

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2008**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **001-32521**

**XFONE, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

**11-3618510**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**5307 W. Loop 289  
Lubbock, Texas 79414**

(Address of principal executive offices)

**806-771-5212**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 14, 2008, 18,438,925 shares of the Company's common stock, \$0.001 par value, were issued and outstanding

**XFONE, INC. AND SUBSIDIARIES**  
**Index**

<b>PART I:</b>	<b><u>FINANCIAL INFORMATION</u></b>	3
Item 1:	<u>Financial Statements and Condensed Notes (Unaudited) - Period Ended March 31, 2008</u>	3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	30
Item 4T.	<u>Controls and Procedures</u>	30
<b>PART II:</b>	<b><u>OTHER INFORMATION</u></b>	31
Item 1.	<u>Legal Proceedings</u>	31
Item 1A.	<u>Risk Factors</u>	33
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 3.	<u>Defaults upon Senior Securities<sup>3</sup></u>	33
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	33
Item 5.	<u>Other Information</u>	33
Item 6.	<u>Exhibits</u>	34
	<u>SIGNATURES</u>	41

**PART I. FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS AND CONDENSED NOTES (UNAUDITED) - PERIOD ENDED MARCH 31, 2008

**Xfone, Inc. and Subsidiaries**

**CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**March 31, 2008**

<b>CONTENTS</b>	<b>PAGE</b>
<a href="#"><u>Consolidated Balance Sheet</u></a>	5
<a href="#"><u>Consolidated Statements of Income</u></a>	7
<a href="#"><u>Consolidated Statements of Cash Flows</u></a>	8
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	9

**Xfone, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEET**

	<b>March 31,</b>	<b>December</b>
	<b>2008</b>	<b>31,</b>
	<u><b>Unaudited</b></u>	<u><b>2007</b></u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 8,673,077	\$ 5,835,608
Restricted cash	-	25,562,032
Accounts receivable, net	9,470,827	5,886,499
Prepaid expenses and other receivables	<u>6,196,353</u>	<u>3,985,307</u>
<b>Total current assets</b>	<b>24,340,257</b>	<b>41,269,446</b>
<b>INVENTORY</b>	<b>374,153</b>	<b>-</b>
<b>MINORITY INTEREST</b>	<b>-</b>	<b>7,190</b>
<b>LONG TERM ASSETS (*)</b>	<b>2,033,110</b>	<b>2,076,061</b>
<b>FIXED ASSETS, NET</b>	<b>46,294,415</b>	<b>5,747,758</b>
<b>OTHER ASSETS, NET</b>	<u><b>29,827,932</b></u>	<u><b>17,948,872</b></u>
<b>Total assets</b>	<u><b>\$ 102,869,867</b></u>	<u><b>\$ 67,049,327</b></u>

\* Including \$1,708,937 and \$1,753,503 of bonds issuance cost, net in March 31, 2008 and December 31, 2007, respectively.

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

**Xfone, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEET**

	<u>March 31,</u> <u>2008</u>	<u>December</u> <u>31,</u> <u>2007</u>
	<u>Unaudited</u>	
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit and current maturities of notes payable	\$ 1,931,848	\$ 1,094,339
Trade payables	11,845,891	8,287,420
Other liabilities and accrued expenses	8,456,637	5,322,045
Current maturities of obligations under capital leases	132,167	89,654
Current maturities of Bonds	<u>4,140,106</u>	<u>3,268,476</u>
<b>Total current liabilities</b>	26,506,649	18,061,934
<b>DEFERRED TAXES</b>	6,443,357	1,103
<b>NOTES PAYABLE</b>	3,831,884	1,013,808
<b>BONDS</b>	24,163,911	22,083,892
<b>OBLIGATIONS UNDER CAPITAL LEASES</b>	54,209	31,893
<b>SEVERANCE PAY</b>	91,132	148,600
<b>MINORITY INTEREST</b>	<u>89,664</u>	<u>                    </u>
<b>Total liabilities</b>	61,180,806	41,341,230
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock of \$0.001 par value:		
75,000,000 shares authorized at December 31, 2007 and March 31, 2008;		
13,467,928 and 18,434,820 issued and outstanding at December 31, 2007 and March 31, 2008, respectively	18,435	13,468
Additional paid-in capital	41,013,554	26,494,985
Foreign currency translation adjustment	(1,699,473)	(1,564,814)
Stock compensation fund	1,215,802	(295,155)
Retained earnings	<u>1,140,743</u>	<u>1,059,613</u>
<b>Total shareholders' equity</b>	<u>41,689,061</u>	<u>25,708,097</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 102,869,867</u>	<u>\$ 67,049,327</u>

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

**Xfone, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenues	\$ 15,793,098	\$ 11,523,716
Cost of revenues	7,656,273	5,193,222
Gross profit	8,136,825	6,330,494
<b>Operating expenses:</b>		
Research and development	15,010	15,778
Marketing and selling	2,665,629	2,731,976
General and administrative	4,311,720	2,921,291
Total operating expenses	6,992,359	5,669,045
Operating profit	1,144,466	661,449
Financing expenses, net	(903,169)	(139,869)
Equity in income of affiliated company	-	79,136
Other income	-	34,505
Income before minority interest and taxes	241,297	635,221
Minority interest	(82,474)	(92,135)
Income before taxes	158,823	543,086
Tax expense	(77,693)	(98,691)
Net income	\$ 81,130	\$ 444,395
<b>Earnings Per Share:</b>		
Basic	\$ 0.005	\$ 0.039
Diluted	\$ 0.005	\$ 0.039
<b>Weighted average shares outstanding:</b>		
Basic	15,323,690	11,479,609
Diluted	15,392,258	11,479,609

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

**Xfone, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flow from operating activities</b>		
Net income	\$ 81,130	\$ 444,395
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	507,210	254,998
Compensation in connection with the issuance of warrants and options	98,450	57,197
Interest and currency differences on bonds	750,423	
Minority interest	96,854	92,135
Equity in earnings of affiliated company	-	(79,135)
Increase in account receivables	(148,896)	(561,198)
Increase in inventories	(12,763)	
Decrease in severance pay	(67,861)	(5,242)
Decrease (increase) in prepaid expenses and other receivables	711,175	(520,750)
Decrease in long term receivables	20,906	-
Increase in trade payables	1,210,262	376,798
Increase (decrease) in other payables	(1,933,566)	327,368
Decrease (increase) in deferred taxes	(44,837)	683
<b>Net cash provided by (used in) operating activities</b>	<b>1,268,487</b>	<b>387,249</b>
<b>Cash flow from investing activities</b>		
Purchase of equipment	(791,129)	(210,344)
Proceeds from short term deposit	27,467,049	-
Change in other assets and long-term receivables	-	54,318
Acquisition of minority part in Story Telecom, Inc.	(690,207)	-
Acquisition of NTS Communications, Inc.	(38,812,656)	-
<b>Net cash used in investing activities</b>	<b>(12,826,943)</b>	<b>(156,026)</b>
<b>Cash flow from financing activities</b>		
Repayment of long term loans from banks and others	(189,978)	(274,878)
Proceeds from issuance of shares and detachable warrants, net of issuance expenses	14,523,536	853,649
Increase in capital lease obligation	(22,285)	(43,945)
Increase (decrease) in short term loan and bank credit	360,540	(166,222)
<b>Net cash provided by (used in) financing activities</b>	<b>14,671,813</b>	<b>368,604</b>
Effect of exchange rate changes on cash and cash equivalents	(275,887)	(97,455)
Net increase (decrease) in cash	2,837,470	502,372
Cash at the beginning of the period	5,835,607	1,218,392
Cash at the end of the period	\$ 8,673,077	\$ 1,720,764

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

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 1 - Organization and Nature of Business**

- A. Xfone, Inc. ("Xfone") was incorporated in Nevada, U.S.A. in September 2000 and is a provider of voice, video and data telecommunications services, including: 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, with operations in the United States, the United Kingdom and Israel.

Xfone's holdings in subsidiaries as of March 31, 2008 were as follows:

- Swiftnet Limited ("Swiftnet") - wholly owned U.K. subsidiary.
  
  - Equitalk.co.uk Limited ("Equitalk") - wholly owned U.K. subsidiary.
  
  - Auracall Limited ("Auracall") - wholly owned U.K. subsidiary.
  
  - Xfone USA, Inc. and its two wholly owned subsidiaries, eXpeTel Communications, Inc. and Gulf Coast Utilities, Inc. - wholly owned U.S. subsidiary.
  
  - Story Telecom, Inc. and its wholly owned U.K. subsidiary, Story Telecom Limited (collectively, "Story Telecom") - wholly owned U.S. subsidiary.
  
  - NTS Communications, Inc. and its six wholly owned subsidiaries, NTS Construction Company, Garey M. Wallace Company, Inc., Midcom of Arizona, Inc., Communications Brokers Inc., NTS telephone Company, LLC and NTS management Company, LLC - wholly U.S. subsidiary.
  
