsidiary, (collectively the "Company") .
- B. The financial statements of the Company have been prepared in Sterling ("(pound)") since this is the currency of the prime economic environment , the U.K., in which the operations of the Company are conducted. Transactions and balances denominated in Sterling are presented at their original amounts. Transactions and balances in other currencies are translated into Sterling in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52 of the U.S. Financial Accounting Standards Board ("FASB"). Accordingly, items have been translated as follows:
  - Monetary items - at the exchange rate effective at the balance sheet date.
  - Revenues and expense items - at the exchange rates in effect at the date of recognition of those items.
  - Exchange gains and losses from the aforementioned translation are included in financing expenses, net.
- C. The financial statements have been translated into U.S. dollars using the rate of exchange of the U.S. dollar at December 31, 2003. The translation was made solely for the convenience of the readers. It should be noted that the (pound) figures do not necessarily represent the current cost amounts of the various elements presented and that the translated U.S. dollar figures should not be construed as a representation that the (pound) currency amounts actually represented, or could be converted into, U.S. dollars. The representative rate of exchange of the (pound) at December 31, 2003 was (pound)1 = 1.78 U.S.\$.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with generally accepted accounting principles in the United States of America. The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are as follows:

A. Principles of Consolidation and Basis of Financial Statement Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company and its wholly-owned subsidiary. All significant inter-company balances and transactions have been eliminated in consolidation.

B. Accounts Receivable

Accounts receivable are recorded at net realizable value consisting of the carrying amount less the allowance for uncollectible accounts.

The Company uses the allowance method to account for uncollectible accounts receivable balances. Under the allowance method, an estimate of uncollectible customer balances is made using factors such as the credit quality of the customer and the economic conditions in the market. Accounts are considered past due once the unpaid balance is 90 days or more outstanding, unless payment terms are extended. When an account balance is past due and attempts have been made to collect the receivable through legal or other means, the amount is considered uncollectible and is written off against the allowance balance.

At December 31, 2003 accounts receivable had a net balance in the amount of (pound)1,263,824, net of an allowance balance of (pound)142,993 .

C. Investments

Investments in companies in which the Company has a 20% to 50% interest are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses.

D. Equipment

Equipment is stated at cost. Depreciation is calculated by the declining balance method over the estimated useful lives of the assets. Annual rates of depreciation are as follows:

	Method	Useful Life
Switching equipment	straight line	10 years
Machinery and equipment	reducing balance	4 years
Furniture and fixtures	reducing balance	4 years
Motor vehicles	reducing balance	4 years

E. Revenue Recognition

The Company's source of revenues results from charges to customers for the call minutes they use while on the Company's telecommunications system. Such revenues are recognized at the time this service is rendered. Amounts prepaid by customers are deferred and recorded as a liability and then recorded as revenue when the customer utilizes the service. Messaging services customers are being charged on a per minute basis, per fax page or email. Commissions to agents are accounted as marketing costs for the Company.

Management believes that the Company's revenue recognition policies are in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101).

F. Reclassification

Certain reclassification of 2002 amounts have been made to conform to the 2003 presentation.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

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XFONE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

H. Earnings Per Share

Earnings per share are calculated and reported in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share ("EPS") ("SFAS 128"). Basic EPS is computed by dividing



income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

I. Income Taxes

Income taxes are accounted for under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

J. Stock-Based Compensation

The Company accounts for equity-based compensation arrangements in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." All equity-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123. Under APB No. 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price.

K. New Accounting Pronouncements

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation - "Transition and Disclosure" which provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation. The Company does not have any formal equity based compensation arrangements. However, when it does issue equity as compensation it continues to account for such transactions in accordance with provisions of APB No. 25 as permitted under the provisions of SFAS No. 123 (see item J above). The effect of this statement is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

The FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," in January 2003 and amended the Interpretation in December 2003. FIN 46 requires an investor with a majority of the variable interests (primary beneficiary) in a variable interest entity (VIE) to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the voting equity investors do not have a controlling financial interest or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. Development-stage entities that have sufficient equity invested to finance the activities they are currently engaged in and entities that are businesses, as defined in the Interpretation, are not considered VIEs. The provisions of FIN 46 were effective immediately for all arrangements entered into with new VIEs created after January 31, 2003. Intel has completed a review of its investments to determine whether Xfone is the primary beneficiary of any such VIEs. The review did not identify any VIEs that would require consolidation or any significant exposure to VIEs that would require disclosure.

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 XPHONE, INC. AND SUBSIDIARY  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

## NOTE 3 - PREPAID EXPENSES, OTHER RECEIVABLES AND DEPOSITS

<TABLE>  
<CAPTION>

	DECEMBER 31, ----- 2003 -----	DECEMBER 31, ----- 2003 ----- Convenience translation int -----
<S>	<C> (pound) 37,687	<C> \$ 67,083
Due from Swiftglobal, Limited (nonaffiliated entity)		
Other prepaid expenses	117,650	209,416
Due from Story Telecom Limited ("Story") (affiliated entity)	15,960	28,409
Others receivables	169,647	301,972
	----- (pound) 340,944 =====	----- \$606,880 =====

&lt;/TABLE&gt;

## NOTE 4 - LOAN TO SHAREHOLDER

The Company has a non-interest bearing demand loan of (pound)54,070 due from a shareholder. In addition, the Company has a non-interest bearing loan of (pound)232,666, due from such shareholder. Which has been classified as noncurrent and is to be repaid as follows.:

2004	(pound) 54,070
2005	116,333
2006	116,333
	-----
	(pound) 286,736

&lt;PAGE&gt;

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 XPHONE, INC. AND SUBSIDIARY  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

## NOTE 5 - FIXED ASSETS

<TABLE>  
<CAPTION>

<S>

	DECEMBER 31, 2003	D
		Convenience tr
<b>COST</b>		
Equipment held under capital lease	364,577	\$
Office furniture and equipment	26,593	
Development costs	32,060	
Computer equipment	136,556	
	559,786	\$
	=====	=
<b>ACCUMULATED DEPRECIATION UNDER CAPITAL LEASE</b>		
Equipment held under capital lease	61,869	\$
Office furniture and equipment	9,730	
Development costs	16,030	
Computer equipment	50,442	
	138,071	\$
	=====	=

</TABLE>

NOTE 6 - INVESTMENTS

The Company has investments in two business ventures of approximately 47 1/2% of Auracall Limited and 40% of Story, both start up entities in the U.K. Through December 31, 2003, these entities cumulative respective net losses have exceeded the Company's investments therein, respectively. Accordingly, such investments have been reduced to zero. Story and Auracall Limited buy their telecommunications services from the Company.

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 XPHONE, INC. AND SUBSIDIARY  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 7 - OTHER LIABILITIES AND ACCRUED EXPENSES

<TABLE>  
<CAPTION>

<S>

	DECEMBER 31, 2003	D
		Convenience
<b>&lt;C&gt;</b>		
Corporate taxes	289,777	
Professional fees	29,545	
Payroll and other taxes	48,452	
Due to Auracall Limited (Affiliated entity)	275	
Others	11,760	
	379,809	
	=====	

<CAPTION>  
 NOTE 8 - NOTES PAYABLE

	DECEMBER 31,	
	2003	Convenienc
<S>	<C>	
First National Finance - maturity 2005, annual Interest rate 7.16%	4,000	
Newcourt - maturity 2005, annual interest rate 7.16%	3,166	
	-----	
	7,166	
Less: current portion	(4,000)	
	-----	
Notes payable - non current	3,166	
	=====	

</TABLE>

<PAGE>

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 XPHONE, INC. AND SUBSIDIARY  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 8 - NOTES PAYABLE (cont.)

<TABLE>  
 <CAPTION>

		Convenienc
		-----
<S>	<C>	
B. MATURITIES OF NOTES PAYABLE ARE AS FOLLOWS:		
December 31		
2004	(pound) 4,000	
2005	3,166	
	-----	
	(pound) 7,166	
	=====	

</TABLE>

NOTE 9 - CAPITAL LEASE OBLIGATIONS

The Company is the lessee of switching equipment under capital leases expiring in various years through 2007. **The assets and liabilities** under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2003.

Minimum future lease payments under capital leases as of December 31, 2003 for each of the next four years are:

<TABLE>  
<CAPTION>

Convenienc  
-----

<S>	December 31		<C>
	2004		(pound) 78,091
	2005		67,987
	2006		15,688
	2007		15,813
			-----
	Total minimum lease payments		177,579
	Less: amount representing interest		(24,242)
			-----
	Present value of net minimum lease payment		(pound) 153,337
			=====

Interest rates on capitalized leases vary up to 9.6%, per annum.

</TABLE>

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XPHONE, INC. AND SUBSIDIARY  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 10 - INCOME TAXES

The Company accounts for income taxes under the provisions of SFAS 109. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statement and tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and tax credit carryforward. The Company does not file consolidated tax returns.

The following table reflects the Company's deferred tax liabilities at December 31, 2003:

<TABLE>  
<CAPTION>

Convenienc  
-----

<S>			<C>
	Accelerated tax writeoff of fixed assets		(pound) 36,109
			-----
	Deferred tax liability		(pound) 36,109
			=====

</TABLE>

The provision for income taxes differs from the amount computed by applying the statutory income tax rates to income before taxes as follows:

<TABLE>  
<CAPTION>

YEARS ENDED	
-----	
DECEMBER 31,	
-----	
2003	2002

<S>	<C>	<C>
Income tax computed at statutory rate	160,550	73,066
Effect of tax authority adjustments	12,435	--
Other	1,638	--
Effect of permanent differences (including effect of nonconsolidated tax filings)	42,656	6,663
Utilization of net operating loss	(823)	(6,916)
Provision for income taxes	216,456	72,813

</TABLE>

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XFONE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 11 - CAPITAL STRUCTURE, STOCK OPTIONS AND DIVIDEND

Campbeltown Business Limited ("Campbeltown"), an entity owned by the Nissenson family including the Company's President and Principal Executive Officer, a shareholder, holds options from the Company and one of its directors to purchase 500,000 additional shares of the Company for the amount of \$200,000. This transaction can be executed either by the Company issuing new shares, or by the director selling his private shares as long as he has an adequate amount of shares, as the director will decide. This option will expire on December 31, 2005.

The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. The common stock has no pre-emptive or conversion rights or other subscription rights. There are no sinking fund provisions applicable to the common stock.

In 2002, the Company issued 45,014 shares of common stock at a value of (pound)28,775 as compensation for professional services rendered to the Company.

On August 21, 2003, the Company issued 400,000 and 200,000 options to acquire shares of its restricted common stock, respectively, to its Chairman of the Board and to its President and Principal Executive Officer exercisable as at \$0.475 per share. Each option convertible into one share of common stock. The options are cancelable at the sole discretion of the Company for a period of 210 days from the date of issuance. On March 1, 2004 these options were cancelled by the Company. No related compensation cost was recognized by the Company due to this unilateral cancellation clause.

On December 30, 2003, the Company declared a dividend of \$0.03 per share, totaling \$153,561, to stockholders of record on December 31, 2003, payable on February 16, 2004.

