FORM 10QSB/A

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d) [amend]

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FILER

XFONE INC

CIK:**1126216**| IRS No.: **113618510** | State of Incorp.:**NV** | Fiscal Year End: **1231**
Type: **10QSB/A** | Act: **34** | File No.: **333-67232** | Film No.: **04969572**
SIC: **4899** Communications services, nec

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

FORM 10-QSB/A
AMENDMENT NO.3
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

Commission File No. 333-67232

XFONE, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

11-3618510
(I.R.S. Employer Identification Number)

960 High Road
London, United Kingdom N12 9RY
(Address of principal executive offices) (Zip Code)

011.44.2084469494
(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.

APPLICABLE ONLY TO CORPORATE ISSUERS:
As of August 12, 2004, the issuer had 6,111,155 shares of common stock outstanding.

Xfone, Inc. and Subsidiary

FORM 10-QSB
QUARTERLY PERIOD ENDED MARCH 31, 2004

INDEX

Item 6 - Exhibits and Reports on Form 8-K..............................II-10

PART I - FINANCIAL INFORMATION

FINANCIAL REPORTS

XFONE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

AS OF MARCH 31, 2004

XFONE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2004

CONTENTS

XFONE, INC. AND SUBSIDIARY

BALANCE SHEET
UNAUDITED

<TABLE>
<CAPTION>

<S>	March 31, 2004 <C>	December 31, 2003 <C>	March 31, 2004 Convenience translation into U.S.$ <C>
Current assets			
Cash	(pound)2,127,117	(pound)977,008	$3,913,895
Accounts receivable, net	1,203,754	1,263,824	2,214,908
Prepaid expenses and other receivables (Note 3)	432,711	340,944	796,188
Loan to shareholder (Note 4)	47,032	54,070	86,538
Total Current Assets	3,810,615	2,635,847	7,011,529
Loan to shareholder (Note 4)	232,666	232,666	428,105
Fixed assets (Note 5)			
Cost	596,445	559,786	1,097,459
Less - accumulated depreciation	-158,963	-138,071	-292,491

Total fixed assets	437,482	421,715	804,967
Total assets	(pound)4,480,763	(pound)3,290,228	$8,244,601

</TABLE>

XFONE, INC. AND SUBSIDIARY

BALANCE SHEET
UNAUDITED

<TABLE>
<CAPTION>

	March 31, 2004	December 31, 2003	March 31, 2004
			Convenience translation into U.S.$
<S>	<C>	<C>	<C>
Current liabilities			
Dividend payable	--	(pound)86,270	--
Notes payable - current portion (Note 8)	4,000	4,000	7,360
Trade payables	1,446,922	1,637,431	2,662,334
Other liabilities and accrued expenses (Note 7)	278,541	379,809	512,515
Obligations under capital leases - current portion	66,684	66,774	122,699
Total current liabilities	(pound)1,796,147	(pound)2,174,284	$3,304,908
Deferred taxes	36,109	36,109	66,441
Notes payable (Note 8)	2,166	3,166	3,986
Obligation under capital lease	69,135	86,563	127,206
Total liabilities	(pound)1,903,556	(pound)2,300,122	$3,502,541
Shareholders' equity			
Preferred stock - 50,000,000 shares authorised, none issued			
Common stock:			
25,000,000 shares authorised, (pound).0006896 par value; 6,104,421 and 5,117,684 issued and outstanding, respectively	4,210	3,530	7,746
Contributions in excess of shares	1,676,866	193,514	3,085,433
Retained earnings	896,131	793,062	1,648,881
Total shareholders' equity	2,577,207	990,106	4,742,060
Total liabilities and shareholders' equity	(pound)4,480,763	(pound)3,290,228	$8,244,601

</TABLE>

XFONE, INC. AND SUBSIDIARY

STATEMENT OF OPERATIONS
UNAUDITED

<TABLE>
<CAPTION>

	March 31, 2004	March 31, 2003	March 31, 2004

			Convenience translation into U.S.$
<S>	<C>	<C>	<C>
Revenues	(pound)2,307,215	(pound)1,074,662	$4,245,275
Cost of revenues	-1,561,238	-582,225	-2,872,679
Gross profit	745,976	492,437	1,372,596
Operating expenses: (Note 13)			
Research and development	-10,000	-9,000	-18,400
Marketing and selling	-367,207	-199,311	-675,661
General and administrative	-234,168	-191,952	-430,869
Total operating expenses	-611,375	-400,263	-1,124,930
Operating profit	134,601	92,174	247,666
Financing expenses - net (Note 13)	-10,845	-7,355	-19,954
Other income	5,313	3,154	9,776
Income before taxes	129,069	87,973	237,488
Taxes on income	-26,000	-17,000	-47,840
Net income	(pound)103,069	(pound)70,973	$189,648
Earnings Per Share:			
Basic	(pound)0.02	(pound)0.01	$0.03
Diluted	(pound)0.01	(pound)0.01	$0.03

</TABLE>

XFONE, INC. AND SUBSIDIARY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
UNAUDITED

