



**FOR IMMEDIATE RELEASE**

### **XFONE Reports First Quarter 2010 Results**

**Lubbock, TX – May 17, 2010 – XFONE, Inc. (NYSE Amex and TASE: XFN)** (“XFONE” or “the Company”) announces results for the three months ended March 31, 2010. As a consequence of the Company’s pending sale of its UK and Israeli Divisions, the results from those subsidiaries are reflected as discontinued operations for all periods presented.

Mr. Guy Nissenson, the Company’s President and CEO, commented, “During the first quarter we made significant progress advancing our high margin, state-of-the-art Fiber-To-The-Premise (FTTP) network with the \$63.6 million award of stimulus funds, by ramping our customer base in Levelland and by coming close to finalizing the divestiture of our UK and Israeli businesses. It is important to note that the presentation of the UK and Israeli businesses as discontinued operations, while an important reflection of our near term direction, does not yet show some of the key savings of these divestitures once completed, namely: an improvement in working capital due to the sale of Xfone 018, the continued benefit of cash flow from the U.K. operation as part of the sale agreement, and the elimination of significant additional overhead.

“Despite a slight decline in overall revenues compared to the first quarter of 2009, related primarily to the attrition in residential customers of our legacy non-FTTP business, FTTP revenues showed continued growth, contributing to improved overall gross margins of 47.1% in the first quarter of 2010 compared to gross margins of 44.7% in the first quarter of 2009. In fact, since November 2009, when we began our concentrated marketing effort around our FTTP voice, video and data triple play offering in the Levelland market, we have seen revenues from FTTP grow each month and it now comprises over 17% of our U.S. revenues.”

#### **Financial highlights for the three months ended March 31, 2010:**

- Assets, liabilities and results of operations related to our operations in the UK and Israel are classified as discontinued operations. All comparative figures in current and future reports will be classified accordingly.
- Total revenues were \$14.6 million, a decrease of 7% compared to \$15.7 million for the three months ended March 31, 2009.
- Gross margin increased slightly to 47.1% compared to 44.7% for the three months ended March 31, 2009.
- EBITDAS (earnings before interest, taxes, depreciation, amortization and stock-based compensation) increased 30% to \$1.7 million compared to \$1.3 million for the three months ended March 31, 2009.
- Operating income was \$313,381 compared to \$374,363 for the three months ended March 31, 2009. The decrease in operating income was primarily related to stock-based compensation of \$395,415 granted during the quarter.
- Cash flow from operating activities was \$2.2 million compared to \$1.2 million for the three months ended March 31, 2009.
- Net financing expense increased to \$1 million, compared to an income of \$1.5 million for the three months ended March 31, 2009, primarily attributed to the effect of fluctuations in the exchange rate of the New Israeli Shekel (NIS) on the Company’s Bonds which are stated in NIS.
- The Company reported net loss from continued operations of \$0.6 million or \$(0.032) per share, assuming 18,613,772 fully diluted shares outstanding at March 31, 2010, compared to

net income of \$1.9 million, or \$0.101 per share, assuming 18,376,075 fully diluted shares outstanding at March 31, 2009.

Mr. Nissenson continued, "With the support of \$63.6 million in funds from the Federal broadband stimulus program, within the next four to five months we will begin the next chapter of our FTTP rollout with the development of our PRIDE network in northwestern Texas. To illustrate the significance of this opportunity, our Levelland build out, when completed, is anticipated to add 6,200 passings to our footprint and expected to contribute \$2.5-3 million in new EBITDAS (earnings before interest, taxes, depreciation, amortization and stock-based compensation). The PRIDE network projects are expected to add another 30,000 passings, approximately five times the size of Levelland."

#### **Conference Call:**

The Company will host a conference call today, May 17, 2010 at 10:00 a.m. Eastern Time to discuss its financial results. The conference call may be accessed in the U.S. and Canada by dialing toll-free 1-877-407-8035. International callers may access the call by dialing 1-201-689-8035.

A replay of the teleconference will be available for 30 days after the call and may be accessed domestically by dialing 1-877-660-6853 and international callers may dial 1-201-612-7415. Callers must enter account number 286 and conference number 350805.

To access the live webcast, log onto the Xfone website at <http://www.xfone.com>. The webcast can also be accessed at <http://www.InvestorCalendar.com>. An online replay will be available shortly after the call.

#### **About Xfone, Inc.**

A U.S.-domiciled corporation, Xfone is a holding and managing company with operations in the United States, the United Kingdom and Israel, that offers a wide range of communications services which include: local, long distance and international telephony services; video; prepaid and postpaid calling cards; cellular services; Internet services; messaging services (Email/Fax Broadcast, Email2Fax and Cyber-Number); and reselling opportunities. The Company serves customers worldwide.