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XPHONE, INC. AND SUBSIDIARY  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 11 - CAPITAL STRUCTURE, STOCK OPTIONS AND DIVIDEND (CONTINUED)

The following restricted stock was issued, in U.S. dollars, to WorldNet Global.com Limited during 2003 for a total of (pound)13,335 as follows:

Month Issued	Number of Shares	Price Per Share	Total Issue Price
January	5,000	\$0.50	\$2,500
February	5,650	0.44	2,500
April	20,000	0.25	5,000
May	9,615	0.26	2,500
August	11,750	0.43	5,000
September	4,780	0.52	2,500
	56,795		\$20,000

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XPHONE, INC. AND SUBSIDIARY  
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<TABLE>  
<CAPTION>

			20C
			Weighted
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER S AMOU
<S> Net Income	<C> (pound) 421,445	<C>	<C>
BASIC EPS:			
Income available to common stockholders	(pound) 421,445	5,089,286	(pound) C
Effect of dilutive securities:			
Options	--	500,000	
DILUTED EPS:			
Income available to common stockholders	(pound) 421,445	5,589,286	(pound) C

<TABLE>  
<CAPTION>

20C

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	Weighted PER SHARE AMOUNT
<S> Net Income	<C> (pound) 240,981	<C>	<C>
BASIC EPS:			
Income available to common stockholders	(pound) 240,981	5,030,444	(pound)
Effect of dilutive securities:			
Options	--	500,000	
DILUTED EPS:			
Income available to common stockholders	(pound) 240,981	5,530,444	(pound)

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<PAGE>

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XFONE, INC. AND SUBSIDIARY  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 13 - SELECTED STATEMENT OF OPERATIONS DATA

<TABLE>  
<CAPTION>

	YEARS ENDED		
	DECEMBER 31,		
	2003	2002	2001
<S>	<C>	<C>	<C>
A. MARKETING & SELLING:			Convenience
Advertising	(pound) 25,365	(pound) 22,401	\$45,1
Consultancy	83,970	59,372	149,4
Commissions	964,623	174,835	1,717,0
Others	17,054	63,810	30,3
	(pound) 1,091,012	(pound) 320,418	\$1,942,0
B. GENERAL & ADMINISTRATIVE:			
Salaries & benefits	(pound) 410,024	(pound) 268,884	\$729,8
Rent & maintenance	84,121	90,916	149,7
Communications	4,830	11,539	8,5
Professional fees	224,087	142,863	398,8
Bad debts	109,532	226,984	194,9
Depreciation	89,592	58,300	159,4
Others	130,124	79,138	231,6
	(pound) 1,052,310	(pound) 878,624	\$1,873,1



</TABLE>

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XPHONE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 13 - SELECTED STATEMENT OF OPERATIONS DATA (cont.)

<TABLE>  
<CAPTION>

	YEARS ENDED		2003 Convenienc
	DECEMBER 31,		
	2003	2002	
<S> C. FINANCING EXPENSES, NET:	<C>	<C>	<C>
Bank charges and interest	(pound) 31,013	(pound) 1,607	\$55,20
Interest on capital lease	9,578	8,476	17,04
Foreign currency exchange	2,305	21	4,10
Other interest and charges	1,387	2,733	2,46
	(pound) 44,283	(pound) 12,837	\$78,82

</TABLE>

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XPHONE, INC. AND SUBSIDIARY

NOTE 14 - RELATED PARTY TRANSACTIONS

Refer to notes 4 and 11 for additional related party activity.

<TABLE>  
<CAPTION>

	YEARS ENDED		2003 Convenienc
	DECEMBER 31,		
	2003	2002	
<S> Shareholders' salaries	<C> (pound) 147,407	<C> (pound) 63,448	<C> \$262,3
Campbeltown Business Limited.: Fees	(pound) 55,000	(pound) 25,000	\$97,9

Consultancy	(pound) 41,237	(pound) 34,372	\$73,4
Trade payables	(pound) 6,950	--	\$12,3
Vision Consultants Limited:			
Fees	(pound) 55,000	(pound) 25,000	\$97,9
Story Telecom Limited :			
Accounts receivable, net	(pound) 429,604	(pound) 3,606	\$764,6
Due from related entities	(pound) 15,960	(pound) 14,725	\$28,4
Conversion expense	(pound) 38,930	--	\$69,2
Revenues	(pound) 2,715,231	(pound) 3,716	\$4,833,1
Trade payables	(pound) 22,771	--	\$40,5
Auracall Limited :			
Due from related entities	(pound) 4,533	(pound) 16,196	\$8,0
Revenues	(pound) 318,774	--	\$586,5
Trade payables	(pound) 18,040	(pound) 12,362	\$32,1
Commission expense	(pound) 171,234	(pound) 73,661	\$304,7

</TABLE>

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 XPHONE, INC. AND SUBSIDIARY  
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NOTE 15 - FINANCIAL COMMITMENTS

The Company has annual rent commitments under a non-cancellable operating lease of (pound)38,200, which terminates in December 2012. Rent expense for the two years ended December 31, 2003 and 2002, were (pound)49,500 and (pound)69,100, respectively.

The Company has a performance based incentive agreement with its Chairman of the Board and Campbelltown for which sets an amount due to such person/entity amounting to 1% of the Company's revenues exclusive of revenues resulting from Story.

The Company has an 18 month renewable consulting agreement with Campbelltown, which is to expire on November 11, 2004 and is expected to be renewed. Under this agreement Campbelltown agrees to provide (a) analysis of proposed acquisitions; (b) such markets for the Company's telecommunications services in additional countries; (c) formulate strategies for the Company's future growth plans; and (d) introduce potential customers to the Company's business. The Company is obligated to pay Campbelltown (pound)2,000 (\$3,560) per month plus an additional performance bonus based upon monthly revenue targets as follows:

<TABLE>  
 <CAPTION>

Target Monthly Revenue	Monthly Bonus	Convenience Trans
-----	-----	-----
Up to (pound)125,000	<C> (pound)--	<C> \$--
From (pound)125,000 to (pound)150,000	(pound)1,250	\$2,225
From (pound)150,000 to (pound)175,000	(pound)2,500	\$4,450
Over (pound)175,000	(pound)2,750	\$4,895

</TABLE>

The Company has commission agreements with various resellers that are entitled to 10% of the revenues that they generate.

The Company anticipates annual maintenance of equipment to be approximately (pound) 50,000 (\$89,000).

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XFOONE, INC. AND SUBSIDIARY  
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On February 12, 2004, the Company closed an offering of 986,737 restricted shares of common stock, with 1,136,737 Warrants A and 986,737 Warrants B. Each Warrant A, which is not freely transferable, entitles the owner to purchase one share, until not later than January/February 2009 at an exercise price of \$5.50. Each Warrant B, which is not freely transferable, entitles the owner to purchase one share, until not later than until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange. The Warrants B are exercisable at an exercise price of \$3.50 and expire 375 days from the date of purchase of the attached shares of restricted common stock. The Company sold shares with attached Warrants A and B to a total of 16 persons and 8 entities.

During January 2004, the Company granted for services additional 17,510 restricted shares of its common stock with 17,510 each of Warrants A and B attached. During January and February 2004, the Company granted a total of additional 150,000 Warrants A for services.

NOTE 16 - ECONOMIC DEPENDENCY AND CREDIT RISK

Approximately, 36% and 18% of total 2003 revenues were derived, respectively, from two customers and approximately 14% and 13% of total 2002 revenues were derived, respectively, from two customers.

Approximately, 12% and 11% of the total accounts receivable at 2003 were due from two customers.

Approximately, 31%, 24%, 20% and 15% of the Company's purchases are from four suppliers for the year ended December 31, 2003, and 75% and 19% are from two suppliers for the year ended December 31, 2002.

The Company may periodically maintain cash balances at a commercial bank in excess of the Federal Deposit Insurance Corporation insurance limit of \$100,000.

NOTE 17 - SEGMENT INFORMATION

The percentage of the Company's revenues is derived from the following segments. The Company's operations were not segmented in 2002.

Telephone minute billing plus messaging services, including facsimile, nodal, and e-mail related services	55%
Mobile phone services	7%
Calling cards	38%
	-----
	100%
	=====

The Company has four major types of customers:

- o Residential - These customers either must dial "dial 1 service" or acquire a box that dials automatically.
- o Commercial - Smaller business are treated the same as residential customers. Larger businesses' PBX units are programmed.
- o Governmental agencies - Include the United Nations World Economic Forum, the Argentine Embassy and the Israeli Embassy.
- o Resellers, such as WorldNet and Vsat - We provide them with our telephone and messaging services. For WorldNet we also provide the billing system.

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 XPHONE, INC. AND SUBSIDIARY  
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NOTE 17 - SEGMENT INFORMATION (CONTINUED)

Revenues and operating profit:

<TABLE>  
 <CAPTION>

	YEARS ENDED		
	DECEMBER 31,		
	2003	2002	2003
			Convenie
<S>	<C>	<C>	<C>
Telephone & Messaging	3,996,732		\$7,114,1
Mobile	503,475		896,1
calling cards	2,781,974		4,951,9
Total Revenues	(pound) 7,282,181	(pound) 3,741,436	12,962,2
Direct Operating expenses			
Telephone & Messaging	2,370,941		4,220,2
Mobile	416,918		742,1
calling cards	2,604,703		4636,3
Total expenses	5,392,562	2,369,627	9,598,7
Direct Operating Profit			
Telephone & Messaging	1,625,791		2,893,9
Mobile	86,557		154,0
calling cards	(pound) 177,271		315,5
Total Profits	1,889,619	1,371,809	3,363,5
Corporate and common operating expenses.	1,223,252	1,056,207	2,177,3
Operating profit	666,367	315,606	1,186,1

</TABLE>

Assets

The assets of the company are for common usage for all reportable segments.

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XPHONE, INC. AND SUBSIDIARY  
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NOTE 18 - SUBSEQUENT EVENTS

AGREEMENT AND PLAN OF ACQUISITION

On May 28, 2004, we entered into an Agreement to acquire WS Telecom Inc., a Mississippi corporation, through the statutory merger of WS Telecom Inc. with and into our wholly owned subsidiary Xphone USA, Inc. For the purposes of the acquisition, WS Telecom, Inc. includes its wholly owned subsidiaries eXpeTel Communications, Inc. and Gulf Coast Utilities, Inc. The terms and conditions of the Agreement provide that:

- 1) all of WS Telecom's issued and outstanding capital stock will be acquired and converted into the right to receive from us certain shares of our restricted common stock and warrants convertible into shares of our common stock;
- 2) we will issue a number of shares of our restricted common stock with an agreed market value of \$2,200,000, which will be determined using the weighted average price of our common stock for the ten trading days preceding the trading day immediately prior to the date we and WS Telecom Inc. enter into a Management Operating Agreement;
- 3) the weighted average price of our common stock, as referred to in 2) immediately above, will in no event be less than \$3.30 per share or greater than \$4.30 per share;
- 4) we will issue a number of warrants with a value of \$1,300,000, the value of which will be calculated as of the date we and WS Telecom Inc. enter into a Management Operating Agreement, assuming 90% volatility of the underlying share of common stock of the Registrant in accordance with the Black Scholes option - pricing model;
- 5) each share of MS Telecom, Inc.'s Preferred Stock issued and outstanding immediately prior to the effective time of the Acquisition will be canceled and extinguished and be converted automatically into the right to receive upon surrender of certificate(s) representing MS Telecom, Inc.'s Preferred Stock, as follows: (i) an amount of our stock consideration equal to the product of our stock consideration times 28.6% divided by total of MS Telecom, Inc.'s Preferred Stock; and (ii) an amount of our warrant consideration equal to the product of MS Telecom, Inc.'s warrant consideration times 28.6% divided by the total of MS Telecom, Inc.'s Preferred Stock;
- 6) each share of MS Telecom, Inc.'s common stock issued and outstanding immediately prior to the effective time of the Acquisition will be canceled and extinguished and be converted automatically into the right to receive upon surrender of certificate(s) representing MS Telecom, Inc.'s common stock, as follows: (i) an amount of our stock consideration equal to the product of the Our stock consideration times 71.4% divided by the total of MS Telecom, Inc.'s common stock; and (ii) an amount of our warrant consideration equal to the product of our warrant consideration times 71.4% divided by the total of MS Telecom, Inc.'s common stock;

- 7) completion of the Acquisition is subject to certain conditions, including: (a) approval of the Agreement and the Acquisition by shareholders; (b) receipt of regulatory approvals; and (c) certain other customary conditions; and
- 8) concurrent with the execution of the Agreement and as material inducements to us and WS Telecom, Inc. as the acquired company, the following agreements will be entered into, the terms of which are described below: (a) employment agreement between Xfone USA, Inc. and Wade Spooner; (b) employment agreement between Xfone USA, Inc. and Ted Parsons; and (c) escrow agreement among us, Xfone USA, Inc., Wade Spooner, Ted Parsons, and the escrow agent.