<TABLE>
<CAPTION>

	Number of Ordinary Shares	Share Capital	Contributions in excess of par value	Retained Earnings	Total Shareholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 2003	5,060,889	(pound)3,490	(pound)180,219	(pound)457,887	(pound)641,596
Issuance of shares	56,795	40	13,295	--	13,335
Net income	--	--	--	421,445	421445
Dividend payable			-86270	--	86,270
Balance at December 31, 2003	5,117,684	(pound)3,530	(pound)193,514	(pound)793,062	(pound)990,106
Balance at January 1, 2004	5,117,684	3,530	193,514	793,062	(pound)990,106
Issuance of shares	986,737	680	1,483,352	--	(pound)1,484,031
Net income	--	--	--	103,069	(pound)103,069
Dividend payable	--	--			
Balance at March 31, 2004	(pound)6,104,421	(pound)4,210	(pound)1,676,866	(pound)896,131	(pound)2,577,207
CONVENIENCE TRANSLATION INTO U.S.$:					
Balance at March 31, 2004	6,104,421	$ 7,746	$ 3,085,433	$ 1,648,882	$ 4,742,060

</TABLE>

XFONE, INC. AND SUBSIDIARY

STATEMENTS OF CASH FLOWS
UNAUDITED

<TABLE>
<CAPTION>

<S>	Three months ended March 2004 <C>	Three months ended March 2003 <C>	Three months ended March 2004 Convenience translation into U.S.$ <C>
Cash flow from operating activities			
Net income	(pound)103,069	(pound)70,974	$189,648
Adjustments to reconcile net cash provided by (used in) operating activities	-295,544	129,207	-543,801
Net cash provided by operating activities	-192,475	200,181	-354,155
Cash flow from investing activities			
Investments made in year	--		--
Purchase of equipment	-36,659	-38,319	-67,452
Net cash used in investing activities	-36,659	-38,319	-67,452
Cash flow from financing activities			
Repayment of long term debt	-1,000	-6,942	-1,839
Repayment of capital lease obligation	-90		
Proceeds from issuance of long term debt	-17,428		-32,067
Proceed from sale of fixed assets	--		--
Dividend paid	-86270		
Proceeds from issuance of common stock-net	1,484,031	4,762	2,730,618
Net cash provided by financing activities	1,379,243	-2,180	2,537,808
Net increase in cash	1,150,109	159,682	2,116,201
Cash, beginning of year	977,008	471,963	1,797,695
Cash at end of quarter	(pound)2,127,117	(pound)631,645	$3,913,895

<CAPTION>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

<S>	Three months ended March 31, 2004 <C>	Three months ended March 31, 2003 <C>	Three months ended March 31, 2004 Convenience translation into U.S.$ <C>
Issuance of shares of common stock for Compensation for professional services in connection with the offering:			
Number of shares	17,500		17,500
Amount	(pound)28,533		$52,500

</TABLE>

STATEMENTS OF CASH FLOWS (CONT.)

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

	Three months ended March 2004	Three months ended March 2003	Three months ended March 2004 Convenience translation into U.S.$
Depreciation	(pound)20,892	(pound)14,696	$38,441
Bad debt expense	9,274	--	17,064
Stock issued for professional services	28,533	--	52,500
	58,699	14,696	108,006
Changes in assets and liabilities:			
Decrease in trade receivables	50,796	37,820	93,464
(Increase)Decrease in other receivables	-91,767	47,722	-168,851
Decrease in shareholder loan	7,038	24,906	12,950
Dividend payable		-63,261	--
(Decrease)Increase in trade payables	-190,509	104,079	-350,536
Decrease in other payables	-129,801	-36,755	-238,834
Total adjustments	-354,243	114,511	-651,807
	-(pound)295,544	(pound)129,207	-$543,801

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

XFONE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANISATION 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 March 31, 2004. 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. dollars 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 March 31, 2004 was (pound)1 = 1.84 U.S.$.

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. 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, and 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 March 31, 2004 and at December 31, 2003 the accounts receivable are presented net of an allowance for doubtful accounts of (pound)152,266 and (pound)142,993, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 2003 amounts have been made to conform to the 2004 presentation.

G. Use of Estimated

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 reports amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

H. Earnings Per Share

Earnings per share are calculated and reported in accordance with Statement of Financial Accounting Standards No. 128, Earning 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 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 for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 3 - PREPAID EXPENSES AND OTHER RECEIVABLES

<TABLE>
<CAPTION>

<S>	<C> MAR-31 2004	<C> DEC-31 2003	<C> MAR-31 2004 Convenience translation into US$
Due from Swiftglobal, Ltd. (non-affiliated entity)	(pound)36,187	(pound)37,687	$ 66,583
Other prepaid expenses	263,784	117,650	485,363
Due from Story Ltd (affiliated entity)	15,960	15,960	29,366
Others receivables	116,780	169,647	214,875
	(pound)432,711	(pound)340,944	$ 796,188

</TABLE>

NOTE 4 - LOAN TO THE CHAIRMAN OF THE BOARD AND SHAREHOLDER

The Company has a non-interest bearing loan of (pound)279,698 due from a shareholder which is to be repaid as follows:

2004	(pound)47,032
2005	116,333
2006	116,333
	(pound)279,698

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 5 - FIXED ASSETS

<TABLE>
<CAPTION>

MAR 31,	DEC 31,	MAR 31,

<S>	2004 <C>	2003 <C>	2004 <C> Convenience translation into US$
COST			
Equipment held under capital lease	(pound)364,577	(pound)364,577	$ 670,822
Office furniture and equipment	26,593	26,593	48,930
		--	
Development costs	52,040	32,060	95,754
Computers Equipment	153,235	136,556	281,952
	(pound)596,445	(pound)559,786	$ 1,097,459
ACCUMULATED DEPRECIATION			
Equipment held under capital lease	(pound)72,030	(pound)61,869	$ 132,535
Office furniture and equipment	10,784	9,730	19,842
		--	
	19,283	16,030	35,480
Computers Equipment	56,866	50,442	104,633
	(pound)158,963	(pound)138,071	$ 292,492