  - Xfone 018 Ltd. ("Xfone 018") - majority owned Israeli subsidiary in which Xfone holds a 69% ownership share.
- B. On July 12, 2007, Story Telecom Limited ("Story Telecom UK"), notified Mr. Davison, its Managing Director, that it was terminating his employment, effective as of September 10, 2007. On July 25, 2007, the Company received notification of a claim filed on July 23, 2007 by Mr. Davison with the United Kingdom Employment Tribunals against Story Telecom UK, alleging wrongful termination of his employment as Managing Director. The claim did not seek any specific damages. On August 21, 2007, the Company responded to the United Kingdom Employment Tribunal by rejecting Mr. Davison's claim.

On March 25, 2008, Story Telecom UK settled the above mentioned claim.

In connection with the settlement, the Company purchased the shares of common stock of Story Telecom, Inc., the parent company of Story Telecom UK ("Story Telecom US"), owned by Mr. Davison and owned by Trecastle Holdings Limited, a company owned and controlled by Mr. Davison ("Trecastle"), which increased the Company's ownership interest in Story Telecom US from 69.6% to 100%. The aggregate purchase price was £270,000 (\$538,083). As a result, Story Telecom US became a wholly owned subsidiary of the Company.

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 1 - Organization and Nature of Business (Cont.)**

As part of the settlement, Story Telecom UK agreed to pay Mr. Davison £30,000 (\$59,787) as compensation for loss of employment, which payment was made without admission of liability. In addition, Mr. Davison agreed to file a Withdrawal of Claim with the United Kingdom Employment Tribunal which was filed on March 31, 2008.

The following table summarizes the fair values of the assets acquired and liabilities assumed, as of March 25, 2008:

<b>Story Telecom, Inc.</b>	<b>U.K.£</b>	<b>U.S.\$</b>
Current Assets, excluding cash acquired	£ 915,664	\$ 1,820,479
Fixed assets	5,015	9,970
<b>Total Assets acquired</b>	<b>920,679</b>	<b>1,830,449</b>
Current liabilities	(844,709)	(1,679,409)
	(1,207,559)	(2,400,809)
Net liabilities assumed	(1,131,589)	(2,249,769)
Acquired net assets (30.4%)**	-	-
Purchase price:		
Cash acquired, net	206,523	410,598
Acquisition costs	140,638	279,609
Goodwill	£ 347,161	\$ 690,207

\*\* The minority has not been attributed losses

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 1 - Organization and Nature of Business (Cont.)**

- C. On February 26, 2008 (the "Closing Date"), the Company completed its acquisition of NTS Communications, Inc. ("NTS") pursuant to that certain Stock Purchase Agreement (the "Purchase Agreement") entered into on August 22, 2007 with NTS, and the equity owners of NTS as sellers (the "NTS Shareholders"), as amended on February 14, 2008 and February 26, 2008 .

Upon closing of the acquisition, NTS and its six wholly owned subsidiaries, NTS Construction Company, Gary M. Wallace Company, Inc., Midcom of Arizona, Inc., Communications Brokers, Inc., NTS Telephone Company, LLC, and NTS Management Company, LLC, became the Company's wholly owned subsidiaries.

The purchase price for the acquisition was approximately \$42,000,000 (excluding acquisition related costs), plus (or less) (i) the difference between NTS' estimated working capital and the working capital target for NTS as set forth in the Purchase Agreement, and (ii) the difference between amounts allocated by NTS for its fiber optic network build-out project anticipated in Texas and any indebtedness incurred by NTS in connection with this project, each of which was subject to the Company's advance written approval. After applying this formula, the final aggregate purchase price was calculated as \$41,900,000, and was paid by the Company as follows: \$35,414,715 was paid in cash; and 2,366,892 shares of the Company's common stock, were issued to certain NTS Shareholders who elected to reinvest all or a portion of their allocable sale price in the Company's Common Stock, pursuant to the terms of the Purchase Agreement. The Company's Board of Directors determined, in accordance with the Purchase Agreement, the number of shares of the Company's Common Stock to be delivered to each participating NTS Shareholder by dividing the portion of such NTS Shareholder's allocable sale price that the NTS Shareholder elected to receive in shares of the Company's Common Stock by 93% of the average closing price of the Company's Common Stock on the American Stock Exchange for the ten consecutive trading days preceding the trading day immediately prior to the Closing Date (i.e., \$2.74). The aggregate sales price reinvested by all such NTS Shareholders was \$6,485,284.

On April 25, 2008, the Company entered into a Third Amendment to the Purchase Agreement (the "Third Amendment"). Pursuant to the Third Amendment, the parties agreed to an extension of time for the calculation and payment of the post closing working capital adjustment under the Purchase Agreement and agreed that the Company would obtain and deliver to the Sellers' Representatives by May 30, 2008 an audit report with respect to the balance sheet of NTS as of the closing of the acquisition "Closing"), together with the Company's calculation of Working Capital (as such term is defined in the Purchase Agreement) as of the Closing and any amounts to be paid by the Company or the Sellers. The Sellers would have the right to make any objections to the Company's working capital determination by June 20, 2008, and in the event that the Company and Sellers can not agree as to the post closing working capital adjustment by June 30, 2008, then the parties shall submit the determination of the post closing working capital adjustment to arbitration in accordance with the Purchase Agreement.

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 1 - Organization and Nature of Business (Cont.)**

The following table summarizes the fair values of the assets acquired and liabilities assumed, as of February 26, 2008\*:

<b>NTS Communications, Inc.</b>	<b>U.S.\$</b>
Current Assets, excluding cash acquired	\$ 6,482,743
Fixed assets	<u>35,181,889</u>
Total Assets acquired	41,664,632
Current liabilities	8,084,713
Long Term liabilities	<u>4,308,601</u>
Total liabilities acquired	12,393,315
Net assets assumed	<u>29,271,317</u>
Acquired net assets (100%)	<u>29,271,317</u>
Purchase price:	
Cash acquired, net	28,376,217
Fair market value of stock and options issued	7,897,792
Acquisition costs	<u>3,951,154</u>
Total	40,225,163
Customer Relationship	2,498,000
License	250,000
Goodwill	<u>\$ 8,205,846</u>

\* The company is still in the process of allocating the Intangible Assets from this acquisition.

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**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 subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. A minority interest in the loss of a subsidiary will be recorded according to the respective equity interest of the minority and up to its exposure and/or legal obligation to cover the subsidiary losses in case of equity reduced to zero or below.

B. Foreign Currency Translation

Effective January 1, 2007, the Company changed its functional and reporting currency from the Great Britain Pounds ("GBP") to the U.S. dollar for the reason that a majority of the Company's transactions and balances are denominated in U.S. dollars. Consistent with SFAS No. 52, Foreign Currency Translation, the change in functional currency will be accounted for prospectively; therefore, there is no effect on the historical consolidated financial statements. The translated amounts for non-monetary assets at December 31, 2006, became the accounting basis for those assets as of January 1, 2007.

The determination of the functional currency for the Company's foreign subsidiaries is made based on the appropriate economic factors. In addition a substantial portion of the Company's costs are incurred in U.S. dollars. The Company's management believes that the U.S. dollar is the primary currency of the economic environment in which it operate. Thus, the Company's functional and reporting currency and the functional and reporting currency of certain of its subsidiaries is the U.S. dollar.

Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are re-measured into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation" ("SFAS No. 52"). All gains and losses of the re-measurement of monetary balance sheet items are reflected in the consolidated statements of operations as financial income or expenses as appropriate. The Company's functional currency is US\$, the Company's financial records are maintained in US\$, and the Company's financial statements are prepared in US\$. The functional currency of Swiftnet, Equitalk and Story Telecom is GBP, the financial records of these subsidiaries are maintained in GBP and the financial statements of these subsidiaries are prepared in GBP. The functional currency of Xfone 018 is New Israeli Shekels ("NIS"), the financial records of Xfone 018 are maintained in NIS, and the financial statements of Xfone 018 are prepared in NIS.

Foreign currency transactions during the period are translated into each company's denominated currency at the exchange rates ruling at the transaction dates. Gains and losses resulting from foreign currency transactions are included in the consolidated statement of operations. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into each company's denominated currency at period-end exchange rates. All exchange differences are dealt with in the consolidated statements of operations. The financial statements of the Company's operations based outside of the United States have been translated into US\$ in accordance with SFAS No. 52. When translating functional currency financial statements into US\$, period-end exchange rates are applied to the consolidated balance sheets, while average period rates are applied to consolidated statements of operations. Translation gains and losses are recorded in translation reserve as a component of shareholders' equity.

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 2 - Significant Accounting Policies (Cont.)**

C. 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, estimate of uncollectible customer balances is made using factors such as the credit quality of the customer and the economic conditions in the market. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. 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.

Accounts receivable are presented net of an allowance for doubtful accounts of \$1,172,453 and \$1,881,228 at March 31, 2008 and 2007, respectively.

D. Other Intangible Assets

Other intangible assets with determinable lives consist of license to provide communication services in Israel and are amortized over the 20 year term of the license.

Customer base and trade name related to mergers and acquisitions are amortized over a period between 6-7 years from the date of the purchase.

E. Earnings Per Share

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

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 2 - Significant Accounting Policies (Cont.)**

F. Stock-Based Compensation

The Company accounts for equity-based compensation arrangements in accordance with the provisions of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations, and complies with the disclosure provisions of SFAS No. 123, “Accounting for Stock-Based Compensation.” All equity-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123. Under APB No. 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. Pro forma information regarding the Company's net income and net earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS No. 123.