#### XFONE COMMUNICATION LTD.

On April 15, 2004, we established an Israel based subsidiary, Xfone Communication Ltd. On May 9, 2004, Xfone Communication applied for a license to become an international telecom service provider in Israel. On May 16, 2004, the Government of Israel informed Xfone Communication that its application underwent preliminary examination and appears to be acceptable. Therefore, on May 18, 2004, the Government of Israel granted Xfone Communication a Dialing Code ("018"); nevertheless, the Government of Israel has not yet granted Xfone Communication the license. To date, Xfone Communication has no operating activity and is not expected to have any operating activity until it will be granted the license.

The Israeli Government Regulations require that at least 26% of an applicant company be owned by Israeli citizens who reside in Israel. Xfone Communication is owned 74% by us and 26% by H.S.N. Communication Investments Ltd., an Israeli based company, that is owned: 40% by Mrs. Naama Harish, the wife of Dr. Eyal Harish, a member of our Board of Directors, 40% by Dionysos Investments Ltd., a company owned by members of the family of Mr. Guy Nissenson, our Chief Executive Officer, and 20% by Margo Sport Ltd., a company owned by Mr. Giora Spigel and his wife.

In accordance with the Israeli Government Regulations Xfone Communication issued a bank guarantee in favor of the Government of Israel for the amount of approximately \$2.2 Million. In order to attain the Bank Guarantee, Xfone Communication had to deposit in Bank Hapoalim B.M., an Israel based bank, approximately \$2.2 million and issue a Letter of Guarantee, unlimited in amount, in favor of the bank, guaranteeing all debt and indebtedness of Xfone Communication towards the bank. If Xfone Communication will fail to get the License the Bank Guarantee and the Letter of Guarantee will be returned.

#### OFFERING

On February 12, 2004, the Company closed an offering of 986,737 restricted shares of common stock, with 1,136,737 Warrants A and 986,737 Warrants B. The Company sold 969,237 shares of common stock with a Warrant A and B attached for aggregate proceeds of \$2,907,700. Each Warrant A, which is not freely transferable, entitles the owner to purchase one share, until not later than January/February 2009 at an exercise price of \$5.50. Each Warrant B, which is not freely transferable, entitles the owner to purchase one share, until not later than until the earlier of 10 days after this registration statement is effective or 10 days after our common stock is traded on the NASDAQ Small Cap or the American Stock Exchange. The Warrants B are exercisable at an exercise price of \$3.50 and expire 375 days from the date of purchase of the attached shares of restricted common stock. The Company sold shares with attached Warrants A and B to a total of 16 persons and 8 entities. During January 2004, the Company granted 17,510 restricted shares of its common stock with 17,500 each of Warrants A and B attached. During January and February 2004, the Company granted a total of 150,000 Warrants A.

#### AGREEMENT WITH PORTFOLIO PR, INC.

On January 1, 2004, the Company entered into a cancelable agreement with an investment relations firm, Portfolio PR, Inc., which is cancelable on a month's notice and is renewable annually. This agreement provides a monthly payment of \$3,500 per month plus 1,000 shares of the Company's common stock increasing to \$4,500 plus 1,200 shares per month of the Company's stock when it becomes listed on NASDAQ.

In conjunction with this agreement, from January 2004 to April 2004, the Company paid Portfolio PR, Inc. \$7,000 but made no stock issuances to Portfolio PR, Inc. In addition, Portfolio PR, Inc. did not exercise any warrants.

On April 23, 2004, the Company cancelled the agreement with Portfolio PR, Inc. "for cause". In June 2004, Portfolio PR, Inc. agreed to receive from the Company \$7,209.09 in cash and 4,000 shares of our common stock as total and final consideration and further agreed that the Company would have no further obligation to pay it any additional cash, shares, warrants, or other consideration in connection with this agreement.

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE.

Not Applicable

ITEM 8A. CONTROLS AND PROCEDURES.

As of December 31, 2003, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2003.

There have been no significant changes in our internal control over financial reporting during the fiscal year ended December 31, 2003, or subsequent to December 31, 2003, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART III.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Directors and Executive Officers

Our Board of Directors elects our executive officers annually. A majority vote of the directors who are in office is required to fill vacancies of our Board of Directors. Each director shall be elected for the term of one year, and until his successor is elected and qualified, or until his earlier resignation or removal. Our bylaws provide that we have at least one director. Our directors and executive officers are as follows:

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Name	Age	Position	Term of Office
<S> Abraham Keinan	<C> 54	<C> Chairman of the Board of Directors	<C> One Year (or unt Director)

Guy Nissenson	29	President, Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer and Director)	One Year (or unt
-----			
Eyal Harish	51	Director	One Year (or unt
-----			
Shemer Schwartz	29	Director	One Year (or unt
-----			

</TABLE>

Mr. Abraham Keinan has been our Chairman of the Board of Directors since our inception. Abraham Keinan founded Swiftnet, Ltd., our subsidiary, in February 1990. From 1991 to October 2003, Mr. Keinan was Swiftnet's Managing Director. In or about January 2002, Mr. Keinan became a Director of Auracall, Ltd. In 1975, Mr. Keinan received a Bachelor of Science Degree in Mechanical Engineering from Ben-Gurion University, Beer-Sheeva - Israel.

Mr. Guy Nissenson has been our President, Chief Executive Officer, Principal Accounting Officer, Principal Financial Officer and a Director since our inception. Mr. Nissenson joined Swiftnet, Ltd. in October 1999, became a director of Swiftnet, Ltd. in May 2000, and its Managing Director in October 2003. In October 2002, Mr. Nissenson became a Director of Story Telecom, Ltd. In or about January 2002, Mr. Nissenson became a Director of Auracall, Ltd. He was a marketing manager of RADA Electronics Industries in Israel from May 1997 to October 1998. Mr. Nissenson was an audit and control officer with the rank of Lieutenant of the Israeli Defense Forces - Central Drafting Base and other posts from March 1993 to May 1997. In July 2000, Mr. Nissenson received a Bachelor of Science Degree in Business Management from Kings College - University of London. In September 2001, Mr. Nissenson received a Master of Business Administration in International Business from Royal Holloway at the University of London in London, United Kingdom.

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Dr. Eyal Harish has been a member of our Board of Directors since December 19, 2002. From 1980 to present, Dr. Harish has been in his own private practice in Israel as a dentist. Prior to becoming a dentist, from 1974 to 1980, Dr. Harish was an Administration Manager with Consortium Holdings, an Israel based communication company. Dr. Harish is the brother-in-law of Mr. Keinan, our Chairman of the Board.

Mr. Shemer Schwartz has been a member of our Board of Directors since December 19, 2002. From March 2003 to present, Mr. Schwartz has been the co-founder and research and development expert of XIV Ltd., a data storage start up company located in Tel-Aviv, Israel. From November 2001 to March 2003, Mr. Schwartz has been an Application Team Leader of RF Waves, an Israel based high technology company in the field of wireless communication. From 1996 to 2001, Mr. Schwartz was a Captain in the Research and Development Center of the Israeli Defense Forces Intelligence. In July 1995, Mr. Schwartz received a BSc degree in Physics and Mathematics from the Hebrew University in Jerusalem. In September 2003, Mr Schwartz received an MSc degree in Computer science from the Tel-Aviv University in Tel-Aviv, Israel.

#### SIGNIFICANT EMPLOYEES

Mrs. Bosmat Houston, 41 years of age, has been our Research and Development Manager since our inception. She joined Swiftnet, Ltd., in September 1991 as its Research and Development Manager. Mrs. Houston received a Bachelor of Science Degree in Computer Science from the Technion - Institution of Technology, Haifa - - Israel in 1986.



Mr. Bryan Franks, 60 years of age, has been the Marketing Manager of Swiftnet, Ltd's Partner Division since April 2001. As our Marketing Manager, he has been responsible for recruiting and managing Swiftnet's resellers and agents. In May 2003, Mr. Franks became Swiftnet's Director of Sales and Marketing. From April 1998 to April 2001, Mr. Franks was employed as a Director of Sales and Marketing with Specialist DIY, Ltd., an import and distributor of a do it yourself products firm located in Manchester, United Kingdom.

Other than as identified above, we have no significant employees.

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#### FAMILY RELATIONSHIPS

Dr. Harish, one of our directors, is the brother-in-law of Mr. Abraham Keinan, our Chairman of the Board. On April 15, 2004, we established an Israel based subsidiary, Xfone Communication Ltd. Xfone Communication is owned 74% by us and 26% by H.S.N. Communication Investments Ltd., an Israeli based company, that is owned: 40% by Mrs. Naama Harish, the wife of Dr. Eyal Harish.

On May 5, 2000, Swiftnet, Ltd. entered into an 18-month renewable consulting agreement with Campbeltown Business, Ltd., a private company incorporated in the British Virgin Island which is owned by Guy Nissenson, our Principal Executive Officer/President and Director, and his family. On November 5, 2001 and May 11, 2003, we renewed this agreement for additional 18 month periods. Guy Nissenson, our Principal Executive Officer/President, has beneficial ownership of 19.99% or 1,220,336 shares of our common stock, which consist of the following: (a) 720,336 shares of our common stock owned by Campbeltown Business Ltd., a British Virgin Islands corporation, in which Mr. Nissenson owns 20% and his family are also shareholders; (b) 500,000 options to purchase shares of our common stock that Campbeltown Business Ltd has the right to acquire.

Other than these family relationship, there are no other family relationships among our officers, directors, promoters, or persons nominated for such positions.

#### LEGAL PROCEEDINGS

No officer, director, or persons nominated for such positions, promoter or significant employee has been involved in legal proceedings that would be material to an evaluation of our management.

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. being found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

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## COMMITTEES OF THE BOARD OF DIRECTORS

We presently do not have an audit committee, compensation committee, nominating committee, an executive committee of our board of directors, stock plan committee or any other committees. However, our board of directors is considering establish various committees during the current fiscal year. Currently, our Board of Directors makes the decisions regarding compensation, our audit, the appointment of auditors, and the inclusion of financial statements in our periodic reports.

## AUDIT COMMITTEE FINANCIAL EXPERT

We have no financial expert. We believe the cost related to retaining a financial expert at this time is prohibitive.

## CODE OF ETHICS

We have not yet adopted a corporate code of ethics. Our board of directors is considering, over the next year, establishing a code of ethics to deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code.

## ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth summary information concerning the compensation received for services rendered to it during the current year and the years ended December 31, 2001 and 2002, and 2003 respectively by our Chairman of the Board, Abraham Keinan who is the managing director of Swiftnet, and Guy Nissenson, who is our Principal Executive Officer/ President. Abraham Keinan is our only executive officer who received aggregate compensation during our last fiscal year which exceeded, or would exceed on an annualized basis, \$100,000.

&lt;TABLE&gt;

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## Summary Compensation Chart

Name & Position	Year	Annual Compensation			Long
		Salary (\$)	Bonus (\$)	Other (\$)	Rest Stoc
<S>	<C>	<C>	<C>	<C>	<
Abraham Keinan Chairman	2003	\$69,057 (1) (40,622 Pound)	\$112,576 (63,245 Pound)	\$97,900 (2) (55,000 Pound)	
	2002	\$51,000 (30,000 Pound)	9,588 (6,372 Pound)	67,500 (45,000 Pound)	F
	2001	\$42,300 (30000 Pound)	0	0	
Guy Nissenson Principal Executive Officer	2003	\$74,820 (4) (43,500 Pound)		\$171,302 (5) (96,237 Pound)	
	2002	\$52,800 (33,000 Pound)			
	2001	\$30,450 (21,000 Pound)			

</TABLE>

(1) On April 15, 2003, our Board of Directors approved of a salary increase for our Chairman of the Board from \$1,473 to \$4,000 per month. Abraham Keinan's total salary of \$69,057 for 2003, as reflected above, is composed of: (a) \$3,250 per month from January 2003 to March 2003; and (b) \$4,000 per month from April 2003 to December 2003.