</TABLE>

NOTE 6 - INVESTMENTS

The Company has investments in two business ventures of 47 1/2% of Auracall Limited and 40% of Story Telecom, both start up entities in the U.K. Through March 31, 2004, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 7 - OTHER LIABILITIES AND ACCRUED EXPENSES

<TABLE>
<CAPTION>

<S>	MAR 31, 2004 <C>	DEC 31, 2003 <C>	MAR 31, 2004 <C> Convenience translation into US$
Corporate taxes	(pound)158,433	(pound)289,777	$ 291,516
Professional fees	68,614	29,545	126,250
Payroll and other taxes	40,057	48,452	73,705
Due to Auracall Ltd (Affiliated entity)	275	275	506
Others	11,162	11,760	20,539
	(pound)278,541	(pound)379,809	$ 512,515

NOTE 8 - NOTES PAYABLE

<CAPTION>

<S>	MAR 31, 2004 <C>	DEC 31, 2003 <C>	MAR 31, 2004 <C> Convenience translation into US$

First National Finance - maturity 2004-5, annual interest rate 7.16%	(pound)4,000	(pound)4,000	$ 7,360
Newcourt - maturity 2004-5, annual interest rate 7.16%	2,166	3,166	3,986
	6,166	7,166	11,346
Less: current portion	-4,000	-4,000	-7,360
Notes payable - non current	(pound)2,166	(pound)3,166	$ 3,986

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 8 - NOTES PAYABLE (CONT.)

B. MATURITIES OF NOTES PAYABLE ARE AS FOLLOWS

MAR 31,		Convenience translation into U.S.$
Year 1	(pound)4,000	$ 7,360
Year 2	2,166	3,986
	(pound)6,167	$11,346

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

Minimum future lease payments under capital leases as of March 31, 2004 for each of the next five years are:

<TABLE>
<CAPTION>

MAR. 31,		Convenience translation into U.S.$
<S>	<C>	<C>
2005	(pound)78,091	$ 143,688
2006	57,145	$ 105,146
2007	15,601	$ 28,707
2008	4,865	$ 8,952
Total minimum lease payments	155,703	286,493
Less: amount representing interest	-19,884	-$36,588
Present value of net minimum lease payment	(pound)135,819	(pound)249,905

</TABLE>

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

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 March 31, 2004 and December 31, 2003:

<TABLE>
<CAPTION>

<S>	March 31, 2004 <S>	December 31, 2003 <S>	March 31, 2004 Convenience translation into U.S.$ <S>
Accelerated taxwrite off of fixed assets	(pound)36,109	(pound)36,109	$ 66,441
Deferred Tax liability	(pound)36,109	(pound)36,109	$ 66,441

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 11 - CAPITAL STRUCTURE, STOCK OPTIONS AND DIVIDEND

In connection with a Stock Purchase Agreement, clarified on July 30, 2001, 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.

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 1,580,278. Costs associated with this funding were 124,778 from the proceeds of the offering and an additional 150,000 Warrant A, valued at 33,179. 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 issued 17,500 shares and 17,500 warrants A, and 17,500 warrants B for consulting services. During January and February 2004, the company issued 150,000 warrants B for consulting and professional services.

NOTE 12 - EARNINGS PER SHARE

<TABLE>
<CAPTION>

THREE MONTHS MARCH 2004

<S>	INCOME (NUMERATOR) <C>	Weighted Average SHARES (DENOMINATOR) <C>	PER SHARE AMOUNTS <C>	PER SHARE AMOUNTS <C> Convenience translation into U.S.$
Net Income	103,069			
BASIC EPS:				
Income available to common stockholders	103,069	5,611,052	(pound)0.02	$ 0.03
Effect of dilutive securities:				
Options & warrants		1,311,737		
DILUTED EPS:				
Income available to common stockholders	103,069	6,922,789	(pound)0.01	$ 0.03

<CAPTION>

THREE MONTHS MARCH 2003

<S>	INCOME (NUMERATOR) <C>	Weighted Average SHARES (DENOMINATOR) <C>	PER SHARE AMOUNTS <C>
Net Income	70,974		
BASIC EPS:			
Income available to common stockholders	70,974	5,033,444	0.01
Effect of dilutive securities:			
Options	500,000		
DILUTED EPS:			
Income available to common stockholders	70,974	5,533,444	0.01

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 13 - SELECTED STATEMENT OF OPERATIONS DATA

<TABLE>
<CAPTION>

<S>	Three Months MAR.31 2004 <C>	Three Months MAR.31 2003 <C>	Three Months MAR.31 2004 <C> Convenience translation into U.S.$
A. MARKETING & SELLING:			
Advertising	(pound)18,766	(pound)5,086	$ 34,529
Consultancy	13,600	11,570	25,023
Commissions	334,843	182,655	616,110
Others	--	--	--
	(pound)367,207	(pound) 199,311	$ 675,661
B. GENERAL & ADMINISTRATIVE:			
Salaries & benefits	(pound)93,883	(pound)65,908	$ 172,746