Effective the beginning of the first quarter of fiscal year 2006, the Company adopted the provisions of SFAS 123R using the modified prospective transition method. Under this method, prior periods are not restated. The Company use the Black-Scholes option pricing model which requires extensive use of accounting judgment and financial estimates, including estimates of the expected term participants will retain their vested stock options before exercising them, the estimated volatility of its common stock price over the expected term, and the number of options that will be forfeited prior to the completion of their vesting requirements. Application of alternative assumptions could produce significantly different estimates of the fair value of stock-based compensation and consequently, the related amounts recognized in the Consolidated Statements of Operations. The provisions of SFAS 123R apply to new stock options and stock options outstanding, but not yet vested, on the date the Company adopted SFAS 123R. Stock-based compensation expense was included in applicable departmental expense categories in the Consolidated Statements of Operations.

G. Reclassification

Certain prior period balances in the consolidated statement of cash flows were reclassified to appropriately present net cash used in operating activities and effect of exchange rate changes on cash and cash equivalents. The reclassification had no effect on previously reported net income and shareholders' equity.

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 3 - Capital Structure**

On February 26, 2008, the Company completed the issuance of 800,000 Units (as defined below) to XFN-RLSI Investments, LLC, an entity affiliated with Richard L. Scott Investments, LLC, a U.S. institutional investor, and 500,000 Units to certain investors affiliated with or who are customers of Gagnon Securities LLC, pursuant to Subscription Agreements entered into with each of the investors on December 13, 2007. Each "Unit" consists of two shares of the Company's Common Stock and one warrant to purchase one share of Common Stock, exercisable for a period of five years from the date of issuance at an exercise price of \$3.10 per share. The Units were sold at a price of \$6.20 per Unit, for an aggregate purchase price of \$8,060,000.

In connection with the closing of the acquisition on February 26, 2008, the Company issued 2,366,892 shares of the Company's Common Stock to certain NTS Shareholders who elected to reinvest all or a portion of their allocable sale price in the Company's Common Stock, pursuant to the terms of the Purchase Agreement. The Company's Board of Directors determined, in accordance with the Purchase Agreement, the number of shares of the Company's Common Stock to be delivered to each participating NTS Shareholder by dividing the portion of such NTS Shareholder's allocable sale price that the NTS Shareholder elected to receive in shares of the Company's Common Stock by 93% of the average closing price of the Company's Common Stock on the American Stock Exchange for the ten consecutive trading days preceding the trading day immediately prior to the Closing Date (i.e., \$2.74). The aggregate sales price reinvested by all such NTS Shareholders was \$6,485,284.

On March 25, 2008, the Company issued the holders of the Bonds, for no additional consideration, 956,020 (non-tradable) warrants, each exercisable at an exercise price of \$3.50 with a term of 4 years.

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 4 - Capital Structure, Stock Options**

	<b>Three months ended March 31, 2008</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
Options outstanding at the beginning of the period (a)	5,715,000	\$ 3.65
Granted (b)	1,851,000	\$ 3.75
Exercised	-	\$ -
Forfeited	(825,000)	\$ 4.52
Options outstanding at the end of the period	6,741,000	\$ 3.57
Options vested and exercisable	4,943,750	\$ 3.38

Weighted average fair value of options granted

- (a) Include options under contractual obligation as specified in note 6A.  
(b) Include options under contractual obligation as specified in note 6B.

The following table summarizes information about options outstanding and exercisable at March 31, 2008:

Range price (\$)	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
2.794 - 5	4,739,063 (a)	3.7	\$3.34

- (a) Include options under contractual obligation as specified in note 6A-B.

A. On August 26, 2007, the Company entered into a contractual obligation to grant the General Manager of Xfone 018 the following number of options to purchase shares of the Company's common stock, \$0.001 par value per share ("Common Stock"), under the Company's 2007 Stock Incentive Plan (the "Plan"):

- i. Within 30 days of adoption of the Plan, the Company will grant options to purchase 300,000 shares of Common Stock, at an exercise price of \$3.50 per share, of which (i) options to purchase 75,000 shares will vest on August 26, 2008; and (ii) options to purchase 18,750 shares will be vest at the end of every 3 month period thereafter.
- ii. At the end of each calendar year between 2008 and 2011, and upon the achievement by Xfone 018 100% of its Targets for each such year, the General Manager of Xfone 018 will be granted options to purchase 25,000 shares of the Company's Common Stock under the Plan, for an exercise price of \$3.50 per share, which will be exercisable 30 days after the Company publishes its annual financial statements for such year.

The options will expire 120 days after termination of employment with Xfone 018.

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 4 - Capital Structure, Stock Options (Cont.)**

- B. On February 26, 2008, NTS Communications, Inc. entered into Employment Agreements with each of Barbara Baldwin, who, prior to the closing, served as NTS' President and CEO, Jerry Hoover, who, prior to the closing, served as NTS' Executive Vice President - Chief Financial Officer, and Brad Worthington, who, prior to the closing, served as NTS' Executive Vice President - Chief Operating Officer (each an "Officer," and collectively the "Officers"). The Employment Agreements provide for continued employment of the Officers with NTS in their respective capacities, and are for five-year terms each, effective as of the Closing Date.

Pursuant to the terms of the Employment Agreements, the Officers were granted the following stock option awards under the Company's 2007 Stock Incentive Plan on the Closing Date: Ms. Baldwin was granted options to purchase 250,000 shares of the Company's Common Stock, and each of Messrs. Hoover and Worthington was granted options to purchase 400,000 shares of the Company's Common Stock. Each option is immediately exercisable, expires five years from the grant date, and has an exercise price of \$2.794, which is 10% over the average closing price of the Company's Common Stock for the ten trading days immediately proceeding August, 22, 2007, the execution date of the Purchase Agreement. Additionally, the Employment Agreements provide that at the end of each Officer's second year of his or her employment, he or she will be granted options to purchase 267,000 shares of the Company's Common Stock, which will be immediately exercisable at \$5.00 per share, and will expire five years from such grant date.

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 5 - Segment Information**

**Geographical segments**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues:</b>		
United Kingdom	\$ 4,807,424	\$ 6,095,938
United States	8,707,504	3,419,093
Israel	2,278,170	2,008,685
<b>Total revenues</b>	<b>15,793,098</b>	<b>11,523,716</b>
<b>Cost of revenues:</b>		
United Kingdom	1,699,124	2,879,870
United States	4,987,869	1,593,826
Israel	969,280	719,526
<b>Total cost of revenues</b>	<b>7,656,273</b>	<b>5,193,222</b>
<b>Direct gross profit:</b>		
United Kingdom	3,108,300	3,216,068
United States	3,719,635	1,825,267
Israel	1,308,890	1,289,159
	8,136,825	6,330,494
<b>Operating expenses:</b>		
United Kingdom	2,104,044	2,822,519
United States	3,455,169	1,561,910
Israel	924,131	658,986
	6,483,344	5,043,415
<b>Operating Profit (Loss)</b>		
United Kingdom	1,004,256	393,549
United States	264,466	263,357
Israel	384,759	630,173
	1,653,481	1,287,079
Operating expenses related to the Headquarters in the US	509,015	625,630
<b>Operating Profit</b>	<b><u>\$ 1,144,466</u></b>	<b><u>\$ 661,449</u></b>

Xfone, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008  
(Unaudited)

**Note 6 – Subsequent events**

A. An agreement in Principle to acquire a majority stake in Tadiran Telecom - Communication Services In Israel LP.

On March 17, 2008, Xfone 018 entered into an Agreement of Principles ( the "Agreement") with Tiv Taam Holdings 1 Ltd., an Israeli public company ("Tiv Taam"), pursuant to which Xfone 018 agreed to purchase from Tiv Taam, and Tiv Taam agreed to sell to Xfone 018, approximately 89% of the outstanding share capital (approximately 69% of its fully diluted share capital) of Robomatix Technologies Ltd. ("Robomatix") which Tiv Taam currently owns. Robomatix owns approximately 90% of the issued share capital of Tadiran Telecom-Communication Services In Israel Ltd. ("Tadiran Telecom"), which is the general partner of Tadiran Telecom-Communication Services In Israel – Limited Partnership ("Tadiran Telecom LP"), an Israeli entity dealing with the distribution, maintenance, assistance services and sale of switchboards for the business community in Israel. Accordingly, upon consummation of the acquisition, Xfone 018 will also acquire control over Tadiran Telecom and Tadiran Telecom LP. The purchase price for the acquisition is NIS 44,000,000 (approximately \$12,503,552), subject to adjustment as set forth in the Agreement, payable in three installments, as follows:

- On the closing date, NIS 15,500,000 (approximately \$4,404,660) (the "First Installment");
- By November 20, 2008, NIS 15,500,000 (approximately \$4,404,660), subject to adjustment resulting from linkage to the Consumer Price Index (the "Second Installment"); and
- By November 1, 2009, NIS 13,000,000 (approximately \$3,694,231), subject to adjustment resulting from linkage to the Consumer Price Index (the "Third Installment").