*In addition to disclosing financial measures prepared in accordance with Generally Accepted Accounting Principles (GAAP), this press release and the accompanying tables contain the following non-GAAP financial measures: non-GAAP EBITDAS (non-GAAP earnings before interest, taxes, depreciation, amortization and stock-based compensation, other expenses and non-recurring loss). The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.*

*There are a number of limitations related to the use of non-GAAP EBITDAS. First, these non-GAAP financial measures exclude depreciation and amortization expenses that are recurring and significant non-recurring expenses. First, Depreciation and amortization have been, and will continue to be for the foreseeable future, a significant recurring expense with an impact upon our company notwithstanding the lack of immediate impact upon cash. Second, there is no assurance the components of the costs that we exclude in our calculation of non-GAAP operating loss do not differ from the components that our peer companies exclude when they report their results of operations. Third, there is no assurance we will avoid further non-recurring costs associated with other balance sheet items. Our management compensates for these limitations by providing specific reconciliation of GAAP amounts to these non-GAAP financial EBITDAS and evaluating these non-GAAP financial measures together with their most directly comparable financial measures calculated in accordance with GAAP. Readers should note the chart at the end of this release which sets forth how we calculate the non-GAAP EBITDAS.*

*This press release contains forward-looking statements. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements." Xfone's financial and operational results reflected above should not be construed by any means as representative of the current or future value of its common stock. All information set forth in this news release, except historical and factual information, represents forward-looking statements. This includes all statements about the Company's plans, beliefs, estimates and expectations. These statements are based on current estimates and projections, which involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. These risks and uncertainties include issues related to: rapidly changing technology and evolving standards in the industries in which the Company and its subsidiaries operate; the ability to obtain sufficient funding to continue operations, maintain adequate cash flow, profitably exploit new business, license and sign new agreements; the unpredictable nature of consumer preferences; and other factors set forth in the Company's most recently filed annual report and registration statement. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risks and uncertainties described in other documents that the Company files from time to time with the U.S. Securities and Exchange Commission.*

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	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenues	\$ 14,557,438	\$ 15,650,013
Cost of revenues	<u>7,704,165</u>	<u>8,655,816</u>
Gross profit	<u>6,853,273</u>	<u>6,994,197</u>
<b>Operating expenses:</b>		
Marketing and selling	1,107,892	1,190,734
General and administrative	<u>5,432,000</u>	<u>5,429,100</u>
Total operating expenses	<u>6,539,892</u>	<u>6,619,834</u>
Operating profit	313,381	374,363
Financing income (expenses), net	(1,094,726)	1,546,032
Other expenses	<u>(145,245)</u>	<u>(94,128)</u>
Income (loss) from continued operations before taxes and non-	(926,590)	1,826,267
Income tax benefit	<u>322,229</u>	<u>30,283</u>
Net income (loss) from continued operations	(604,361)	1,856,550
Income (loss) from discontinued operations in the United Kingdom and Israel, before taxes	(259,663)	508,050
Income tax expense on discontinued operations in the United	<u>(93,094)</u>	<u>(26,685)</u>
Net income (loss)	(957,118)	2,337,915
Less: Net income attributed to non-controlling interest	<u>(97,139)</u>	<u>(19,554)</u>
Net income (loss) attributed to shareholders	<u>\$ (1,054,257)</u>	<u>\$ 2,318,361</u>
<b>Basic and diluted loss per share:</b>		
Income (loss) from continued operations	\$ (0.032)	\$ 0.101
Income from discontinued operations	<u>(0.024)</u>	<u>0.025</u>
Basic and Diluted	<u>\$ (0.056)</u>	<u>\$ 0.126</u>
<b>Basic and diluted weighted average number of shares</b>	<u>18,613,772</u>	<u>18,376,075</u>

Reconciliation of EBITDAS to Net income (loss) applicable to  
common stockholders as it is presented on the Condensed Consolidated  
Statements of Operations for Xfone, Inc.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income (loss) attributed to shareholders	<u>\$ (1,054,257)</u>	<u>\$ 2,318,361</u>
Depreciation and amortization	975,812	786,578
Compensation in connection with the issuance of warrants and	395,415	109,189
Financing expense (income), net	1,094,726	(1,546,032)
Other expenses	145,245	94,128
Net income attributed to non-controlling interest	97,139	19,554
Income tax benefit	(322,229)	(30,283)
Loss (income) from discontinued operations, after taxes	<u>352,757</u>	<u>(481,365)</u>
<b>EBITDAS</b>	<u><b>\$ 1,684,608</b></u>	<u><b>\$ 1,270,130</b></u>