Our chairman of the Board of Directors, Mr. Abraham Keinan, does not have a written employment agreement with us. Since January 2001, we have agreed to pay him a salary of \$3,525 (2,500 Pound Sterling) per month. Abraham Keinan receives pension benefits and a company car. On October 15, 2002, our Board of Directors approved a bonus and success fee whereby if we receive monthly revenues in excess of \$485,000 then Mr. Keinan and our consultant, Campbeltown Business, Ltd. shall receive 1% of the revenues for each month where our revenues reach \$485,000 up to a maximum of one million dollars. On April 10, 2003, Mr. Keinan and Campbeltown Business Ltd waived their right to receive 1% of the revenues generated from calling cards sold by Story Telecom.

(2) This amount represents a success fee paid to Vision Consultants, which is solely owned and controlled by A. Keinan, and is further discussed in the paragraph following this table.

(3) On March 1st, 2004, our Board of Directors cancelled these options.

(4) On April 15, 2003, our Board of Directors approved of a salary increase for our Principal Executive Officer from UKP2,500 (\$4,300) to UKP4,000 (\$6,800) per month. Guy Nissenson's total salary of \$73,950 is composed of: (a) \$4,250 per month from January to March 2003; and (b) \$6,800 per month from April 2003 to December 2003. On May 11, 2000, we entered into a written employment agreement with our Principal Executive Officer/President, Guy Nissenson. Under the agreement, Mr. Nissenson will work on business development, sales and marketing. At that time, we agreed to pay him a salary of \$1,473 (1000 Pound Sterling) per month, subject to a future increase of \$1,473 (1000 Pound Sterling) if Swiftnet reaches average sales of \$257,775 (175,000 Pound Sterling) per month. In addition, we have agreed that if we grant options to Abraham Keinan, we will grant Mr. Nissenson options to buy Swiftnet or us according to the following formula: 50% of the options with same price and conditions that Mr. Keinan will receive, subject to our reaching a benchmark of \$176,760 (120,000 Pound Sterling) average sales per month during Mr. Nissenson activities or in the 12 months thereafter. The agreement with Mr. Nissenson can be terminated by either party with one month notice.

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(5) This amount represents consultant fees of 41,237 pounds, and a success fee of 55,000 pounds, paid to Campbeltown Business, Ltd., which is owned and controlled by Guy Nissenson and other members of the Nissenson family.

(6) On March 1st, 2004 our Board of Directors canceled these options.

Our research and development manager, Mrs. Bosmat Houston, has an employment agreement us which provides that we pay her a salary of \$3,337 (2266 Pound Sterling) per month. She is not subject to a covenant not to compete. We may terminate Mrs. Houston's agreement with 8 weeks notice. She may terminate the agreement with one week notice.

#### Options/SAR Grants 2003

Name and Principle Position	Number Securities Underlying Options	% of Total Options Granted To		Expiration Date
		Employees in 2003	Exercise Price	

Abraham Keinan(1) Chairman of the Board	400,000 common stock shares	66.7%	\$0.475	August 31, 2008
Guy Nissenson(2) Principal Executive Officer/Director	200,000 common stock shares	33.3%	\$0.475	August 31, 2008
TOTAL		100.00%		

(1) On August 21, 2003, we issued 400,000 options to acquire shares of our restricted common stock to Abraham Keinan. These options were issued to Abraham Keinan for services rendered by Mr. Keinan as the Chairman of our Board of Directors. These options are exercisable at a price of \$0.475 per share. Each option is convertible into one share of stock. These options are vested immediately and expire 5 years after issuance. On March 1st, 2004, our Board of Directors canceled these options.

(2) On August 21, 2003, we issued 200,000 options to acquire shares of our restricted common stock to Guy Nissenson. These options were issued to Guy Nissenson for services rendered by Mr. Nissenson as our President and Principal Executive Officer. These options are exercisable at a price of \$0.475 per share. Each option is convertible into one share of stock. These options are vested immediately and expire 5 years after issuance. On March 1st, 2004, our Board of Directors canceled these options.

#### Aggregate Option/SAR Exercises in 2003 and Fiscal Year End Option/SAR Values

<TABLE>  
<CAPTION>

Name <S>	Shares Acquired on Exercise (#) <C>	Value Realized (\$) <C>	Number of Securities Underlying Unexercised Options/SARs at FY-En (#)
			Exercisable/Unexercisable <C>
Guy Nissenson, Principal Executive Officer, President	Not Applicable	Not Applicable	700,000 / 0 (1)
Abraham Keinan, Chairman of the Board	Not Applicable	Not Applicable	400,000 / 0 (3)

</TABLE>

- (1) Of the 700,000 share options, 200,000 were issued to Guy Nissenson, our Principal Executive Officer and President, on August 21, 2003. On March 1, 2004, these 200,000 share options were cancelled by our Board of Directors. Campbeltown Business Ltd., a private company incorporated in the British Virgin Islands which is owned by Guy Nissenson and other members of the Nissenson family, own options to purchase 500,000 shares of our common stock for \$0.40 per share or an aggregate of \$200,000. Guy Nissenson owns 20% of Campbeltown Business Ltd. Options to purchase shares of our common stock are shown in the table above as owned by Guy Nissenson due to Guy Nissenson's 20% ownership of Campbeltown Business Ltd.
- (2) Based on the December 31, 2003 per share closing price of \$5.98 and the exercise prices of \$0.475 per share for 200,000 share options, and \$0.40 per share for 500,000 share options.
- (3) The options to purchase 400,000 shares of our common stock were issued to Abraham Keinan, our Chairman of the Board, on August 21, 2003, and on March 1, 2004, all 400,000 share options were cancelled by our Board

of Directors. Abraham Keinan currently owns no options to purchase shares of our common stock.

(4) Based on the December 31, 2003 per share closing price of \$5.98, and an exercise price of \$0.475 per share.

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#### BOARD COMPENSATION

Other than provide above our directors do not receive any compensation for their services as directors, although some directors are reimbursed for reasonable expenses incurred in attending board or committee meetings.

#### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following tables sets forth, as of June 7, 2004, certain information with respect to the beneficial ownership of our common stock by each stockholder known by us to be the beneficial owner of more than 5% of our common stock and by each of our current directors and executive officers. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Information relating to beneficial ownership of common stock by our principal stockholders and management is based upon information furnished by each person using "beneficial ownership" concepts under the rules of the Securities and Exchange Commission. Under these rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or direct the voting of the security, or investment power, which includes the power to vote or direct the voting of the security. The person is also deemed to be a beneficial owner of any security of which that person has a right to acquire beneficial ownership within 60 days. Under the Securities and Exchange Commission rules, more than one person may be deemed to be a beneficial owner of the same securities, and a person may be deemed to be a beneficial owner of securities as to which he or she may not have any pecuniary beneficial interest. We are unaware of any contract or arrangement which could result in a change in control of our company.

The following table assumes, based on our stock records, that there are 6,105,445 shares issued and outstanding as of June 7, 2004.

The following tables set forth the ownership of our Common Stock as of the date of this Registration Statement by:

- o Each shareholder known by us to own beneficially more than 5% of our common stock;
- o Each executive officer;
- o Each director or nominee to become a director; and o All directors and executive officers as a group.

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#### Security Ownership of Beneficial Owners

<TABLE>  
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Title of Class	Name & Address of Beneficial Owner	Amount of Beneficial Ownership	Nature Ownersh
<S>	<C>	<C>	

Common	Abraham Keinan Chairman of the Board 4 Wycombe Gardens London Nw11 8al United Kingdom	3,644,664	Direct/In
Common	Crestview Capital Master LLC** 95 Revere Drive, Suite F Northbrook, Illinois 60062	500,000	Direct
Common	Guy Nissenson Principal Executive Officer President/Director 3A Finchley Park London N12 9JS United Kingdom	1,220,336	Direct/In
Total		5,365,000	

</TABLE>

\* Our Chairman of the Board, Abraham Keinan's 59.70% beneficial ownership consists of (a) 2,342,333 shares of our common stock individually owned by Mr. Keinan; and (b) ownership of 1,302,331 shares of common stock owned by Vision Consultants, a Nassau, Bahamas incorporated company that is 100% owned by Mr. Keinan, and is located at Kings Court, POB N-3944, Bay Street, Nassau, Bahamas. The sole business purpose of Vision Consultants is to hold and manage Mr. Keinan's investments. On August 21, 2003, we issued 400,000 options to Mr. Keinan, but on March 1, 2004, our Board of Directors cancelled these options.

\*\* Crestview Capital Master LLC, a selling shareholder, owns 500,000 shares of our common stock; however, upon the exercise of Warrants A and B issued to Crestview Capital Master, it will offer an additional 1,000,000 shares of our common stock. With a total of 1,500,000 shares that Crestview Capital Master LLC will offer, its beneficial ownership would be 24.60%.

\*\*\* Guy Nissenson, our Principal Executive Officer/President, has beneficial ownership of 19.99% or 1,220,336 shares of our common stock, which consists of the following: (a) 720,336 shares of our common stock owned by Campbeltown Business Ltd., a British Virgin Islands corporation, in which Mr. Nissenson owns 20% and his family are also shareholders; (b) 500,000 options to purchase shares of our common stock that Campbeltown Business Ltd has the right to acquire in accordance with a Stock Purchase Agreement, clarified on July 30, 2001 in which Campbeltown Business, Ltd. has an option to 500,000 shares of our outstanding stock if we become listed on the OTC Bulletin Board before December 31, 2005. We became listed on the OTC Bulletin Board on March 25, 2002. Campbeltown Business, Ltd. has not exercised its option as of March 31, 2004, and Campbeltown Business, Ltd. has until December 31, 2005 to exercise its option. Campbeltown Business, Ltd. also has a first right of refusal on any of our securities offerings until December 31, 2005, so long as Campbeltown Business, Ltd. owns more than 4% of our outstanding stock. To the extent that we issue any shares to Abraham Keinan. Campbeltown Business, Ltd. has the right to purchase or acquire such number of our shares on the same terms and conditions as Abraham Keinan such that the relative percentage ownership of Abraham Keinan and Campbeltown Business, Ltd. remains the same. On August 21, 2003, we issued 200,000 options to acquire our shares to Mr. Nissenson, but on March 1, 2004 these options were cancelled by our Board of Directors.

Security Ownership of Management:

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Title of Class	Name & Address of Beneficial Owner	Amount of Beneficial Ownership	Nature of Ownership
<S> Common	<C> Abraham Keinan Chairman of the Board 4 Wycombe Gardens London NW11 8AL United Kingdom	<C> 3,644,664	<C> Direct/Indi
Common	Guy Nissenson Principal Executive Officer President/Director 3A Finchley Park London N12 9JS United Kingdom	1,220,336	Direct/Indi
Common	Eyal Harish Director 3 Moshe Dayan Street Raanana, Israel	15,000	Direct
Common	Shemer Schwartz Director 8 Haamoraim Street Tel-Aviv, Israel	0	Not Applica
Common	All directors and executive officers as a group	4,880,000	

</TABLE>

\* Our Chairman of the Board, Abraham Keinan's direct/indirect ownership of 3,644,644 shares of our common stock or 59.70% beneficial ownership interest consists of: (a) his direct ownership of 2,342,333 shares of our common stock individually owned by Mr. Keinan; (b) his indirect ownership of 1,302,331 shares of common stock owned by Vision Consultants, a Nassau, Bahamas incorporated company that is 100% owned by Mr. Keinan, and is located at Kings Court, POB N-3944, Bay Street, Nassau, Bahamas. The sole business purpose of Vision Consultants is to hold and manage Mr. Keinan's investments. On August 21, 2003, we issued 400,000 options to Mr. Keinan, but on March 1, 2004, our Board of Directors cancelled these options.