Xfone 018 will have all rights as a shareholder of Robomatix upon closing of the acquisition and payment of the First Installment.

We, as the parent company of Xfone 018, have agreed to sign a letter of guarantee with respect to the Second Installment and the Third Installment. The agreement provides for a 60-day period during which Xfone 018 shall perform a legal and accounting due diligence examination of Robomatix, Tadiran Telecom and Tadiran Telecom LP. Xfone 018 has undertaken to maintain confidentiality of all information delivered to Xfone 018, and has entered into a Confidentiality Undertaking.

The closing of the transaction will occur on the later of (i) 75 days after the execution of the Agreement (i.e, May 31, 2008), or (ii) 15 days after receipt of necessary approvals of the General Director of the Antitrust Authority and other Israeli governmental authorities. In the event that the necessary approvals are not received within 120 days of the date of execution of the Agreement, or a reserved approval was received or an approval under conditions which make it burdensome on Xfone 018 or significantly prejudice the profitability of the transaction for Xfone 018, the Agreement will be null and void as if it was never executed.

## **Item 2.** Management's Discussion and Analysis of Financial Condition and Results of Operations

### **FORWARD-LOOKING STATEMENTS**

*The information set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, including, among others (i) expected changes in the Company's revenues and profitability, (ii) prospective business opportunities and (iii) the Company's strategy for financing its business. Forward-looking statements are statements other than historical information or statements of current condition. Some forward-looking statements may be identified by use of terms such as "believes", "anticipates", "intends" or "expects". These forward-looking statements relate to the plans, objectives and expectations of the Company for future operations. Although the Company believes that its expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its knowledge of its business and operations, in light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements in this Quarterly Report should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.*

*You should read the following discussion and analysis in conjunction with the Financial Statements and Notes attached hereto, and the other financial data appearing elsewhere in this Quarterly Report.*

*The Company's revenues and results of operations could differ materially from those projected in the forward-looking statements as a result of numerous factors, including, but not limited to, the following: the risk of significant natural disaster, the inability of the Company to insure against certain risks, inflationary and deflationary conditions and cycles, currency exchange rates, changing government regulations domestically and internationally affecting our products and businesses.*

### **OVERVIEW**

Xfone, Inc. was incorporated in Nevada, U.S.A. in September 2000. We are a holding and managing company providing international voice, video and data communications services with operations in the United States, the United Kingdom and Israel offering a wide range of services, including: 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. We serve customers worldwide.

In May 2008, we moved our principal executive offices from the Flowood, Mississippi location to Lubbock, Texas, to share executive office space with our wholly owned U.S. subsidiaries, Xfone USA, Inc. and NTS Communications, Inc.

On October 4, 2000, we acquired Swiftnet Limited which had a business plan to provide comprehensive range of telecommunication services and products, integrated through one website. Swiftnet was incorporated in 1990 under the laws of the United Kingdom and is headquartered in London, England. Until 1999, the main revenues for Swiftnet were derived from messaging and fax broadcast services. During 2000, Swiftnet shifted its business focus to voice services and now offers a comprehensive range of calling services to resellers and end customers. Utilizing automation and proprietary software packages, Swiftnet's strategy is to grow without the need for heavy investments and with lower expenses for operations and registration of new customers.

On April 15, 2004, we established an Israel based subsidiary, Xfone Communication Ltd. (which changed its name to Xfone 018 Ltd. in March 2005). On July 4, 2004, the Ministry of Communications of the State of Israel granted Xfone 018 a license to provide international telecom services in Israel. We started providing services in Israel through Xfone 018 as of mid-December 2004. Headquartered in Petach Tikva, Israel, Xfone 018 Ltd. is a telecommunications service provider that owns and operates its own facilities-based telecommunications switching system. Xfone 018 provides residential and business customers with high quality international carrier services.

On May 28, 2004, we entered into an agreement and Plan of Merger to acquire WS Telecom, Inc., a Mississippi corporation, and its two wholly owned subsidiaries, eXpeTel Communications, Inc. and Gulf Coast Utilities, Inc., through the merger of WS Telecom with and into our wholly owned U.S. subsidiary Xfone USA, Inc. The acquisition was completed on March 10, 2005. Headquartered in Jackson, Mississippi, Xfone USA is an integrated telecommunications service provider that owns and operates its own facilities-based, telecommunications switching system and network. Xfone USA provides residential and business customers with high quality local, long distance and high-speed broadband Internet services, as well as cable television services in certain planned residential communities in Mississippi. Xfone USA is licensed to provide telecommunications services in Alabama, Florida, Georgia, Louisiana and Mississippi. Xfone USA utilizes integrated multi-media offerings - combining digital voice, data and video services over broadband technologies to deliver services to customers throughout its service areas.

Throughout 2005 and early 2006, we executed on the Company's Mergers and Acquisitions expansion plans. On August 18, 2005, we entered into an Agreement and Plan of Merger to acquire I-55 Internet Services, Inc., a Louisiana corporation that provided Internet access and related services, including network services, website design, hosting and other Internet access services, throughout the Southeastern United States. The acquisition was completed on March 31, 2006. Xfone USA now provides bundled services of voice and data (broadband Internet) to customers throughout its service areas. On August 26, 2005, we also entered into an Agreement and Plan of Merger to acquire I-55 Telecommunications, LLC, a Louisiana corporation that provided voice, data and related communications services throughout Louisiana and Mississippi to both individuals and businesses. Prior to the merger with and into Xfone USA, I-55 Telecommunications was a licensed facility based CLEC operating in Louisiana and Mississippi with a next generation class 5 carrier switching platform. As a result of the merger, Xfone USA has now expanded its On-Net (facilities) service area, into New Orleans, Louisiana and surrounding areas, including Hammond, Louisiana and Baton Rouge, Louisiana. Xfone USA has expanded its sales offices to include New Orleans, in an effort to continue revenue growth and increase market share in the revitalized city, as well as into Biloxi, Mississippi, Hammond, Louisiana and Baton Rouge, Louisiana. This merger also provides for a unique opportunity for Xfone USA to gain continued market share, by utilizing its existing network and to expand its facilities into these markets becoming a primary alternative to the monopoly Incumbent Local Exchange Company.

In January 2006, Xfone USA entered into two Agreements to purchase the assets of two Internet Service Providers in Mississippi. On January 1, 2006, Xfone USA entered into an Asset Purchase Agreement with EBI Comm, Inc. ("EBI"), a privately held Internet Service Provider offering Internet services to both commercial and residential customers in north Mississippi. Based in Columbus, Mississippi, EBI's services included Dial-up, DSL, T1 Dedicated Access and Web Hosting. The customer base, numbering approximately 1,500 Internet users, is largely concentrated in the Golden Triangle area, which includes Columbus, West Point and Starkville, Mississippi. On January 10, 2006 (effective as of January 1, 2006), Xfone USA entered into an Asset Purchase Agreement with Canufly.net, Inc. ("Canufly.net"), an Internet Service Provider based in Vicksburg, Mississippi, and its principal shareholder, Mr. Michael Nassour. Canufly.net provided residential and business customers with high-speed Internet services and utilized the facilities-based network of Xfone USA, as an alternative to BellSouth, to provide Internet connectivity to its customers. Canufly.net also provided Internet services through a small wireless application in certain areas in Vicksburg, Mississippi. The transaction was closed on January 24, 2006.

On May 10, 2006, we, Story Telecom, Inc., Story Telecom Limited, Story Telecom (Ireland) Limited, Nir Davison, and Trecastle Holdings Limited, a company controlled by Mr. Davison, entered into a Stock Purchase Agreement. Pursuant to the Stock Purchase Agreement, we increased our ownership interest in Story Telecom from 39.2% to 69.6%. The stock purchase pursuant to the Stock Purchase Agreement was completed on May 16, 2006. Story Telecom, Inc., a telecommunication service provider, operated in the United Kingdom through its two wholly owned subsidiaries, Story Telecom Limited and Story Telecom (Ireland) Limited (which was dissolved on February 23, 2007). Story Telecom operates as a division of our operations in the United Kingdom and offers international calling services to U.K. customers. On March 25, 2008, in connection with a settlement of a legal proceeding before the UK Employment Tribunal initiated by Mr. Nir Davison, we purchased from Mr. Davison and Trecastle Holdings Limited, the shares of common stock of Story Telecom, Inc. that each party owned, respectively, for an aggregate purchase price of £270,000 (\$524,826), pursuant to the terms of a Compromise Agreement and a Securities Purchase Agreement entered into between the parties on that date. Upon acquisition of the shares of common stock of Story Telecom, Inc. from Mr. Davison and Trecastle Holdings, Story Telecom, Inc. became our wholly owned subsidiary.

On May 25, 2006, we and the shareholders of Equitalk.co.uk Limited, a privately held telephone company based in the United Kingdom ("Equitalk") entered into an Agreement relating to the sale and purchase of Equitalk. The acquisition was completed on July 3, 2006, and on that date Equitalk became our wholly owned subsidiary. Founded in December 1999, Equitalk, a VC-financed company, was the first fully automated e-telco in the United Kingdom. Equitalk provides both residential and business customers with low-cost IDA and CPS voice services, broadband and teleconferencing.