Rent and maintenance	32,858	22,314	60,458
Communications	2,873	8,534	5,287
Professional fees	85,759	55,532	157,796
Bad debts	9,274	--	17,063
Depreciation	9,523	6,447	17,522
Others	--	33,217	--
	(pound)234,168	(pound)191,952	$ 430,869

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

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

<TABLE>
<CAPTION>

	THREE MONTHS MAR.31	THREE MONTHS MAR.31	THREE MONTHS MAR.31
	2004	2003	2004
			Convenience translation into U.S.$
<S>	<C>	<C>	<C>
C. FINANCING EXPENSES, NET:			
Bank charges	(pound)5,013	(pound)4,121	$ 9,225
Interest on capital leases	2,497	968	4,595
Foreign currency exchange	-1,523	-3,219	-2,802
Other interest and charges	4,857	5,485	8,937
	(pound)10,845	(pound)7,355	$19,954

</TABLE>

NOTE 14- RELATED PARTY TRANSACTIONS

Refer to notes 4 and 11 for additional related party activity

<TABLE>
<CAPTION>

	Three Months March 31, 2004	Three Months March 31, 2003	Three Months December 31, 2003	Three Months March 31, 2004
				Convenience translation into U.S. $
<S>	<C>	<C>	<C>	<C>
Shareholder's Salaries	(pound)24,000	(pound)15,000		$ 44,160
Campbeltown Business Ltd :				
Fees	13,222	9,467		24,328
Consultancy	14,250	14,250		26,220
Trade payables	6,472	6,950		11,908
Vision Consultants Limited :				

Fees	13,222	9,467	24,328
Story Telecom Limited :			
Revenues	986,795	54,350	1,815,703
Cost of revenues	930,939	51,274	$1,712,928
Due from Story Telecom	376,956	429,604	693,599
Trade payables	25,918	22,771	47,689
Auracall Limited :			
Revenues	158,722	59,010	292,048
Cost of revenues	74,636	19,341	137,330
Commissions	74,642	29,302	137,341
Trade payables	5,860	18,040	10,782

</TABLE>

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 quarter ended March 31, 2004 and 2003, was (pound)15,113.

The Company has a performance based incentive agreement with its Chairman of the Board and Campbeltown 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 Campbeltown, which is to expire on November 11, 2004 and is expected to be renewed. Under this agreement Campbeltown 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 Campbeltown (pound)2,000 per month plus an additional performance bonus based upon monthly revenue targets as follows:

Target Monthly Revenue	Monthly Bonus
Up to(pound)125,000	-
From(pound)125,000 to(pound)150,000	(pound)1,250
From(pound)150,000 to(pound)175,000	(pound)2,500
Over(pound)175,000	(pound)2,750

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.

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 17,50 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, 43% of total quarterly ended March 2004, revenues and 31% of Accounts Receivables are derived from one customer Story Telecomm.

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.

	Three Months March 1, 2004	March 1, 2003
Telephone minute billing plus messaging services, including facsimile, nodal, and e-mail related services	48%	81%
Mobile phone services	5%	10%
Calling cards	47%	9%
	100%	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.

Revenues and operating profit

	Three Months ended March 31, 2004	2003	Three Months ended March 31, 2004
Revenues:			Convenience translation into US $
Telephone & Messaging	1,101,668	870,172	$2,027,069
Mobile	119,560	108,880	219,990
calling cards	1,085,987	95,610	1,998,216
Total Revenues	(pound)2,307,215	(pound)1,074,662	4,245,276
Direct Operating expenses			
Telephone & Messaging	786,833	576,585	1,447,773
Mobile	102,958	99,889	189,443
calling cards	1,006,290	80,156	1,851,574
Total expenses	1,896,081	756,630	3,488,789
Direct Operating Profit			
Telephone & Messaging	314,835	293,587	579,296
Mobile	16,602	8,991	30,548
calling cards	(pound)79,697	(pound)15,454	146,642
Total Profits	411,134	318,032	756,487

Corporate and common operating expenses	276,533	225,858	508,821
Operating profit	134,601	92,174	247,666

</TABLE>

Assets

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

NOTE 18 - SUBSEQUENT EVENTS

XFONE COMMUNICATION LTD.

On April 15, 2004, the company established an Israel based subsidiary, Xfone Communication Ltd. On July 4, 2004 the Ministry of Communications of the state of Israel granted Xfone Communication a license to provide international telecom services in Israel.

According to the Israeli government regulations and the license, at least 26% of Xfone Communication holdings are to be owned by Israeli citizens who reside in Israel. Xfone Communication is owned 74% by the company and 26% by H.S.N. Communication Investments Ltd., an Israel based company, that is owned: 40% by Mrs. Naama Harish, the wife of Dr. Eyal Harish, a member of the company's Board of Directors, 40% by Dionysos Investments Ltd., a company owned by members of the family of Mr. Guy Nissenson, the company's Chief Executive Officer, and 20% by Margo Sport Ltd., a company owned by Mr. Giora Spigel and his wife.