\*\* Guy Nissenson, our Principal Executive Officer/President, has beneficial ownership of 19.99% or 1,220,336 shares of our common stock, which consists of the following: (a) 720,336 shares of our common stock owned by Campbeltown Business Ltd., a British Virgin Islands corporation, in which Mr. Nissenson has a 20% and his family are also shareholders; (b) 500,000 options to purchase shares of our common stock that Campbeltown Business Ltd has the right to acquire in accordance with a Stock Purchase Agreement, clarified on July 30, 2001 in which Campbeltown Business, Ltd. has an option to 500,000 shares of our outstanding stock if we become listed on the OTC Bulletin Board before December 31, 2005. We became listed on the OTC Bulletin Board on March 25, 2002. Campbeltown Business, Ltd. has not exercised its option as of March 31, 2004, and Campbeltown Business, Ltd. has until December

31, 2005 to exercise its option. Campbeltown Business, Ltd. also has a first right of refusal on any of our securities offerings until December 31, 2005, so long as Campbeltown Business, Ltd. owns more than 4% of our outstanding stock. To the extent that we issue any shares to Abraham Keinan, Campbeltown Business, Ltd. has the right to purchase or acquire such number of our shares on the same terms and conditions as Abraham Keinan such that the relative percentage ownership of Abraham Keinan and Campbeltown Business, Ltd. remains the same. On August 21, 2003, we issued 200,000 options to acquire our shares to Mr. Nissenson, but on March 1, 2004 these options were cancelled by our Board of Directors.

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

ABRAHAM KEINAN

Keinan Share Issuance

On September 1, 2000, we issued 1,730,000 shares of our common stock to our founder and Chairman of the Board, Abraham Keinan for services rendered to us in our corporate formation. Mr. Keinan's services consisted of the establishment of our business concept and providing us with technical expertise. We valued Mr. Keinan's services at \$247,390.

Keinan Stock Ownership Through Vision Consultants

Our Chairman of the Board, Abraham Keinan, has beneficial ownership of 1,302,331 shares of common stock owned by Vision Consultants, a Nassau, Bahamas incorporated company that is 100% owned by Mr. Keinan, and is located at Kings Court, POB N-3944, Bay Street, Nassau, Bahamas. The sole business purpose of Vision Consultants is to hold and manage Mr. Keinan's investments.

Vision Consultants is entitled to receive 1% of all of our revenues if and when revenues exceed \$485,000; however, in April 2003, Vision Consultants, Inc. and Campbeltown Business Limited waived their right with regard to revenues derived from Story Telecom.

Keinan Loan

Since our inception in September 2000 through December 31, 2000, we along with our subsidiary, Swiftnet, Ltd.) loaned Abraham Keinan, our Chairman of the Board, a total of 216,133 Pound Sterling or approximately \$322,586 based upon the exchange rate at December 31, 2000, \$202,433 of which was loaned to Mr. Keinan on September 29, 2000. This loan originally was reflected in a September

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29, 2000 promissory note payable in ten equal installments of approximately \$19,150 beginning January 1, 2002 and ending on January 1, 2011. This note is non-interest bearing. We provided the loan to Mr. Keinan to promote his loyalty and continued service as our Chairman of the Board of Directors. As of December 31, 2003, 286,736 pounds (\$510,390) remain outstanding regarding this loan. On March 2004 Mr. Keinan signed a note to repay his loan in four installments:

2004 (pound)	54,070	(\$96,245)
2005 (pound)	116,333	(\$207,073)
2006 (pound)	116,333	(\$207,073)

Keinan Bonus and Success Fee



As indicated in more detail below, on October 15, 2002, our Board of Directors approved a bonus and success fee whereby if we receive monthly revenues in excess of \$485,000 then Mr. Keinan and our consultant, Campbeltown Business, Ltd. will receive 1% of the revenues for each month where our revenues reach \$485,000 up to a maximum of one million dollars.

GUY NISSENSON

Campbeltown Business, Ltd.

On May 5, 2000, Swiftnet, Ltd., which is now our wholly owned subsidiary, entered into an 18-month renewable consulting agreement with Campbeltown Business, Ltd., a private company incorporated in the British Virgin Island which is owned by Guy Nissenson, our Principal Executive Officer/President and Director and four other relatives of Mr. Nissenson. This agreement provides that Swiftnet hires Campbeltown Business, Ltd. as its financial and business development consultant and will pay Campbeltown Business, Ltd. 2,000 UK Pound Sterling (approximately \$2,946) per month, along with an additional monthly performance bonus based upon Swiftnet, Ltd., attaining the following revenue levels for consulting services in the area of business development and management activities:

TARGET AMOUNT OF REVENUES PER MONTH	ADDITIONAL MONTHLY BONUS
Less than 125,000 Pounds (UK)	0 Pounds (UK)
Between 125,000 - 150,000 Pounds (UK) (approximately \$ 225,000 - \$ 270,000 US)	1,250 Pounds (UK) (approximately \$ 2,250 US)
Between 150,000 - 175,000 (UK) (approximately \$ 270,000 - \$ 315,000 US)	2,500 Pounds (UK) (approximately \$4,500 US)
Over 175,000 Pounds (UK) (approximately \$ 315,000 US)	2,750 Pounds (UK) (approximately \$ 4,950 US)

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This agreement with Campbeltown Business, Ltd. involving this monthly payment of 2000 United Kingdom Pound, along with an additional monthly performance bonus, is separate from a bonus and success fee arrangement that we may pay in accordance with an October 15, 2002 approval by our Board of Directors to pay such a bonus and success fee, as discussed below.

The May 5, 2000 agreement is for 18 months, but the agreement provides that the agreement will be renewed by mutual agreement of Swiftnet and Campbeltown Business, Ltd.

On November 5, 2001 and May 11, 2003, we renewed this agreement for additional 18 month periods. We plan to renew this agreement for an additional 18 month term after the expiration of the current term on November 11, 2004. Under the terms of the (date) agreement, Campbeltown agreed to provide the following services to us:

- o analysis of proposed acquisitions;
- o seek markets for our telecommunications services in additional countries;
- o formulate strategies for our future growth plans; and
- o introduce potential customers to our business.

On June 19th, 2000, Swiftnet, Ltd. entered into a Stock Purchase Agreement with Abraham Keinan and Campbeltown Business, Ltd., a company owned by Guy Nissenson and his family. This agreement provides that:

- o Abraham Keinan confirmed that all his businesses activities and initiatives in the field of telecommunications are conducted through Swiftnet, and would continue for at least 18 months after the conclusion of this transaction.

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- o Campbeltown declared that it is not involved in any business that competes with Swiftnet and would not be involved in such business at least for 18 months after this transaction is concluded. This agreement term has been satisfied by Campbeltown.
- o Campbeltown would invest \$100,000 in Swiftnet Ltd., in exchange for 20% of the total issued shares of Swiftnet, Ltd.;
- o Campbeltown would also receive 5% of our issued and outstanding shares following our acquisition with Swiftnet. In June 2000, Campbeltown Business Ltd. invested the \$100,000 in Swiftnet. We acquired Swiftnet, Ltd. and Campbeltown received 720,336 shares of our common stock for its 20% interest in Swiftnet, Ltd.
- o Swiftnet, Ltd., and Keinan would guarantee that Campbeltown's 20% interest in the outstanding shares of Swiftnet would be exchanged for at least 10% of our outstanding shares and that Campbeltown would have in total at least 15% of our total issued shares after our acquisition occurred.
- o Campbeltown would have the right to nominate 33% of the members of our board of directors and Swiftnet's board of directors. When Campbeltown ownership in our common stock was less than 7%, Campbeltown would have the right to nominate only 20% of our board members but always at least one member. In the case that Campbeltown ownership in our common stock was less than 2%, this right would expire.
- o Campbeltown would have the right to nominate a vice president in Swiftnet and/or our common stock. Mr. Guy Nissenson was nominated as of the time of the June 19, 2000 agreement. If for any reason Guy Nissenson will leave his position, Campbeltown and Abraham Keinan will agree on another nominee. The Vice President will be employed with suitable conditions.
- o Campbeltown has the option to purchase additional shares of Swiftnet that will represent 10% of all issued shares after

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the transaction for \$200,000 US. This transaction can be executed either by Swiftnet issuing new shares, or by Abraham Keinan selling his private shares (as long as he has an adequate amount of shares), as Abraham Keinan will decide. This option will expire on Dec 31, 2005. Campbeltown can exercise this option in parts.

- o Campbeltown will have the right to participate under the same terms and conditions in any investment or transaction that involve equity rights in Swiftnet or us conducted by Abraham Keinan at the relative ownership portion.
- o In the event that Swiftnet or we will seek for money in a private placement for equity or any other rights, Campbeltown will have the right of first refusal on any transaction or part of it until Dec 31, 2005 or as long as it owns over 7% of Swiftnet equity or 4% of our common stock.
- o Keinan and Campbeltown have signed a right of first refusal agreement for the sale of their shares.
- o Until we conduct a public offering or are traded on a stock market, we are not permitted to issue any additional shares or equity rights without a written agreement from Campbeltown. This right expires when Campbeltown no longer owns any equity interest or shares in our company or our subsidiary, Swiftnet.

On October 15, 2002, our Board of Directors approved a bonus and success fee whereby if we receive monthly revenues in excess of \$485,000 then Mr. Keinan and our consultant, Campbeltown Business, Ltd. shall receive 1% of the revenues for each month where our revenues reach \$485,000 up to a maximum of one million dollars. This bonus and success fee is separate from our agreement with Campbeltown Business, Ltd. involving a monthly payment of 2000 United Kingdom Pound, along with an additional monthly performance bonus. The business purpose of the bonus and success fee is to further motivate our Chairman of the Board, Mr. Keinan, and our consultant, Campbeltown Business Ltd. to develop our business by providing them with additional compensation if and when our revenues grow. During 2003, we paid Mr. Keinan, through Vision Consultants, and Campbeltown each 55,000 pounds as a bonus and success fee according to the formula described above. During 2003 we paid Campbeltown consultancy related fees of 41,237 pounds (\$73,402).

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On April 10, 2003, Mr. Keinan and Campbeltown Business Ltd waived their right to receive 1% of the revenues generated that are derived from Story Telecom.

#### Guy Nissenson Employment Agreement

On May 11, 2000, Swiftnet, Ltd. and our Chairman of the Board of Directors, Abraham Keinan, entered into an employment agreement with Guy Nissenson, our Principal Executive Officer/ President. This agreement does not expire. Under the terms of the agreement, Swiftnet employed Mr. Nissenson to provide business development and sales and marketing services, at a base rate of 1000 pounds (UK) per month (approximately \$1,433 US). When Swiftnet reaches average sales of 175,000 pounds (UK) per month for a consecutive three month period, Mr. Nissenson's salary will increase to 2,000 pounds (approximately \$2,866 US) per month. In addition, Mr. Nissenson will receive an unspecified number of options to acquire our stock that is limited to 50% of the options that Abraham Keinan receives. As such, the agreement protects Mr. Nissenson's rights to have at least 50% of the options rights that Mr. Keinan will have. Mr. Nissenson can transfer the right of these options to another company or person at his discretion. Swiftnet may only cancel these options if : (1) Mr. Nissenson no longer works with Swiftnet; or (2) if within twelve months of Mr. Nissenson's employment with the company, Swiftnet and any other companies that may buy or merge into Swiftnet in the future, do not reach average revenues (over a three consecutive month period) of at least 120,000 pounds (UK). Because the average sales per month have exceeded 120,000 pounds within a twelve month period of Mr. Nissenson's employment, Swiftnet cannot cancel the options.

XPHONE COMMUNICATION, LTD.