On August 15, 2007, we, Swiftnet Limited, our wholly owned U.K.-based subsidiary ("Swiftnet"), and Dan Kirschner entered into a definitive Share Purchase Agreement, pursuant to which Swiftnet purchased from Mr. Kirschner the 67.5% equity interest in Auracall Limited ("Auracall") that he beneficially owned, thereby increasing Swiftnet's ownership interest in Auracall from 32.5% to 100%. Swiftnet had acquired the 32.5% interest in Auracall through several transactions that occurred since October 16, 2001. Auracall provides services such as the "Free Time" service which allows any individual with a BT line to make international calls at a lower cost and without prepayment for setting up an account with another carrier and the "T-Talk" service which allows any individual with a mobile phone to make international calls at a lower cost by purchasing calling credit via a Premium Rate Text.

On August 22, 2007, we entered into a Stock Purchase Agreement (the "NTS Purchase Agreement") with NTS Communications, Inc. ("NTS"), a provider of integrated voice, data and video solutions headquartered in Lubbock, Texas, and the owners of approximately 85% of the equity interests in NTS, to acquire NTS. Subsequently, all of the remaining shareholders of NTS executed the Agreement, bringing the total percentage of equity interests in NTS owned by NTS shareholders that entered into the Agreement (the "NTS Sellers") to 100%.

On February 14, 2008, we entered into a First Amendment to the NTS Purchase Agreement to amend the agreement to further extend the expiration date for the closing of our acquisition of NTS. On February 26, 2008, we entered into a Second Amendment to the NTS Purchase Agreement which amended, among other things, the definition and elements of working capital, as such term is defined in the NTS Purchase Agreement, and increased the escrow amount.

The acquisition closed on February 26, 2008. Upon closing of the acquisition, NTS and its six wholly owned subsidiaries, NTS Construction Company, Garey M. Wallace Company, Inc., Midcom of Arizona, Inc., Communications Brokers, Inc., NTS Telephone Company, LLC, and NTS Management Company, LLC, became our wholly owned subsidiaries.

The purchase price for the acquisition set forth in the NTS Purchase Agreement was approximately \$42,000,000 (excluding acquisition related costs), plus (or less) (i) the difference between NTS' estimated working capital and the working capital target for NTS as set forth in the NTS Purchase Agreement, and (ii) the difference between amounts allocated by NTS for its fiber optic network build-out project anticipated in Texas and any indebtedness incurred by NTS in connection with this project, each of which was subject to our advance written approval. After applying this formula, the final aggregate purchase price was calculated as \$41,900,000, and was paid as follows:

- \$35,414,715 was paid in cash; and
  
- 2,366,892 shares of our common stock were issued to certain NTS Sellers who elected to reinvest all or a portion of their allocable sale price in our Common Stock, pursuant to the terms of the NTS Purchase Agreement. Our Board of Directors determined, in accordance with the NTS Purchase Agreement, the number of shares of our Common Stock to be delivered to each participating NTS Seller by dividing the portion of such NTS Seller's allocable sale price that the NTS Seller elected to receive in shares of our Common Stock by 93% of the average closing price of our Common Stock on the American Stock Exchange for the ten consecutive trading days preceding the trading day immediately prior to the Closing Date (i.e., \$2.74). The aggregate sales price reinvested by all such NTS Sellers was \$6,485,285.

On April 25, 2008, we entered into a Third Amendment to the NTS Purchase Agreement (the "Third Amendment"). Pursuant to the Third Amendment, the parties agreed to an extension of time for the calculation and payment of the post closing working capital adjustment under the NTS Purchase Agreement and agreed that we would obtain and deliver to the NTS Sellers' Representatives by May 30, 2008 an audit report with respect to the balance sheet of NTS as of the closing of the acquisition ("Closing"), together with our calculation of Working Capital (as such term is defined in the NTS Purchase Agreement) as of the Closing and any amounts to be paid by us or the NTS Sellers. The NTS Sellers would have the right to make any objections to our working capital determination by June 20, 2008, and in the event that we and the NTS Sellers can not agree as to the post closing working capital adjustment by June 30, 2008, then the parties shall submit the determination of the post closing working capital adjustment to arbitration in accordance with the NTS Purchase Agreement.

Financial Information - Percentage of Revenues

	Three months ended March 31,	
	2008	2007
Revenues	100%	100%
Cost of Revenues	-48.5%	-45.1%
Gross Profit	51.5%	54.9%
Operating Expenses:		
Research and Development	-0.1%	-0.1%
Marketing and Selling	-16.9%	-23.7%
General and Administrative	-27.5%	-25.4%
Total Operating Expenses	-44.5%	-49.2%
Income before Taxes	0.8%	4.7%
Net Income	0.3%	3.9%

**RESULTS OF OPERATIONS**

**COMPARISON OF THE THREE MONTHS PERIODS ENDED MARCH 31, 2008 AND MARCH 31, 2007**

**Revenues.** Revenues for the three months ended March 31, 2008 increased 37% to \$15,793,098 from \$11,523,716 for the same period in 2007. The increase of \$4,269,382 in the consolidated revenues is attributed to the \$5,288,411 increase in our revenues in the United States and \$269,485 increase in the Israel market which is offset by a \$1,288,514 decrease in revenues in the United Kingdom.

Revenues in the United States for the three months ended March 31, 2008 increased 154.7% to \$8,707,504 from \$3,419,093 for the same period in 2007. Approximately \$6,000,000 of the increase was contributed by NTS Communications, Inc. ("NTS"), our recent acquisition that was consummated on February 26, 2008 and which was consolidated for the first time in the first quarter of 2008. Notwithstanding the increase in revenues was offset by a decrease in revenues from other carriers and due to attrition of residential customers.

Revenues in Israel for the three months ended March 31, 2008 increased 13.4% to \$2,278,170 from \$2,008,685 for the same period in 2007. This increase is mainly attributed to increase of our marketing efforts. The revaluation of the NIS to the U.S dollars have also attributed to the increase in the revenues.

Revenues in the United Kingdom for the three months ended March 31, 2008 decreased 21.1% to \$4,807,424 from \$6,095,938 for the same period in 2007. The decrease in sales in the UK was wholly attributable to a change in the tariff structure by the mobile operator O2.

A high proportion of UK subsidiaries' customers have O2 mobile phones and use Xfone's services by dialing an Xfone access number from their O2 phone. During the fourth quarter of 2007, O2 changed the pricing on the access numbers, so that they were no longer cost effective for customers to dial.

This change affected not only Xfone, but all alternative suppliers of international calls in the UK.

UK subsidiaries undertook a marketing campaign to promote their other services to these customers, which customers can connect to via alternative, low cost access numbers. This has been successful in terms of migrating customers and the number of minutes switched by the company is growing well.

Notwithstanding the aforesaid the decrease in revenues was partially offset by the revaluation of the GBP in relation with the U.S dollars.

Our primary geographic markets are the United States, the United Kingdom and Israel. However, we serve customers worldwide.

**Cost of Revenues.** Cost of revenues consists primarily of traffic time purchased from telephone companies and other related charges. Cost of revenues for the three months ended March 31, 2008 increased 47.4% to \$7,656,273 from \$5,193,222 for the same period in 2007. Cost of revenues as a percentage of revenues in the three months ended March 31, 2008 increased to 48.5% from 45.1% in the same period in 2007.

Cost of revenues as a percentage of revenues in the United States in the three months ended March 31, 2008 increased to 57.3% from 46.6% in the same period in 2007. The increase is mainly attributed to NTS which was consolidated for the first time during the first quarter of 2008. Within our group, NTS presents higher cost of revenues than the other subsidiaries in the group. Strategically, NTS decided to migrate its customers from the current copper-based services to its new Fiber-based infrastructure. As a result of this strategy we expect to reduce the cost of revenues gradually.

As a result of ongoing product improvements and an increase in the sales of higher margin services we achieved a decrease in cost of revenues as percentage of revenues in the United Kingdom where cost of revenues as percentage of revenues decrease to 35.3% compared to 47.2% in the same period in 2007. Following the change in the tariff structure by the mobile operator O2, the cost of revenues of UK subsidiaries is expected to be slightly higher on alternative products.

Cost of revenues as a percentage of revenues in Israel in the three months ended March 31, 2008 increased to 42.5% from 35.8% in the same period in 2007. The increase is mainly attributed to Xfone 018's ability to negotiate lower prices with the communication carriers.

**Research and Development.** Research and development expenses for the three months ended March 31, 2008 and for the same period in 2007 were 0.1% of total revenues. The research and development activities are located in the U.K only and we estimate that the research and development expenses will remain in the same level until the end of 2008.

**Marketing and Selling Expenses.** Marketing and selling expenses consist primarily of commissions to agents and resellers. Other marketing and selling expenses are related to compensation attributed to employees engaged in marketing and selling activities, promotion, advertising and related expenses. Marketing and selling expenses for the three months ended March 31, 2008 decreased 2.4% (or \$66,347) to \$2,665,629 from \$2,731,976 for the same period in 2007.