Xfone Communication Ltd., received a credit facility from Bank Hapoalim B.M. in Israel to finance its activities. The credit facility includes a 10 Million NIS (New Israeli Shekel) Bank Guarantee in favor of the Government of Israel, a revolving credit line of 1 million NIS and an on call short term credit line of 850,000 NIS. In addition, the bank made available for Xfone Communication a long term facility of 3,150,000 NIS to procure equipment. As of August 12, 2004, the company secured the credit facility with a cash deposit of $1,000,000, a floating charge on Xfone Communication's assets and personal collateral by Mr. Keinan. In addition, the company, Swiftnet Limited and H.S.N. Communication Investments Ltd. issued a Letter of Guarantee, unlimited in amount, in favor of the bank, guaranteeing all debt and indebtedness of Xfone Communication towards the bank. As of August 12, 2004 the company used only the Bank Guarantee.

The company plans to start providing services in Israel through Xfone Communication by November 1, 2004.

AGREEMENT AND PLAN OF ACQUISITION

On May 28, 2004, the company entered into an agreement to acquire WS Telecom Inc., a Mississippi corporation, and its two wholly owned subsidiaries, eXpeTel Communications, Inc. and Gulf Coast Utilities, through the merger of WS Telecom into the company's wholly owned subsidiary Xfone USA, Inc. The company anticipates that this acquisition will require approximately $1,000,000 for working capital.

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 the Company certain shares of the Company's restricted common stock and warrants convertible into shares of the Company's common stock;

2) the Company will issue a number of shares of its restricted common stock with an agreed market value of $2,200,000, which will be determined using the weighted average price of the Company's common stock for the ten trading days preceding the trading day immediately prior to the date the Company and WS Telecom Inc. enter into a Management Operating Agreement;

3) the weighted average price of the Company's 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) the Company will issue a number of warrants with a value of $1,300,000, the value of which will be calculated as of the date the Company and WS Telecom Inc. enter into a Management Operating

Agreement, assuming 90% volatility of the underlying share of common stock of the Company 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 the Company's stock consideration equal to the product of the Company's stock consideration times 28.6% divided by total of MS Telecom, Inc.'s Preferred Stock; and (ii) an amount of the Company's 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 Company's stock consideration times 71.4% divided by the total of MS Telecom, Inc.'s common stock; and (ii) an amount of the Company's warrant consideration equal to the product of the Company's 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: (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 the Company, Xfone USA, Inc., Wade Spooner, Ted Parsons, and the escrow agent.

MANAGEMENT AGREEMENT

On July 1, 2004, the company entered into a management agreement which provides that Xfone USA will provide management services to WS Telecom pending the consummation of the merger. The management agreement provides that all revenues generated from WS Telecom's business operations will be assigned and transferred to Xfone USA.

Item 2. Management's Discussion and Analysis

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-QSB. 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-QSB 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.

DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview.

We are a holding company that as of July 2004 operated entirely through its subsidiary, Swiftnet, Ltd., a United Kingdom based telecommunication service provider and licensed telecommunication carrier. As of June 30, 2004, Swiftnet, Ltd. has been our source of income. Through Swiftnet, we sell and develop telecommunication services, including telephony, fax messages, mobile, 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.

As of June 30, 2004, approximately 90% of our revenues were 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:

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

We have four major types of customers:

- Residential - These customers either must dial a special 4 digit code and access our switch or acquire a box that dials automatically.
- 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.
- Governmental agencies - Includes the United Nations World Economic Forum, the Argentine Embassy and the Israeli Embassy.
- Resellers - 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.

Quarter ended March 31, 2004 and 2003.

Financial Information - Percentage of Revenues

	Quarter ended March 31: 2004	2003
Revenues	100%	100%
Cost of Revenues	-68%	-53%
Gross Profit	32%	47%
Operating Expenses:		
Research and Development	-	-1%
Marketing and Selling	-16%	-18%
General and Administrative	-10%	-19%
Total Operating Expenses	-26%	-38%
Income before Taxes	6%	8%
Net Income	4%	7%

The US Dollars amounts for 2004 are presented herein for convenience only, at the current rate as of March 31, 2004: (pound)1 to $1.84.

Consolidated Statement of Operations

Revenues. Revenues for the quarter ended March 31, 2004 increased 115% to (pound)2,307,215 ($4,245,275) from (pound)1,074,662 for the same period in 2003. The increase in our Revenues is primarily attributable to the revenues that derive from calling card services. Revenues generated from calling cards grew to (pound)1,085,987 for the quarter ended March 31, 2004 from (pound)95,610 for the same period of 2003. Main growth was generated by our affiliated company, Story Telecom, from calling cards revenues of (pound)986,795 for the quarter ended March 31, 3004 as compared with (pound)54,350 for the same period of 2003. All traffic generated by the Story Telecom calling cards is delivered through our systems.

Segments of Revenues:

The following table reflects a breakdown of our Revenues according to our segments of services as of March 31, 2004 and 2003:

<TABLE>
<CAPTION>

	2004	2003	Percentage of Revenues 2004	2003

<S>	<C>	<C>	<C>	<C>	<C>
Regular telephony voice service and others:	(pound)1,101,668	($2,027,069)	(pound)870,120	48%	81%
Mobile	(pound)119,560	($ 219,990)	(pound)108,880	5%	10%
Calling Cards	(pound)1,085,987	($1,998,216)	(pound)95,610	47%	9%
Total Revenues	(pound)2,307,215	($4,245,276)	(pound)1,074,662	100%	100%

</TABLE>

The 26% growth in the regular telephony services is mainly attributable to an increase of approximately 600 customers in the first quarter of 2004 since the completion of the first quarter of 2003.