On April 15, 2004, we established an Israel based subsidiary, Xfone Communication Ltd. On May 9, 2004, Xfone Communication applied for a license to become an international telecom service provider in Israel. The Israeli Government Regulations require that at least 26% of an applicant company be owned by Israeli citizens who reside in Israel. Xfone Communication is owned 74% by us and 26% by H.S.N. Communication Investments Ltd., an Israeli based company, that is owned: 40% by Mrs. Naama Harish, the wife of Dr. Eyal Harish, a member of our Board of Directors, 40% by Dionysos Investments Ltd., a company owned by members of the family of Mr. Guy

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Nissenson, our Chief Executive Officer, and 20% by Margo Sport Ltd., a company owned by Mr. Giora Spigel and his wife. In accordance with the Israeli Government Regulations Xfone Communication issued a bank guarantee in favor of the Government of Israel for the amount of 10M NIS (approximately, \$2.2 Million). In order to attain the Bank Guarantee, Xfone Communication had to deposit in Bank Hapoalim B.M., an Israel based bank, approximately \$2.2 million and issue a Letter of Guarantee, unlimited in amount, in favor of the bank, guaranteeing all debt and indebtedness of Xfone Communication towards the bank. If Xfone Communication will fail to get the License the Bank Guarantee and the Letter of Guarantee will be returned.

#### AURACALL LIMITED

We have an investment in and own 47.5% of a joint business venture, Auracall Limited. Auracall Limited's services were introduced in approximately March 2002. Our Chairman of the Board, Abraham Keinan, and our Chief Executive Officer/Director, Guy Nissenson, are both directors of Auracall Limited. Our management will indirectly benefit from revenues generated by Auracall Limited activities, to the extent that Vision Consultants, Inc., which is solely owned by Mr. Keinan, and Campbelltown Business Limited, which is partially owned by our Chief Executive Office, Guy Nissenson, receives 1% of all our revenues, except revenue generated by Story Telecom activities, if our entire monthly revenue, except revenue generated by Story Telecom activities, exceeds \$485,000. Auracall accounted for 4.4% and 6.9% of our revenues for the 12 month period ending December 31, 2003 and the three month period ending March 31, 2004, respectively. Auracall Limited accounted for 2.8% and 4.8% of our total cost of revenues for the 12 month period ending December 31, 2003 and the three month period ending March 31, 2004, respectively. Commissions paid to Auracall accounted for 17% and 22.3% of the total commissions that we paid out for the 12 month period ending December 31, 2003 and the three month period ending March 31, 2004, respectively. We have made no guarantee or any other commitment on behalf of Auracall, Ltd. and we are not committed to provide Auracall, Ltd. with any further support.

#### STORY TELECOM

We have an investment in and own 40% of a joint business venture, Story Telecom, which is a calling card service we offer that is detailed on page ( ). Story Telecom purchases their telecommunications services from us. Our Chief Executive Officer/Director, Guy Nissenson, is a director of Story; our Chairman of the Board, Abraham Keinan, is not a director of Story Telecom. Our management does not benefit from revenues generated by Story Telecom activities. Story Telecom accounted for 37% and 43% of our total revenues for the 12 month period ending December 31, 2003 and the three month period ending March 31, 2004, respectively. Story Telecom accounted for 58% and 60% of our total cost of revenues for the 12 month period ending December 31, 2003 and the three month period ending March 31, 2004, respectively. We have made no guarantee or any other commitment on behalf of Story Telecom and we are not committed to provide Story Telecom with any further support.

XPHONE USA, INC.

Xfone USA, Inc. was incorporated in the State of Mississippi on May 28, 2004 especially for the purpose of becoming the surviving corporation upon the consummation of the merger. We are the sole shareholder of Xfone USA, Inc. Xfone USA, Inc., upon completion of the acquisition, will continue to be our wholly

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owned subsidiary and no change in our control will occur as a result of the acquisition. Mr. Abraham Keinan, our Chairman of the Board, and Mr. Guy Nissenson, our President/Chief Executive Officer/Director, are the directors of Xfone USA, Inc. Our President/Chief Executive Officer/Director, Guy Nissenson, is also the President/Secretary/Treasurer of Xfone USA, Inc.

Other than the above transactions, we have not entered into any material transactions with any director, executive officer, and nominee for director, beneficial owner of five percent or more of our common stock, or family members of such persons within the last five years and we have not other than the above transactions, we have not entered into any material transactions with any promoter within the last five years.

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ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

<TABLE>

<CAPTION>

Exhibit

Number Description

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<C>

- |      |   |
|------|---|
| 2.   | Agreement and plan of reorganization between Xfone, Inc. and Swiftnet Ltd. dated September 20, 2000 (1)   |
| 3.1  | Articles of Incorporation of Xfone, Inc. (1)  |
| 3.2a | Bylaws of Xfone, Inc. (1)   |
| 3.2b | Amended Bylaws of Xfone, Inc. (4)   |
| 3.3  | Articles of Incorporation of Swiftnet, Ltd. (1)   |
| 3.4  | Bylaws of Swiftnet, Ltd. (1)  |
| 3.5  | Amended bylaws of Xfone, Inc. (3)   |
| 3.6  | Bylaws of Xfone USA, Inc. (6)   |
| 3.7  | Office of the Mississippi Secretary of State, Articles of Merger or Share Exchange Profit Corporation (6) |
| 4.   | Specimen Stock Certificate (1)  |
| 5.   | Opinion of Hamilton, Lehrer & Dargan, P.A.  |
| 10.1 | Agreement between Swiftnet Ltd. and Guy Nissenson dated May 11, 2000 (1)                                  |
| 10.2 | Employment Agreement with Bosmat Houston dated January 1, 2000 (1)  |
| 10.3 | Loan Agreement with Swiftnet Ltd., Guy Nissenson, and Nissim Levy dated August 5, 2000 (1)                |

- 10.4 Promissory Note executed between Xfone and Swiftnet Ltd. dated September 29, 2000(1)
- 10.5 Stock Purchase Agreement between Swiftnet, Ltd, Abraham Keinan, and Campbeltown Business, Ltd. dated June 19, 2000(1)
- 10.6 Consulting Agreement between Swiftnet, Ltd. and Campbeltown Business, Ltd. dated May 5, 2000(1)
- 10.7 Agreement with Campbeltown Business Ltd. dated July 30, 2001(1)
- 10.8 Contract with WorldCom International, Ltd. dated June 20, 1998(1)
- 10.9 Contract with VoiceNet Inc. dated April 11, 2000(1)
- 10.10 Contract with InTouchUK.com Ltd. dated April 25, 2000(1)
- 10.11 Letter of Understanding from Campbeltown Business, Ltd. to Xfone, Inc. dated July 30, 2001 (2)
- 10.12 Agreement between Adar International, Inc./Mr. Sidney J. Golub and Swiftnet dated April 6, 2000 (2)
- 10.13 Lease Agreement between Elmtree Investments, Ltd. and Swiftnet, Ltd. dated December 4, 1991 (2)
- 10.14 Lease Agreement between Postwick Property Holdings Limited and Swiftnet, Ltd. dated October 8, 2001.(2)
- 10.15 Agreement between Xfone, Inc., Swiftnet, Ltd., and Nir Davidson dated September 30, 2002 (5)
- 10.16 As to Form: Shares and Warrant Purchase Agreement, Irrevocable Proxy, Warrant A, Warrant B and Registration Rights Agreement of Selling Shareholders Platinum Partners Value Arbitrage Fund LP, Countrywide Partners LLC and WEC Partners LLC. [3 investors](6)
- 10.17 As to Form: Shares and Warrant Purchase Agreement, Irrevocable Proxy, Warrant A, Warrant B and Registration Rights Agreement of Selling Shareholders Simon Langbart, Robert Langbart, Arik Ecker, Zwi Ecker, Michael Derman, Errol Derman, Yuval Haim Sobel, Zvi Sobel, Tenram Investment Ltd., Michael Zinn, Michael Weiss. [11 investors](6)
- 10.18 As to Form: Shares and Warrant Purchase Agreement, Irrevocable Proxy, Warrant A, Warrant B and Registration Rights Agreement of Selling Shareholders Southridge Partners LP and Southshore Capital Fund Ltd. [2 investors](6)
- 10.19 As to Form: Shares and Warrant Purchase Agreement, Irrevocable Proxy, Warrant A, Warrant B and Registration Rights Agreement of Selling Shareholders Crestview Capital Master LLC. [1 investors](6)
- 10.20 As to Form: Shares and Warrant Purchase Agreement, Irrevocable Proxy, Warrant A, Warrant B and Registration Rights Agreement of Selling Shareholders Adam Breslawsky, Oded Levy, Michael Epstein, Steven Frank, Joshua Lobel, Joshua Kazan and The Oberon Group LLC. [7 investors](6)
- 10.21 Agreement with Newco (Auracall Limited)(6)
- 10.22 Agreement with ITXC Corporation(6)
- 10.23 Agreement with Teleglobe International(6)
- 10.24 Agreement with British Telecommunications(6)

- 10.25 Agreement with Easyair Limited (OpenAir) (6)
- 10.26 Agreement with Worldnet (6)
- 10.27 Agreement with Portfolio PR (6)
- 10.28 Agreement with Stern and Company (6)
- 10.29 December 31, 2003 letter to Xfone from A. Keinan (6)
- 10.30 Agreement between Swiftnet, Ltd. and Dan Kirschner (8)
- 10.31 Agreement and Plan of Acquisition (7)
- 10.32 Escrow Agreement (7)
- 10.33 Release Agreement (7)
- 10.34 Employment Agreement between WS Telecom, Inc. and Wade Spooner (7)
- 10.35 Employment Agreement between WS Telecom, Inc. and Ted Parsons (7)
- 21.1 List of Subsidiaries (Amended) (8)

</TABLE>

- 
- (1) Denotes previously filed exhibits: filed on August 10, 2001 with Xfone, Inc.'s SB-2 registration statement, file # 333-67232.
  - (2) Denotes previously filed exhibits: filed on October 16, 2001 with Xfone, Inc.'s SB-2/Amendment 1 registration statement, file # 333-67232.
  - (3) Denotes previously filed exhibit: filed on November 28, 2001 with Xfone, Inc.'s SB-2/Amendment 2 registration statement, file # 333-67232.
  - (4) Denotes previously filed exhibit: filed on December 5, 2002 with Xfone, Inc.'s Form 8-K.
  - (5) Denotes previously filed exhibit: filed on March 3, 2003 with Xfone, Inc.'s SB-2/Post Effective Amendment No. 2 registration statement, file # 333-67232
  - (6) Denotes previously filed exhibit: filed on April 15, 2004, with Xfone, Inc.'s SB-2 Amendment No. 1 registration statement.
  - (7) Denotes previously filed exhibit: filed on June 1, 2004 with Xfone Inc.'s Form 8-K.
  - (8) Denotes previously filed exhibit: filed on June 7, 2004 with Xfone, Inc.'s SB-2/Amendment 2 Registration Statement, file # 333-113020.

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We hereby incorporate the following additional documents by reference:

- (a) our Forms 10-KSB/A for the year ended December 31, 2002 which was filed on June 9, 2004;
- (b) our Registration Statement on Form SB-2 and all amendments thereto which was filed on August 10, 2001 and amended on October 16, 2001, November 28, 2001, December 27, 2001, December 28, 2001, February 4, 2002, March 3, 2003, and April 8, 2003;

- (c) our Registration Statement on Form SB-2 and all amendments thereto which was filed on February 23, 2004 and amended on April 15, 2004 and June 7, 2004;
  - (d) our Forms 10-QSB for the periods ended March 31, 2002 which was filed on May 14, 2002, June 30, 2002 which was filed on August 13, 2002 and amended on August 20, 2002, September 30, 2002 which was filed on November 14, 2002, March 31, 2003 which was filed on May 15, 2003, June 30, 2003 which was filed on August 14, 2003, September 30, 2003 which was filed on November 10, 2003, and filed on May 17, 2004 and March 31, 2004 which was amended on June 9, 2004.
- (b) Reports on Form 8-K

We filed a Form 8-K on February 18, 2004 pertaining to Item 5 - Other Events, which disclosed completion of our private placement during January and February 2004, in which we sold to certain investors an aggregate of 969,237 shares of common stock at a purchase price of \$3.00 per share and each investor in the financing was also granted a Warrant A and Warrant B to purchase a number of shares of common stock equal to one hundred percent (100%) of the shares purchased by that investor in the financing.