Marketing and selling expenses as a percentage of revenues decreased to 16.9% for the three months ended March 31, 2008 from 23.7% for the same period in 2007. Decrease in marketing and selling expenses is mainly attributed to the decrease in sales commissions in the U.K due to the decrease in revenues.

**General and Administrative Expenses.** General and administrative expenses for the three months ended March 31, 2008 increased 47.6% to \$4,311,720 from \$2,921,291 for the same period in 2007. This increase was contributed by NTS which was consolidated for the first time during the first quarter of 2008.

**Financing Expenses.** Financing expenses, net, for the three months ended March 31, 2008 increased to \$903,169 from \$139,869 for the same period in 2007. \$313,545 of the increase in the financial expenses is attributed to the effect of fluctuation in the exchange rate of the NIS on our Bonds stated in NIS and \$211,820 is attributed to the interest payable on the Bonds. The remaining increase in the financial expenses, net consists of interest expenses on our interest bearing obligations and the effect of currency exchange rate on intercompany balances with our subsidiaries who reports with NIS and GBP as its functional currencies.

**Net Income.** Net income for the three months ended March 31, 2008 was \$81,130 compared to \$444,395 for the same period in 2007.

**Earning Per Share.** Diluted net earning per share of common stock for the three months ended March 31, 2008 was \$0.005, compared to \$0.039 for the same period in 2007.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of March 31, 2008, amounted to \$8,673,077 compared to \$5,835,608 as of December 31, 2007, an increase of \$2,837,469. Net cash provided by operating activities in the three months ended March 31, 2008, was \$1,268,487. Cash used for investing activities in the three months ended March 31, 2008, was \$12,826,943 mainly attributable to acquisition of NTS less proceeds from the issuance of bonds during December 2007 which were held in escrow in short term bank deposits. Net cash provided in financing activities for the three months ended March 31, 2008, was \$14,671,813 mainly attributable to issuance of shares and warrants for cash of \$14,523,536, repayment of financial obligations of \$212,263 and the decrease in short-term bank credit of \$360,540.

Our capital investments are primarily for the purchase of equipment and software for services that we provide or intend to provide.

Capital lease obligations: We are the lessee of switching and other telecom equipment under capital leases expiring on various dates from 2008 through 2009.

The minimum future lease payments are:

<b>Date</b>	<b>U.S. Dollar</b>
2008	\$ 132,157
2009	\$ 54,209
	\$ 186,366

We shall continue to finance our operations and fund the current commitments for capital expenditures mainly from the cash provided from operating activities and from private and/or public placements.

### **Xfone, Inc.**

On December 13, 2007, and in conjunction with a private offering of the same date, the Company issued an aggregate of NIS 100,382,100 (approximately \$25,562,032, based on the exchange rate as of December 13, 2007) bonds (Series A) (the "Bonds") to Israeli institutional investors. The Bonds are rated A3 by Midroog (an affiliate of Moody's) and will pay an initial annual interest at a rate of 9% that will be paid semi-annually on the 1st of June and on the 1st of December of every year from 2008 until 2015 (inclusive). Commencing on the date of listing of the Bonds on the TASE, the interest rate payable for the unpaid balance of the Bonds will be reduced by 1%, to an annual interest rate of 8%. The principal of the Bonds will be repaid in eight equal annual payments on the 1st of December of every year from 2008 until 2015 (inclusive). The principal and interest of the Bonds is linked to the Israeli Consumer Price Index.

On February 26, 2008, the Company completed the issuance of 800,000 Units (as defined below) to XFN-RLSI Investments, LLC, an entity affiliated with Richard L. Scott Investments, LLC, a U.S. institutional investor, and 500,000 Units to certain investors affiliated with or who are customers of Gagnon Securities LLC, pursuant to Subscription Agreements entered into with each of the investors on December 13, 2007. Each "Unit" consists of two shares of the Company's Common Stock and one warrant to purchase one share of Common Stock, exercisable for a period of five years from the date of issuance at an exercise price of \$3.10 per share. The Units were sold at a price of \$6.20 per Unit, for an aggregate purchase price of \$8,060,000.

In connection with the closing of the acquisition on February 26, 2008, the Company issued 2,366,892 shares of the Company's Common Stock to certain former NTS Shareholders who elected to reinvest all or a portion of their allocable sale price in the Company's Common Stock, pursuant to the terms of the Purchase Agreement. The Company's Board of Directors determined, in accordance with the Purchase Agreement, the number of shares of the Company's Common Stock to be delivered to each participating NTS Shareholder by dividing the portion of such NTS Shareholder's allocable sale price that the NTS Shareholder elected to receive in shares of the Company's Common Stock by 93% of the average closing price of the Company's Common Stock on the American Stock Exchange for the ten consecutive trading days preceding the trading day immediately prior to the Closing Date (i.e., \$2.74). The aggregate sales price reinvested by all such NTS Shareholders was \$6,485,284.

On March 25, 2008, the Company issued the holders of the Bonds, for no additional consideration, 956,020 (non-tradable) warrants, each exercisable at an exercise price of \$3.50 with a term of 4 years.

On July 17, 2007, Story Telecom Limited, our UK subsidiary, agreed to loan us up to £400,000 (\$783,884) that it had as cash surplus in its bank account. The loan bears fixed interest rate at 4% over the interest payable by the bank for deposits under the same terms. The loan is for a one-year term but can be accelerated by Story Telecom if it requires additional financing to continue to operate as a going concern. The loan is guaranteed by our wholly-owned UK subsidiary, Swiftnet Limited and by amounts owed to us by Story Telecom. In addition, Story Telecom has the right to set-off repayments under the loan against sums due to us by Story Telecom. The loan is pre-payable at any time upon 30 days' notice. On July 18, 2007 and on September 25, 2007, we borrowed £350,000 (\$685,899) and £50,000 (\$97,986), respectively, of the loan. On October 8, 2007, Story Telecom agreed to increase the loan ceiling by £300,000 to a maximum of £700,000. Further borrowings of £100,000 (\$195,971) were made on October 9, 2007. As of March 31, 2008, the aggregate outstanding borrowings were £500,000 (\$979,855).

#### **US subsidiaries**

Our U.S. subsidiary, Xfone USA, Inc., has certain loan facilities with certain liens on our fixed assets in the form of installment loan agreements. The total aggregate amount of these loans as of March 31, 2008 is \$304,186.

Our U.S subsidiary, NTS communication, Inc., has short-term bank facilities of \$4,000,000 and approximately \$644,000 notes payable for the purchase of certain fixed assets. These notes payable are secured by fixed assets in the form of installment loan agreements. In addition, a wholly owned subsidiary of NTS received a non-recourse long term note to finance the build-out of the fiber network in Levelland, Texas, collateralized by the project. The total aggregate amount of these loans as of March 31, 2008 is \$3,433,876.

Upon the assignment of the Interconnection Agreement between WS Telecom, Inc. and BellSouth Telecommunications, Inc. to Xfone USA, Inc., and consummation of the merger on March 10, 2005, we, the ultimate parent company and our subsidiaries Swiftnet Limited and Xfone 018 Ltd., individually and/or jointly, agreed to guarantee all undisputed debts owing to BellSouth Telecommunications by Xfone USA in accordance with the assigned Interconnection Agreement. The guarantee was given on December 16, 2004, and became effective upon the consummation of the merger on March 10, 2005.

On September 27, 2005, we entered into a Securities Purchase Agreement for a \$2,000,000 financial transaction with Xfone USA, Inc., eXpeTel Communications, Inc., Gulf Coast Utilities, Inc. and Laurus Master Fund, Ltd. The investment, which took the form of a convertible term note secured by our United States assets, has a 3 year term and bears interest at a rate equal to prime plus 1.5% per annum. The Term Note is convertible, under certain conditions, into shares of our common stock at an initial conversion price equal to \$3.48 per share. In conjunction with the financial transaction, we issued to Laurus Master Fund 157,500 warrants which are exercisable at \$3.80 per share for a period of five years. The closing of the financing was on September 28, 2005. As of August 1, 2007, Laurus Master Fund, Ltd. assigned to Valens U.S. SPV I, LLC a principal amount equal to \$169,925.11 of the Term Note, and to Valens Offshore Fund SPV I, Ltd. a principal amount equal to \$549,289.76 of the Term Note. Net proceeds from the financing were mainly used for procurement of capital equipment and general working capital purposes for us and Xfone USA, eXpeTel Communications and Gulf Coast Utilities, Inc. The conversion of the Term Note will result in dilution in the percentage of common stock owned by our existing shareholders, although the conversion price was in excess of the net tangible book value per share and accordingly was not economically dilutive. The potential or actual resale of the shares underlying the note could have an adverse effect on the price of our common stock. The balance as of March 31, 2008 due to Laurus Master Fund is \$423,642.

#### **UK subsidiaries**

On April 18, 2002 Bank Leumi (UK) plc issued company credit cards to two directors of Swiftnet Limited, and by way of securing the balances on these cards, took a First Party Charge over Swiftnet to the sum of £50,000 (\$97,986).