Revenues from affiliated entities Story Telecom and Auracall (in UK Sterling):

	March 31, 2004	2003
Story Telecom	986,795	54,350
Auracall	158,722	59,010
Others	1,161,698	961, 302
Total	2,307,215	1,074,662

Percentage of Revenue from affiliated entities Story Telecom and Auracall:

	March 31, 2004	2003
Story Telecom	43%	5%
Auracall	7%	5%
Others	50%	90%
Total	100%	100%

Story Telecom related percentage from total Revenues increased from 5% in the three months ended March 31, 2003 to 43% for the three months ended March 31, 2004; The increase is attributable to the fact that Story Telecom started its operations at the end of 2002 and it took time to gain its market share.

Auracall related Revenues for the three months ended March 31, 2004 increased by 169% as compared with the three months ended March 31, 2003. Auracall related revenues as percentage from total revenues increased to 7% for the three months ended March 31, 2004 as compared with 5% for the three months ended March 31, 2003. The increase is attributable to successful marketing efforts of Auracall and more competitive prices offered by Auracall.

We believe that during the remainder of Fiscal Year 2004, our current business base in the United Kingdom for the same type of services and customers will continue to generate most of our revenues; however, we plan to offer some new services and billing alternatives to stronger the connection with our registered customers and to enable easy usage of our services to non registered users.

Cost of Revenues. Cost of revenues consists primarily of traffic time purchased from telephone companies, depreciation of relevant equipment and other related charges. Cost of revenues increased 168% to (pound)1,561,238 ($2,872,679) for the three months ended March 31, 2004, from (pound)582,225 for the three months ended March 31, 2003, representing 68% and 54% of the total revenues for the three months ended March 31, 2004 and March 31, 2003, 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 accounts for approximately 43% of our Revenues in the three months ended March 31, 2004 and approximately 5% in the three months ended March 31, 2003. Our cost of revenues as a percentage of revenues in the Story Telecom project is approximately 94% while the cost of revenues as a percentage of the rest of our revenues was 48% for the three months ended March 31, 2004 and 51% for the three months ended March 31, 2003. 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 because we haven't reduced the prices for our services proportionally.

Our cost of revenues as percentage of revenues related to our affiliated company Auracall was 47% for the three months ended March 31, 2004 and 33% for the three months ended March 31, 2003. The increase reflects adaptation of the market prices to the Auracall services.

Cost of Revenue breakdown

2004 2003

Non affiliated regular services		
And others	555,663 ($1,022,420)	510,603
Story Telecom	930,939 ($1,712,928)	52,003
Auracall	74,636 ($137,330)	19,619
Total	1,561,238 ($2,872,679)	582,225

Should Story Telecom calling cards related revenues continue to 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 three months ended March 31, 2004 and 2003, respectively, gross profit was (pound)745,976 ($1,372,596) and (pound)492,437 which represents a 51% increase. The gross profit as a percentage of revenues decreased to 32% for the three months ended March 31 2004, from 46% for the three months ended March 31, 2003. Our project with our affiliate, Story Telecom, reduced our gross profit margin because of the low margins involved in the project and its high volume. The impact is partially negated by lower rates that we received from our suppliers that relate to all our services.

Research and Development. Research and development expenses were (pound)10,000 ($18,400) and (pound)9,000 for the three months ended March 31, 2004 and 2003, respectively. This represents less than 1% of our revenues for both periods. These expenses consist of labor costs of our research and development manager and other related costs. Main developments relate to the development of our 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)367,207 ($675,661) from (pound)199,311 for the three months ended March 31, 2004 and 2003, respectively. The increase in marketing expenses is attributable to the increasing revenues derived from commission related activities, including commissions for resellers of numbers similar to 1-800 or 1-900 with no specific geographical place. Our agreement with resellers can be terminated within a relatively short notice of 7-60 days. Our bigger non affiliated reseller is Worldnet that generated approximately 6% of our Revenues in 2003, Worldnet can terminate the agreement with a 7 days notice; should it decide to terminate this agreement our Revenues will be affected accordingly. Marketing and selling expenses as a percentage of revenues were 16% and 19% for the three months ended March 31, 2004 and 2003, respectively.

For the three months ended March 31, 2004 we paid commissions to our affiliated company Auracall in the amount of UKP74,643 ($137,343) that represent 22% of the total commissions paid during the period as compared with UKP29,212 16% of total commissions paid on the three months ended March 31, 2003. The increase in the percentage of total commissions is attributable to growth in the revenues generated by Auracall.

General and Administrative Expenses. General and administrative expenses increased by (pound)42,216 ($67,677) to (pound)234,168 ($430,869) from (pound)191,952 for the three months ended March 31, 2004 and 2003 respectively. As a percentage of revenues, general and administrative expenses decreased to 10% for the three months ended March 31, 2004 from 18% for the three months ended March 31, 2003. The increase in our General and Administrative Expenses is mainly attributable to: (a) an increase of (pound)27,975 ($51,474) in the salaries and benefits paid to our management and related employees; and (b) an increase of (pound)30,227 ($55,618) in professional fees related to the growth in our operations and business activities. The decrease in total General and Administrative expenses as a percentage of revenues is mainly attributable to: (a) our 115% growth in revenues; and (b) to the lesser increase of 21% in our General and Administrative expenses, which was achieved by controlling expenses and the usage of automation and computers.