On June 1, 2004, we filed a Form 8-K, Item 5. Other Events, to disclose an agreement to acquire WS Telecom, Inc., a Mississippi corporation, through a statutory merger of WS Telecom, Inc. with and into the Company's wholly owned subsidiary, Xfone USA, Inc.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

##### Audit Fees

The aggregate fees billed for the fiscal year ended December 31, 2003 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our Form 10-KSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were estimated as follows: we paid our accountant, Chaifetz & Schreiber, P.C. \$30,500.

##### Audit-Related Fees

None.

##### Tax Fees

The aggregate fees billed for the fiscal year ended December 31, 2003 for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning were estimated as follows: we paid our accountant, Chaifetz & Schreiber, P.C. \$2,500.

##### All Other Fees

None.

##### Audit Fees

The aggregate fees billed for the fiscal year ended December 31, 2002 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our Form 10-KSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were estimated as follows: we paid our accountant, Chaifetz & Schreiber, P.C. \$29,500.



Audit-Related Fees

None.

Tax Fees

The aggregate fees billed for the fiscal year ended December 31, 2002 for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning were estimated as follows: we paid our accountant, Chaifetz & Schreiber, P.C. \$2,500.

All Other Fees

None.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XFONE, INC.

By /s/ Guy Nissenson June 10, 2004

-----  
Guy Nissenson, President,  
Principal Executive Officer, Principal Financial Officer,  
Principal Accounting Officer, and Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Guy Nissenson June 10, 2004

-----  
Guy Nissenson, President,  
Principal Executive Officer, Principal Financial Officer,  
Principal Accounting Officer, and Director

By /s/ Abraham Keinan June 10, 2004

-----  
Abraham Keinan  
Chairman of the Board of Directors

By /s/ Eyal Harish June 10, 2004

-----  
Eyal Harish  
Director

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Section 302 Certification

CERTIFICATIONS

I, Guy Nissenson, certify that:

1. I have reviewed this annual report on Form 10-KSB/A of Xfone, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Xfone, Inc. as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Xfone, Inc. and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Xfone, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of Xfone, Inc.'s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in Xfone, Inc.'s internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Xfone, Inc.'s auditors and the audit committee of Xfone, Inc.'s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Xfone, Inc.'s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Xfone, Inc.'s internal control over financial reporting.

Date: June 10, 2004

/s/Guy Nissenson  
Guy Nissenson  
President, Principal Executive Officer, Principal Financial Officer,  
and Principal Accounting Officer

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Exhibit 32

Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To  
Section 906 of the Sarbanes-Oxley Act of 2002

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-KSB/A Annual Report of Xfone, Inc. (the  
"Company") for the period ended December 31, 2003, as filed with the Securities  
and Exchange Commission on the date hereof (the "Report"), the undersigned  
hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002, **that:**

- o the Report fully complies with the requirements of Section 13(a) or  
15(d) of the Securities Exchange Act of 1934; and
- o the information contained in the Report fairly presents, **in all**  
material respects, the financial condition and results of operations  
of the Company.

Date: June 10, 2004

By: /s/Guy Nissenson  
Guy Nissenson  
President, Principal Executive Officer, Principal Financial Officer,  
and Principal Accounting Officer

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-----END PRIVACY-ENHANCED MESSAGE-----

# EXHIBIT D

## CAPABILITY STATEMENTS

1. The Applicant, through its parent company, has sufficient financial capability to provide the requested service in the geographic area proposed to be served. This is evidenced by its assets set forth in its financial statements. Refer to 10K provided as Exhibit C. In addition, the Applicant will be the surviving entity of a merger with WS Telecom, Inc. d/b/a eXpeTel Communications, an existing carrier who is financial capable.
2. The Applicant will maintain the requested services revenue generated from ongoing operations of eXpeTel. The Company would also have access to funding from its parent company should this become necessary.
3. The Company has sufficient financial capability to meet its lease and ownership obligations.

# **EXHIBIT E**

## TECHNICAL CAPABILITY

The Company will provide resold and facilities-based local exchange service using BellSouth as its underlying service provider. Therefore, the quality of service offered by the Company will, at a minimum, be equivalent to the services offered by BellSouth.

In addition, the Company's officers have technical experience in the telecommunications industry as evidence by the profiles submitted as Exhibit B.

# **EXHIBIT F**

## PROPOSED PRICE LIST

The Applicant's price list mirrors the approved price list of WS Telecom, Inc. d/b/a eXpeTel Communications with whom it is merging. Only the name has been changed.

**Alternative Local Exchange Service**

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**TITLE SHEET**

**ALTERNATIVE LOCAL EXCHANGE SERVICES PRICE LIST**

This price list contains the descriptions, regulations, service standards and rates applicable to alternative local exchange telecommunications services provided by XFone USA, Inc. with principal offices at 2506 Lakeland Drive, Suite 405, Flowood, Mississippi 39232. This price list applies for services furnished within the state of Florida. This price list is on file with the Florida Public Service Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business.

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ISSUED: June 30, 2004

EFFECTIVE:

BY:

Ted Parsons, Exec. Vice President  
XFone USA, Inc.  
2506 Lakeland Drive, Suite 405  
Flowood, Mississippi 39232

**Alternative Local Exchange Service**

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**CHECK SHEET**

The sheets listed below, which are inclusive of this price list, are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original price list and are currently in effect as of the date of the bottom of this page.

SHEET	REVISION	SHEET	REVISION
1	Original		
2	Original		
3	Original		
4	Original		
5	Original		
6	Original		
7	Original		
8	Original		
9	Original		
10	Original		
11	Original		
12	Original		
13	Original		
14	Original		
15	Original		
16	Original		
17	Original		
18	Original		
19	Original		
20	Original		
21	Original		

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BY:

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**Alternative Local Exchange Service**

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**SYMBOLS SHEET**

The following are the only symbols used for the purposes indicated below:

**D** - Delete Or Discontinue

**I** - Change Resulting In An Increase to A Customer's Bill

**M** - Moved From Another Price List Location

**N** - New

**R** - Change Resulting In A Reduction To A Customer's Bill

**T** - Change in Text Or Regulation But No Change In Rate Or Charge

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**PRICE LIST FORMAT SHEETS**

**A. Sheet Numbering** - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the price list. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.

**B. Sheet Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the FPSC. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc, the FPSC follows in their price list approval process, the most current sheet number on file with the Commission is not always the price list page in effect. Consult the Check Sheet for the sheet currently in effect.

**C. Paragraph Numbering Sequence** - There are various levels of paragraph coding. Each level of coding is subservient to its next higher level as follows:

- 2.
- 2.1.
- 2.1.1.
- 2.1.1.A.
- 2.1.1.A.1.
- 2.1.1.A.1.(a).

**D. Check Sheets** - When a price list filing is made with the FPSC, an updated check sheet accompanies the price list filing. The check sheet lists the sheets contained in the price list, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (\*). There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The price list user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the FPSC.

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**XFone USA, Inc.**

Florida Price List No. 1  
Original Sheet 6

**Alternative Local Exchange Service**

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**EXCHANGE SERVICE LIST**

The Company will provide local exchange service throughout the State of Florida. Local calling areas will coincide with those of the Incumbent Local Exchange Carrier (ILEC), unless otherwise specified.

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**SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS**

Access Line - An arrangement which connects the customer's location to the Company's network switching center.

Authorization Code - A numerical code, one or more of which are available to a customer to enable him/her to access the carrier, and which are used by the carrier both to prevent unauthorized access to its facilities and to identify the customer for billing purposes.

Company or Carrier - XFone USA, Inc.

Customer - the person, firm, corporation or other entity which orders service and is responsible for payment of charges due and compliance with the Company's price list regulations.

Day - From 8:00 AM up to, but not including 5:00 PM local time Monday through Friday.

Evening - From 5:00 PM up to but not including 11:00 PM local time Sunday through Friday.

Holidays - The Company's recognized holidays are New Year's Day, Martin Luther King, Jr. Day, Presidents Day, Memorial Day, July 4th, Labor Day, Thanksgiving Day, Christmas Day.

Night/Weekend - From 11:00 PM up to but not including 8:00 AM Sunday through Friday, and 8:00 AM Saturday up to but not including 5:00 PM Sunday.

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**SECTION 2 - RULES, REGULATIONS AND SERVICE QUALITY CRITERIA**

**2.1 Undertaking of the Company.**

The Company's services and facilities are furnished for communications originating at specified points within the state of Florida under terms of this price list.

The Company's installs, operates, and maintains the communications services provided herein in accordance with the terms and conditions set forth under this price list. It may act as the customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the customer, to allow connection of a customer's location to the Company's network. The customer shall be responsible for all charges due for such service arrangement.

The Company's services and facilities are provided on a monthly basis unless ordered on a longer term basis, and are available twenty-four hours per day, seven days per week.

**2.2 Limitations.**

2.2.1 Service is offered subject to the availability of facilities and provisions of this price list.

2.2.2 The Company reserves the right to discontinue furnishing service, or limit the use of service necessitated by conditions beyond its control: or when the customer is using service in violation of the law or the provisions of this price list.

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**SECTION 2 - RULES AND REGULATIONS continued**

**2.2 Limitations (Cont.)**

- 2.2.3 All facilities provided under this price list are directly controlled by the Company and the customer may not transfer or assign the use of service or facilities, except with the express written consent of the Company. Such transfer or assignment shall only apply where there is no interruption of the use or location of the service or facilities.
- 2.2.4 Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this price list shall apply to all such permitted assignees or transferees, as well as all conditions for service.
- 2.2.5 Customers reselling or rebilling services must have a Certificate of Public Convenience and Necessity as an ALEC carrier from the Florida Public Service Commission.

**2.3 Liabilities of the Company.**

- 2.3.1 Except as otherwise expressly provided in this Price List, the Company's liability, if any, for its willful misconduct is not limited by this Price List. With respect to any other claim or suit, by a customer or by any others, for damages associated with the installation, provision, preemption, termination, maintenance, repair, billing, or restoration of service, the Company's liability, if any, shall not exceed an amount equal to the proportionate part of the monthly recurring charge for the service for the period during which the service provided was affected.
- 2.3.2 The Company shall be indemnified and held harmless by the customer against:
  - (A) Claims for libel, slander, or infringement of copyright arising out of the material, data, information, or other content transmitted over the Company's facilities.
  - (B) All other claims arising out of any act or omission of the customer in connection with any service or facility provided by the Company.