As of April 10, 2003, Equitalk.co.uk Limited, our U.K. based subsidiary since July 2006, has received loan facilities from Barclays Bank plc in the form of a Government Small Firms Loan Guarantee Scheme Loan Agreement whereby Barclays would lend Equitalk £150,000 (\$293,957). The loan plus interest is repaid monthly and payments are up to date. As part of the agreement a Debenture charge was raised on all the assets of Equitalk. The balance as of March 31, 2008 due is £16,667 (\$32,662).

### **Israeli subsidiary**

Our Israel based subsidiary, Xfone 018 Ltd. has received credit facilities from Bank Hapoalim B.M. in Israel in order to finance its activities. As of March 31, 2008, the credit facilities include a revolving credit line of 500,000 NIS (\$144,928), a short-term credit line of 2,250,000 NIS (\$652,174), and long-term credit line of 1,290,000 NIS (\$373,913). In addition, the bank made available to Xfone 018 a long-term facility of 3,150,000 NIS (\$913,043) to procure equipment. The credit facilities are secured with: (a) a floating charge on Xfone 018 assets; (b) a fixed charge on its telecommunication equipment (including switches); (c) subordination of a Term Note of \$800,000. This Term Note was executed in July 2004 by Xfone 018 in favor of the Company; (d) assignment of rights by way of pledge on the Partner Communications Company Ltd. contract, the Cellcom Israel Ltd. contract, the Pelephone Communications Ltd. contract, and the credit companies contracts with Xfone 018; (e) personal collateral by Abraham Keinan and Guy Nissenson, which includes a pledge on 1,000,000 shares of common stock of the Company owned by Mr. Keinan, and an undertaking to provide Bank Hapoalim with an additional financial guarantee of up to \$500,000 under certain circumstances. We agreed to indemnify Abraham Keinan and/or Guy Nissenson on account of any damage and/or loss and/or expense (including legal expenses) that they may incur in connection with the stock pledge and/or any other obligation made by them to Bank Hapoalim in connection with the collateral; (f) We and Swiftnet Limited issued a Letter of Guarantee, unlimited in amount, in favor of the bank, guaranteeing all debt and indebtedness of Xfone 018 towards the bank; (g) subordination of the Minority Partner Loan (as defined below). As of March 31, 2008, we have a balance due of 3,741,743 NIS (\$1,053,122) under the credit facility.

According to an agreement between us, Xfone 018 Ltd. and our 26% minority interest partner in Xfone 018 (the "Minority Partner"), the Minority Partner provided in 2004 a bank guarantee of 10,000,000 NIS (\$2,898,551) to the Ministry of Communications of the State of Israel which replaced an existing bank guarantee given by the Company in connection with Xfone 018's license to provide international telecom services in Israel. As part of the agreement, the Company agreed to indemnify the Minority Partner for any damage caused to him due to the forfeiture of the bank guarantee with the Ministry of Communications on account of any act and/or omission of Xfone 018, provided that the said act or omission is performed against the opinion of the Minority Partner or without his knowledge.

According to the above-mentioned agreement with the Minority Partner, the Minority Partner provided in the fourth quarter of 2004, a shareholder loan of approximately \$400,000 to Xfone 018 (the "Minority Partner Loan"). The Minority Partner Loan is payable after four years with annual interest of 4% and linkage to the Israeli consumer price index. As of March 31, 2008, the balance of the Minority Partner Loan is 1,897,718 NIS (\$534,117).

As of March 31, 2008, we provided to Xfone 018 a shareholder loan in an aggregate amount of \$1,321,924.

As of March 31, 2008, our Israeli subsidiary activities were financed by the shareholders loans and by using 3,741,743 NIS (\$1,053,122) of the credit facility from Bank Hapoalim.

On November 5, 2007, Bank Hapoalim B.M. in Israel provided a bank guarantee of 322,500 NIS (\$82,124) to the Ministry of Communications of the State of Israel in connection with a November 7, 2007 license to commence an experimental deployment of Local Telephone Services utilizing Voice over Broadband (VoB) technology, which was granted to Xfone 018. In connection with the bank guarantee, Xfone 018 executed an indemnification agreement in favor of Bank Hapoalim. The bank guarantee will expire on April 30, 2009.

During February 2008, Xfone 018 Ltd. has received a capital lease facilities to purchase certain communication equipment amounting to \$ 75,095 to be paid in 23 equal instalments. The balance as of March 31, 2008 due is \$ 71,830.

### **IMPACT OF INFLATION AND CURRENCY FLUCTUATIONS**

30.4% and 14.4% of our revenues in the first quarters of 2008 were derived from our U.K. and Israeli operations, respectively, compared to 55% and 17% in the same period in 2007. In the first quarter of 2008, approximately 30% of the direct traffic costs in Israel were in GBP and the rest were in New Israeli Shekels ("NIS"), compared to 29% in the same period in 2007. We believe that the U.S. and Israeli portions of our revenues will increase in the next three quarters of 2008.

For continuing transactions made in currencies other than US dollar we use a current conversion rate. For noncontingent past transactions made in currencies other than US dollar we use the conversion rate of the time of transaction.

Our costs of revenues are mainly in U.S.

Most of our assets, liabilities (except the Bonds), revenues and expenditures are in U.S. dollars and GBP. The remainder of the assets, liabilities, revenues and expenditures are in NIS. We anticipate that in the second half of 2007 the portion of U.S. dollars will continue to grow although the portion of GBP will stay significant.

Notwithstanding having our Bonds stated in NIS and linked to the Israeli CPI, during the three months period ended March 31, 2008, the revaluation of the NIS in relation with the U.S. dollar and the inflation increased our outstanding debt by approximately \$2,175,000 and \$100,000, respectively. We may use foreign currency exchange contracts and other derivatives instruments to be the appropriate tool for managing such exposure.

Inflation in any of the countries where we operate would affect our operational results if we shall not be able to match our revenues with growing expenses caused by inflation.

If the rate of inflation causes a rise in salaries or other expenses and the market conditions don't 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. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable.

**Item 4T. Controls and Procedures**

**(a) Management's Quarterly Report on Internal Control over Financial Reporting.**

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer/Principal Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer/Principal Accounting Officer have concluded that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer/Principal Accounting Officer, to allow for timely decisions regarding required disclosure of material information required to be disclosed in the reports that we file or submit under the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving these objectives and our Chief Executive Officer and Chief Financial Officer/Principal Accounting Officer have concluded that our disclosure controls and procedures are effective to a reasonable assurance level of achieving such objectives. However, it should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

**(b) Changes in Internal Control Over Financial Reporting.**

There were no changes in our internal control over financial reporting identified in connection with the evaluation described above during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II:**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings**

**I. MCI WorldCom Limited (Currently Operating as “Verizon Business”)**

Swiftnet Limited, the Company’s wholly-owned U.K. based subsidiary, was served with a claim on October 11, 2005 that was filed by MCI WorldCom Limited (currently operating as Verizon UK Limited) (“MCI”) in an English court for the sum of £1,640,440 (\$3,188,687) plus interest accruing at a daily rate of £401 (\$779) which at the date of claim had amounted to £92,317 (\$179,445).

MCI’s claim was for telecommunication services provided to Swiftnet. Swiftnet had been in dispute with MCI regarding amounts due to MCI for telecommunications services provided by MCI to Swiftnet. Swiftnet alleged that the disputed charges were improperly billed by MCI to its account and therefore MCI should credit Swiftnet for a certain amount of the claim. A substantial element of Swiftnet’s counterclaim for credits was based upon special rates agreed verbally by Swiftnet and MCI, which were not applied by MCI in its invoices. Swiftnet pleaded a counterclaim and that £275,574 (\$535,660) owed in relation to traffic terminated through the Xfone network in Israel should be deducted.

On March 19, 2008, the Judge handed down judgment in this dispute and awarded £1,278,942 (\$2,486,007) plus legal costs and interest in favor of MCI. Our financial statements carried the full amount Swiftnet calculated that it owed to MCI based on the data held in Swiftnet’s billing systems. The net effect of this judgment was that Swiftnet’s costs were increased by £705,645 (\$1,371,632), plus MCI’s legal costs and interest payable. This change in costs was reflected in Swiftnet and in the Company’s financial statements for 2007, and legal costs and interest were accrued for.

On April 15, 2008, MCI and Swiftnet agreed that Swiftnet would pay MCI a total of £1,679,515.71 (\$3,264,642.63) inclusive of all taxes, costs and any interest and payments due from MCI to Swiftnet for Israeli traffic, through January 31, 2008. The net effect of this agreement was a reduction to the MCI accrual which is reflected in the Company’s consolidated financial statements for the first quarter ended March 31, 2008 included elsewhere in this Quarterly Report.

**II. David Espinoza vs. NTS Communications, Inc. and Schindler Elevator Corp.**

On June 29, 2007, David Espinoza filed a personal injury suit against NTS Communications, Inc. (“NTS”), a wholly-owned U.S. based subsidiary of the Company as of February 26, 2008, and Schindler Elevator Corp., in the 237th District Court of Lubbock County, Texas. Espinoza was an employee of one of the tenants in Metro Tower, a building owned by NTS Communications. The complaint alleges that the claim arises from an incident that occurred on July 20, 2005 when Espinoza fell in an elevator at Metro Tower and sustained injuries to his knee and shoulder. Espinoza is seeking unspecified damages for personal injuries. The case was in mediation in April 2008. No settlement was reached in the mediation, and jury trial is scheduled for the week of July 21, 2008. The matter is currently being handled by NTS Communications’ insurance carrier.