Financing Expenses. Financing expenses, net, increased to (pound)10,845 ($19,954) for the three months ended Months 31, 2004 from (pound)7,355 for the three months ended March 31, 2003.

Income before Taxes. Income before taxes for the three months March 31, 2004 increased by 47% to (pound)129,069 ($237,488) from (pound)87,973 for the three months ended March 31, 2003. The increase of the income before taxes is attributable primarily to the increase of 49% in our Gross profit. Income before taxes as a percentage of revenues was 6% for the three months ended March 31, 2004 and 8% for the three months ended March 31, 2003.

Taxes on Income. United Kingdom companies are usually subject to income tax at the corporate rate of 20%-30%. Taxes on income for the three months ended March

31, 2004, amounted to (pound)26,000 ($47,840) which represents 20% of the income before taxes as compared with (pound)17,000 for the three months ended March 31, 2003 that represents 19% of the income before taxes.

Net Income. Net income for the three months ended March 31, 2004 increased by 45% to (pound)103,069 ($189,648) as compared to (pound)70,973 for the three months ended March 31, 2003. Net income as percentage of revenues was 4.4% and 7% for the three months ended March 31, 2004 and 2003 respectively.

Earning per share

The earning per share of common stock for the three months ended March 31, 2004 was (pound)0.02 ($0.03) for the basic weighted average 5,611,052 Shares and (pound)0.01 ($0.03) for diluted weighted average 6,922,789 shares, including the options and warrants to buy 2,623,474 shares. Earning per share for the three months ended March 31, 2003 was (pound)0.01 for the basic weighted average 5,030,444 shares and (pound)0.01 for the diluted 5,530,444 shares.

Balance Sheet

Current Assets. Current assets amounted to (pound)3,810,615 ($7,011,529) as of March 31, 2004 as compared to (pound)2,635,847 as of December 31, 2003. This increase in our current assets is mainly attributable to the growth of (pound)1,150,109 ($2,116,201) in the Cash balance attributable to the funds we raised during the quarter.

As of March 31, 2004 we had account receivables from our affiliated company Story Telecom for the amount of UKP376,956 ($693,599) representing 31% from our total account receivables compared with UKP429,604 for December 31, 2003 representing 34% from the total account receivables.

Loan to shareholder. Loan to the shareholder, Mr. Keinan, our Chairman of the Board of Directors, amounted to (pound)279,698 ($514,644) as of March 31, 2004, as compared to (pound)286,736 as of December 31, 2003. The decrease represents a repayment of (pound)7,038 ($12,950). Out of the total amount, (pound)47,032 ($86,538) is classified as current assets since Mr. Keinan agreed to repay us this current assets amount during fiscal year 2004. In 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)437,482 ($804,967) as of March 31, 2004 as compared with (pound)421,715 as of December 31, 2003. Growth in fix assets reflects investments in equipment and systems to enhance our efficiency and capacity.

Current Liabilities. As of March 31, 2004, current liabilities decreased to (pound)1,796,147 ($3,304,908) as compared with (pound)2,174,284 as of December 31, 2003. The decrease in our current liabilities results mainly from a decrease of (pound)190,509 ($350,536) in our trade payables and the decrease of (pound)131,344 in corporate taxes liabilities.

As of March 31, 2004 we owed Story Telecom, for money collected from British Telecom, the amount of UKP25,918 ($47,689) as compared with UKP22,771 as of December 31, 2003.

As of March 31, 2004 we had trade payables of UKP5,860 ($10,782) to our affiliated Auracall as compared with UKP18,040 as of December 31,

Liquidity and Capital resources March 31 2004.

Cash as of March 31, 2004 amounted to (pound)2,127,117 ($3,913,895) as compared with (pound)977,008 for the year ended December 31, 2003. Since December 31, 2003 our operations used a net cash amount of (pound)192,475. This usage is mainly attributable to the decrease of (pound)190,509 in trade payables and the decrease of (pound)129,801 in other payables. Financing activities, including the private placement that we completed during the quarter ended March 31, 2004 generated proceeds in the amount of (pound)1,379,243 ($2,537,808).

During the three months ended March 31, 2004 we used (pound)36,659 ($67,452) for the purchase of capital equipment. We have lease obligations to repay (pound)78,091 ($143,687) during fiscal year 2004 and an additional (pound)77,611 ($142,804) 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, such as Switch modules and other Telecom systems and equipment, to enhance our capacity in the United Kingdom for the amount of approximately (pound)100,000 ($184,000).

We shall continue to finance our operations in the United Kingdom and fund the current commitments In the United Kingdom 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 of $2,907,711. Net new cash proceeds of the Financing, approximately $2.7 million, are used and are expected to be used for general working capital and/or investment in equipment and/or for acquisitions and/or business development.

On April 15, 2004, we established an Israel based subsidiary, Xfone Communication Ltd. We own 74% of Xfone Communication. On July 4, 2004 the Ministry of Communications of the state of Israel granted Xfone Communication a license to provide international telecom services in Israel. We plan to start providing services in Israel through Xfone Communication by November 1, 2004. We anticipate a budget of $1,000,000 for equipment, $1,000,000 for working capital and $2,200,000 for a bank guarantee in favor of the Government of Israel.