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**SECTION 2 - RULES AND REGULATIONS continued**

**2.4 Interruption of Service.**

- 2.4.1 Credit allowance for the interruption of service which is not due to The Company's testing or adjusting, negligence or the customer, or to the failure of channels or equipment provided by the customer, are subject to the general liability provisions set forth in 2.3.1 herein. It shall be the customer's obligation to notify the Company immediately of any service interruption for which a credit allowance is desired. Before giving such notice, the customer shall ascertain that the trouble is not being caused by any action or omission by the customer within his control, if any, furnished by the customer and connected to the Company's facilities. No refund or credit will be made for the time that the Company stands ready to repair the service and the subscriber does not provide access to the Company for such restoration work.
- 2.4.2 No credit shall be allowed for an interruption of a continuous duration of less than twenty-four hours after the subscriber notifies the Company.
- 2.4.3 The customer shall be credited for an interruption of more than twenty-four hours as follows:

Credit Formula:

$$\text{Credit} = A/B \times C$$

"A" - outage time in days

"B" - total days in month

"C" - total monthly charge for affected facility

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**Alternative Local Exchange Service**

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**SECTION 2 - RULES AND REGULATIONS continued**

**2.5 Disconnection of Service by Carrier.**

The Company, upon five (5) working days written notice to the customer, may discontinue service or cancel an application for service without incurring any liability for any of the following reasons:

- 2.5.1 Non-payment of any sum due to carrier for regulated service for more than thirty days beyond the date of rendition of the bill for such service.
- 2.5.2 A violation of any regulation governing the service under this price list.
- 2.5.3 A violation of any law, rule, or regulation of any government authority having jurisdiction over such service.
- 2.5.4 The company has given the customer notice and has allowed a reasonable time to comply with any rule, or remedy, and deficiency as stated in Rule 25-4.113, F.A.C., Refusal or Discontinuance of Service by Company.
- 2.5.5 Service may be disconnected without notice for tampering with company equipment or interfering with service to other customers or for fraud.

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**SECTION 2 - RULES AND REGULATIONS continued**

**2.6 Deposits**

The Company does not require a deposit from the customer.

**2.7 Advance Payments**

For customers whom the Company feels an advance payment is necessary, the Company reserves the right to collect an amount not to exceed one (1) month's estimated charges as an advance payment for service. This will be applied against the next month's charges and if necessary a new advance payment will be collected for the next month.

**2.8 Taxes**

All state and local taxes (i.e., gross receipts tax, sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates.

**2.9 Billing of Calls**

All charges due by the subscriber are payable at any agency duly authorized to receive such payments. Any objection to billed charges should be promptly reported to the Company. Adjustments to customers' bills shall be made to the extent that records are available and/or circumstances exist which reasonably indicate that such charges are not in accordance with approved rates or that an adjustment may otherwise be appropriate.

**2.10 Equipment**

2.10.1 The Company's facilities and service may be used with or terminated in Customer-provided terminal equipment or Customer-provided communications systems, such as a PBX, key systems or Pay Telephone. Such terminal equipment shall be furnished and maintained at the expense of the Customer, except as otherwise provided. The Customer is responsible for all costs at his or her premises, including personnel, wiring, electrical power, and the like, incurred in the use of the Company's service. The Customer is responsible to ensuring that customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities.

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**SECTION 2 - RULES AND REGULATIONS** continued

2.10 **Equipment** (contd.)

- 2.10.2 The Company shall use reasonable efforts to maintain facilities and equipment that it furnishes to the Customer. The Customer may not, nor may the Customer permit others, to disconnect, rearrange, remove, attempt to repair or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- 2.10.3 Equipment the Company provides or installs at the Customer premises for use in connection with services the Company offers shall not be used for any purpose other than that for which the Company provided it.
- 2.10.4 The Customer shall be responsible for payment of service charges, as set forth herein, for visits by the Company's agents or employees to the premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.
- 2.10.5 The Company shall not be responsible for the installation, operation or maintenance of any customer-provided equipment. Where such equipment is connected to the facilities furnished pursuant to this price list, the responsibility of the Company shall be limited to the furnishing of facilities offered under this price list and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for the transmission of signals by customer-provided equipment or for the quality of, or defects in, such transmission; or the reception of signals by customer-provided equipment.
- 2.10.6 Upon reasonable notification to the Customer and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the customer is complying with the requirements set forth in the section for the installation, operation and maintenance of customer-provided facilities, equipment and wiring in the connection of such facilities and equipment to Company-provided facilities and equipment.
- 2.10.7 Title to all facilities provided by the Company under this price list shall remain in the Company's name or in the name of the carrier supplying the services and facilities being resold.

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**SECTION 2 - RULES AND REGULATIONS continued**

2.11 **Installation**

Service is installed upon mutual agreement between the Customer and the Company. The service agreement does not alter rates specified in this price list.

2.12 **Service Implementation**

Absent a promotional offering, service implementation charges will apply to new service orders or to orders to change existing service. Implementation charges for business services are listed in Section 3.

2.13 **Reconnection Charge**

A reconnection fee may be charged when service is re-established for customers who have been disconnected for non-payment, and is payable at the time that the restoration of suspended service and facilities is arranged.

2.14 **Operator Service Rules**

The Company will enforce the operator service rules specified by the Commission and by the FCC.

2.15 **Access to Telephone Relay Services**

Where required by the Commission, the Company will participate in telephone relay services for handicapped and/or hearing impaired end users, and will comply with all regulations and requirements. The Company shall impose any monthly surcharge or any other related charge upon its local exchange telecommunications subscribers as may be required by state law.

2.16 **Telecommunications Relay Service**

For intrastate toll calls received from the relay service, the Company will when billing relay calls discount relay service calls by 50 percent off of the otherwise applicable rate for a voice nonrelay call except that where either the calling or called party indicates that either party is both hearing and visually impaired, the call shall be discounted 60 percent off of the otherwise applicable rate for a voice nonrelay call. The above discounts apply only to time-sensitive elements of a charge for the call and shall not apply to per call charges such as a credit card surcharge.

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**SECTION 2 - RULES AND REGULATIONS continued**

**2.17 Calculation of Distance**

Usage charges for all mileage sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the call.

The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal coordinates associated with the rate centers involved. The company uses the rate centers and associated vertical and horizontal coordinates that are produced by Bell Communication Research in their NPA-NXX V&H Coordinate Tape and AT&T Tariff.

Formula: 
$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

**2.18 Cancellation of Service by Customer**

Customers can cancel basic local exchange service by providing written or oral notification to the Company.

For cancellation of Private Branch Exchange (PBX) service, the customer must provide five (5) working days written notice of cancellation to the Company.

**2.19 Minimum Call Completion Rate**

Customers can expect a call completion rate (number of calls completed divided by the number of calls attempted) of 90% during peak use periods for all FG D services (1+ dialing).

**2.20 Access to 911 Emergency Services**

The Company will provide, at no cost to the customer, 911 emergency services access at levels equal to the service provided by the ILEC.

**2.21 Service Quality Statement**

As a reseller, the quality of service provided to the company's end users will be equal to that received from the company's underlying carrier.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS AND RATES**

**3.1 Timing of Calls**

**3.1.1 When Billing Charges Begin and End For Phone Calls**

The customer's usage charge is based on the actual usage of the Company's network. Usage begins when the called party picks up the receiver, (i.e. when 2 way communication, often referred to as "conversation time" is possible.). When the called party picks up is determined by hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. When software answer supervision is employed, up to 60 seconds of ringing is allowed before it is billed as usage of the network. A call is terminated when the calling or called party hangs up.

**3.1.2 Billing Increments**

The billing increments for each service is set forth in the individual product rate section.

**3.1.3 Per Call Billing Charges**

Billing will be rounded up to the nearest penny for each call.

**3.1.4 Uncompleted Calls**

There shall be no charges for uncompleted calls.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS AND RATES continued**

**3.2 Determining Applicable Rate in Effect.**

For the initial minute, the rate applicable at the start of chargeable time at the calling station applies. For additional minutes, the rate applicable is that rate which is in effect at the calling station when the additional minute(s) begin. That is, if chargeable time begins during the Day Period, the Day Rate applies to the initial minute and to any additional minutes that the call continues during the rate period. If the call continues into a different rate period, the appropriate rates from that period apply to any additional minutes occurring in that rate period. If an additional minute is split between two rate periods, the rate period applicable at the start of the minute applies to the entire minute.

**3.3 Payment of Calls**

**3.3.1 Late Payment Charges**

A Late Payment Charge of \$1.95 plus an interest charge of 1.5 percent on the unpaid balance exceeding \$6.00 for residence subscribers and a Late Payment Charge of \$11.85 plus an interest charge of 1.5 percent on the unpaid balance exceeding \$6.00 for business subscribers will be applied to each subscriber's bill, when the previous month's bill has not been paid in full prior to the next billing date. The 1.5 percent interest charge is applied to the total unpaid amount carried forward and is included in the total amount due on the current bill.

**3.3.2 Return Check Charges**

A return check charge of \$25.00 will be assessed for checks returned for insufficient funds if the face value does not exceed \$50.00, \$30.00 if the face value does exceed \$50.00 but does not exceed \$300.00, \$40.00 if the face value exceeds \$300.00 or 5% of the value of the check, which ever is greater.

**3.4 Restoration of Service**

A per occurrence reconnection fee is charged when service is re-established for customers who had been disconnected for non-payment. See Sections 3.7.17 and 3.8.10 for applicable restoration charges.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS AND RATES continued**

**3.5 Local Service Areas**

The Company will provide Local Exchange Service in the Florida BellSouth territories. Local calling service areas will coincide with those of BellSouth, unless otherwise specified.

Installation, monthly recurring and per minute usage charges will apply to the Company's local exchange services. An addition per-call operator service charge will apply for operator-assisted calling.

**3.6 Product Descriptions**

**3.6.1 Business Services**

Business Services are offered for local calling using the facilities of the Company and/or those of other authorized Local Exchange Carriers. Business Services are offered primarily to the following:

1. Offices, stores, factories, mines and all other places of a strictly business nature;
2. Offices of hotels, boarding houses, apartment houses, colleges, quarters occupied by clubs and fraternal societies, public, private or parochial schools, hospitals, nursing homes, libraries, churches, and other institutions; and
3. Services terminating solely on the secretarial facilities of a telephone answering bureau.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS AND RATES continued**

**3.6 Product Descriptions, cont.**

**3.6.2 Residential Local Exchange Service**

Residential local exchange service provides the Customer with a single, voice-grade, DTMF communications channel. Each Local Line will include a telephone number, as well as access to the service.

Residence Service is furnished in private homes or apartments, including all parts of the subscriber's domestic establishment, for domestic use and not for substantial occupational use; in the study of a clergyman located in a church, in a college fraternity or sorority house, college dormitories, convents and monasteries for domestic rather than occupational use in residential quarters.

**3.6.3 Directory Listings**

For each Customer of Exchange Access Service(s), the Company shall arrange for the listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the area at no additional charge. At a Customer's option, the Company will arrange for additional listings at an additional charge.

**3.6.4 Operator-Assisted Services**

Operator-assisted services are provided to Customers on a presubscribed basis. Services are also provided to Customers and Users of exchange access lines which are presubscribed to the Company's interexchange outbound calling services. Various billing arrangements are available with the Company's operator-assisted service including Calling Card, Commercial Credit Card, Collect, Person-to- Person and Third Party. Monthly and/or usage-sensitive charges apply, as well as per call operator charges.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS AND RATES continued**

**3.6.5 Directory Assistance**

Customers and users of the Company's services may obtain directory assistance in determining telephone numbers within the state by calling the Directory Assistance operator.

A credit will be given for calls to Directory Assistance when;

1. The Customer experiences poor transmission or is cut-off during the call,
2. The Customer is given an incorrect telephone number, or
3. The Customer inadvertently misdials an incorrect Directory Assistance NPA.

To receive a credit, the customer must notify the Company operator or Business Office of the problem experienced.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS AND RATES continued**

**3.7 Local Service Rates**

The Company will offer the BellSouth Services and Features listed in its UNE-P Interconnection Agreement with BellSouth. All BellSouth services and features will be charged at the rates stated in the applicable BellSouth tariff, and will be passed through to the end user, subject to the discounts stated herein.

**3.8 Local Business Services**

The Company will offer local business services to all customers on a month-to-month basis at the BellSouth rates for the specified service.

Zone 1 and Zone 2 customers signing term contracts will receive the following discounts off of the stated rates:

<u>Term</u>	<u>Zone 1 Discount</u>	<u>Zone 2 Discount</u>
1 Year	20%	15%
2 Year	22%	17%
3 Year	25%	20%

**3.8 Local Residential Services**

The Company will offer local residence services to customers on a month-to-month basis at a fifteen percent (15%) discount from the BellSouth rates for the specified service.

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