On May 28, 2004, we entered into an agreement to acquire WS Telecom Inc., a Mississippi corporation, and its two wholly owned subsidiaries, eXpeTel Communications, Inc. and Gulf Coast Utilities, through the merger of WS Telecom into our wholly owned subsidiary Xfone USA, Inc. We anticipate that this acquisition will require approximately $1,000,000 for working capital.

On July 1, 2004, we entered into a management agreement which provides that Xfone USA will provide management services to WS Telecom pending the consummation of the merger. The management agreement provides that all revenues generated from WS Telecom's business operations will be assigned and transferred to Xfone USA.

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.

Our Israel based subsidiary, Xfone Communication Ltd., received a credit facility from Bank Hapoalim B.M. in Israel to finance its activities. The credit facility includes a 10 Million NIS (New Israeli Shekel) Bank Guarantee in favor of the Government of Israel, a revolving credit line of 1 million NIS and an on call short term credit line of 850,000 NIS. In addition, the bank made available for Xfone Communication a long term facility of 3,150,000 NIS to procure equipment. As of August 12, 2004, we secured the credit facility with a cash deposit of $1,000,000, a floating charge on Xfone Communication's assets and personal collateral by Mr. Keinan. In addition, we, Swiftnet Limited and H.S.N. Communication Investments Ltd. issued a Letter of Guarantee, unlimited in amount, in favor of the bank, guaranteeing all debt and indebtedness of Xfone Communication towards the bank. As of August 12, 2004 we used only the Bank Guarantee.

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 March 31, 2004 our functional currency remains the United Kingdom 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 United Kingdom Pounds or United States Dollars.

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

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

A devaluation of the United Kingdom Pound in relation to the United States 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 United Kingdom Pound in relation to the Dollar has the effect of increasing the Dollar value of all United Kingdom Pounds assets and the Dollar amounts of any United Kingdom 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.

Item 3. Controls and Procedures

As of March 31, 2004, the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our Principal 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 Principal Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2004.

There have been no changes in our internal control over financial reporting during the last quarter, which ended March 31, 2004, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

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:

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; MarkNordlicht 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.

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.

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 ofcommon 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:

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:

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/February2009. 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:

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 Hicks 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.

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.

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:

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.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits and Index of Exhibits

Exhibit Number	Description
2.	Agreement and plan or 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	By-Laws of Xfone USA, Inc. (7)
3.7	Office of the Mississippi Secretary of State, Articles of Merger or Share Exchange Profit Corporation (5)
4.	Specimen Stock Certificate(1)
5.	Opinion of Hamilton, Lehrer & Dargan, P.A. (6)
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 11, 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 Davison 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	Newco (Auracall Limited) Formation Agreement (6)
10.22	Agreement with ITXC Corporation(6)
10.23	Agreement with Teleglobe International(6)
10.23.1	Amendment to Agreement with Teleglobe International(9)
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)
10.36	First Amendment to Agreement and Plan of Merger (WS Telecom, Inc./Xfone, Inc./Xfone USA, Inc.) (9)
10.37	Finders Agreement with The Oberon Group, LLC (9)
10.38	Agreement with The Oberon Group, LLC (9)
10.39	Management Agreement (WS Telecom, Inc. and Xfone USA, Inc.) (9)
21.1	List of Subsidiaries (Amended) (8)

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(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 1 registration statement, file #333-113020

(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

(9) Denotes previously filed exhibit: filed on August 11, 2004 with Xfone, Inc.'s SB-2/Amendment 3 Registration Statement, file # 333-113020

We hereby incorporate the following additional documents by reference: (a) our Forms 10-KSB for the year ended December 31, 2001 which was filed on March 27, 2002, for the year ended December 31, 2002 which was filed on March 31, 2003 and amended on April 21, 2004 and June 9, 2004, and for the year ended December 31, 2003 which was filed on April 1, 2004 and amended on April 21, 2004 and June 11, 2004; (b) our Registration Statement on Form SB-2 and all amendments thereto which was filed on February 23, 2004 and amended on April 15, 2004, June 7, 2004 and August 11, 2004; and 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 Forms 10-QSB and all amendments thereto 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 and amended on April 21, 2004 and June 4, 2004, June 30, 2003 which was filed on August 14, 2003 and amended on April 21, 2004 and June 4, 2004, and September 30, 2003 which was filed on November 10, 2003 and amended on April 21, 2004 and June 7, 2004.

b) Reports on Form 8-K

On February 18, 2004, we filed a Form 8-K, Item 5 Other Events, to disclose the completion of a private placement of shares of our common stock.

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.

SIGNATURES

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

Dated: August 12, 2004 XFONE, INC.

By: /s/ Guy Nissenson

Guy Nissenson, President/Chief Executive Officer

Exhibit 31.1 Section 302 Certification

CERTIFICATIONS

I, Guy Nissenson, certify that:

(1) I have reviewed this quarterly report on Form 10-QSB 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 the small business issuer as of, and for, the periods presented in this report;

(4) The small business issuer's other certifying officer(s) 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 the small business issuer 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 the small business issuer, 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 the small business issuer'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 the small business issuer'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 small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 the small business issuer'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 the small business issuer's internal control over financial reporting.

Date: August 12, 2004

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

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-QSB Quarterly Report of Xfone, Inc. (the "Company") for the period ended March 31, 2004, 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:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 12, 2004

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