**III. Nir Davison**

On July 25, 2007, the Company received notification of a claim filed on July 23, 2007 by Nir Davison with the United Kingdom Employment Tribunals, against Story Telecom Limited, at that time the Company’s majority-owned subsidiary and, as of March 25, 2008, a wholly-owned subsidiary, alleging wrongful termination of his employment as Managing Director. The claim did not seek any specific damages. On August 21, 2007, Story Telecom responded to the United Kingdom Employment Tribunal by rejecting Mr. Davison’s claim.

On March 25, 2008, the Company, Story Telecom, Inc., Story Telecom Limited, Nir Davison and Trecastle Holdings Limited, a company owned and controlled by Mr. Davison, entered into a Compromise Agreement (the "Compromise Agreement"). (Story Telecom, Inc., Story Telecom Limited, and the Company, together with their associated companies are collectively referred to in the Compromise Agreement as the Xfone Group.) Pursuant to the Compromise Agreement, the Xfone Group and Mr. Davison settled all claims which Mr. Davison had or may have had against the Xfone Group and any of their respective present or former directors, officers, shareholders, employees or workers (excluding Mr. Davison and Trecastle Holdings) arising out of Mr. Davison's employment or its termination, his status as a director of any company in the Xfone Group, his rights as a shareholder, stockholder or option holder of any company in the Xfone Group, and any other claims of whatsoever nature, howsoever and wherever arising, which he may have had, whether or not any such claims existed or were known to or contemplated by the parties or recognized by law at the date of the Compromise Agreement. Additionally, Trecastle Holdings and the Xfone Group settled any claims of whatsoever nature and wherever arising which Trecastle Holdings may have had against the Xfone Group and any of their respective present or former directors, officers, shareholders, employees or workers (excluding Mr. Davison and Trecastle Holdings) whether arising out of Trecastle Holdings' rights as a stockholder of any company in the Xfone Group, whether or not such claims existed or were known to or contemplated by the parties or recognized by law at the date of the Compromise Agreement.

As part of the settlement, Story Telecom Limited agreed to pay Mr. Davison £30,000 (\$58,314) as compensation for loss of employment, which payment was made without admission of liability. In addition, Mr. Davison filed a Withdrawal of Claim with the United Kingdom Employment on March 31, 2008.

In connection with the Compromise Agreement, Nir Davison, Trecastle Holdings and the Company entered into a Securities Purchase Agreement on the same date, pursuant to which Mr. Davison and Trecastle Holdings agreed to sell to the Company, and the Company agreed to purchase from each of Mr. Davison and Trecastle Holdings, the shares of common stock of Story Telecom, Inc. that each party owned, respectively, for an aggregate purchase price of £270,000 (\$524,826). Upon acquisition of the shares of common stock of Story Telecom from Mr. Davison and Trecastle Holdings, Story Telecom, Inc. became the Company's wholly owned subsidiary.

The Securities Purchase Agreement also contains non-competition and non-solicitation provisions, which bind Mr. Davison for a period of two years from the closing of the sale of the shares.

#### **IV. Richard C. Mixon and Onsite Guardian, LLC**

Xfone USA, Inc., the Company's wholly-owned U.S. based subsidiary, commenced a lawsuit (the "Lawsuit") on August 27, 2007, against former employee Richard Clay Mixon, a resident of Louisiana, and his company OnSite Guardian, LLC (collectively, the "Defendants"), alleging violations of the Louisiana Trade Secrets Act, LRS 51:1431 *et seq.*, and the Louisiana Unfair Trade Practices and Consumer Protection Act, LRS 51:1401 *et seq.* Mr. Mixon began his employment with Xfone USA on March 31, 2006, and he resigned from employment on June 11, 2007. The complaint alleged that the Defendants, particularly Mr. Mixon, unlawfully competed with Xfone USA and unlawfully solicited and diverted clients from Xfone USA to Mr. Mixon's competing business during the time that Mr. Mixon was employed and earning a salary as an Xfone USA employee. Further, the complaint alleged that Mr. Mixon was in possession of proprietary and confidential information that he did not return to Xfone USA upon his resignation. OnSite Guardian was a direct beneficiary of Mr. Mixon's unlawful conduct. Xfone USA sought at least \$100,000 in monetary damages from Defendants.

Defendants answered the Complaint on October 1, 2007, denying the substantive allegations in the complaint and asserting the following counterclaims against Xfone USA: 1) Breach of contract based on Xfone USA's alleged failure to pay quarterly bonuses to Mr. Mixon; 2) Detrimental Reliance; 3) Unfair Trade Practices; and 4) Invasion of Privacy. Xfone USA responded to Defendant's counterclaims on November 2, 2007, denying the substantive allegations made by Mr. Mixon.

The case was pending in federal district court in New Orleans, Louisiana. Effective as of May 1, 2008, the parties settled the Lawsuit pursuant to a certain Confidential Settlement Agreement and Mutual Release entered into between the parties. As part of the settlement, Xfone USA agreed to pay Defendants \$3,000. Additionally, pursuant to the agreement, Xfone USA agreed to secure dismissal of the Lawsuit, and the Defendants agreed to dismiss and forever discharge all claims they had or may have had against Xfone USA. The parties also mutually released the other parties from all claims of any nature known or unknown, vested or contingent, suspected or unsuspected, which such party had, may have had or may have, relating directly or indirectly to the allegations in the Lawsuit.

## **V. E.B.I. Comm, Inc.**

On January 4, 2008, E.B.I. Comm, Inc. ("EBI") filed a Complaint against the Company's wholly-owned U.S.-based subsidiary, Xfone USA, Inc. in the County Court of Lowndes County, Mississippi, alleging that Xfone USA was in default under the terms of the agreement related to the acquisition, in January 2006, of the Internet Service Provider business of E.B.I. Specifically, the complaint alleged that Xfone USA had failed to pay required consideration of \$69,215.91 related to the acquisition and demanded payment of this amount, together with pre-and post judgment interest and attorneys fees. On January 25, 2008, Xfone USA made payment to E.B.I. in the amount of \$75,000.00 as final settlement of this matter, and on January 29, 2008, E.B.I. dismissed the lawsuit with prejudice.

### **Item 1A. Risk Factors**

Not applicable.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **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**

<b>Exhibit Number</b>	<b>Description</b>
2.	Agreement and plan of reorganization dated September 20, 2000, between the Company and Swiftnet Limited. (1)
3.1	Articles of Incorporation of the Company.(1)
3.2a	Bylaws of the Company.(1)
3.2b	Amended Bylaws of the Company.(4)
3.3	Memorandum of Association of Swiftnet Limited.(1)
3.4	Articles of Association of Swiftnet Limited.(1)
3.6	Bylaws of Xfone USA, Inc.(7)
3.8.	Amended and Restated Bylaws of the Company dated March 12, 2006.(22)
3.9	Reamended and Restated Bylaws of the Company dated February 5, 2007.(32)
4.	Specimen Stock Certificate.(1)
5.	Opinion of Gersten Savage LLP. (49)
10.1	Agreement dated May 11, 2000, between Swiftnet Limited and Guy Nissenson.(1)
10.2	Employment Agreement dated January 1, 2000 with Bosmat Houston. (1)
10.3	Loan Agreement dated August 5, 2000, with Swiftnet Limited, Guy Nissenson, and Nissim Levy.(1)
10.4	Promissory Note dated September 29, 2000, between the Company and Abraham Keinan.(1)
10.5	Stock Purchase Agreement dated June 19, 2000, between Swiftnet Limited, Abraham Keinan, and Campbeltown Business Ltd. (1)
10.6	Consulting Agreement dated May 11, 2000 between Swiftnet Limited and Campbeltown Business Ltd.(1)
10.7	Agreement dated July 30, 2001, with Campbeltown Business Ltd.(1)
10.8	Contract dated June 20, 1998, with WorldCom International Ltd.(1)
10.9	Contract dated April 11, 2000, with VoiceNet Inc.(1)
10.10	Contract dated April 25, 2000, with InTouchUK.com Ltd.(1)
10.11	Letter of Understanding dated July 30, 2001, from Campbeltown Business Ltd. to the Company.(2)
10.12	Agreement dated April 6, 2000, between Adar International, Inc./Mr. Sidney J. Golub and Swiftnet Limited. (2)
10.13	Lease Agreement dated December 4, 1991, between Elmtree Investments Ltd. and Swiftnet Limited.(2)
10.14	Lease Agreement dated October 8, 2001, between Postwick Property Holdings Limited and Swiftnet Limited. (2)
10.15	Agreement dated September 30, 2002, between the Company, Swiftnet Limited., and Nir Davison.(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. (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. (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. (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. (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. (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.(6)
- 10.24 Agreement with British Telecommunications.(6)
- 10.25 Agreement with Easyair Limited (OpenAir).(6)
- 10.26 Agreement with Worldnet.(6)
- 10.27 Agreement with Portfolio PR.(6)
- 10.28 Agreement with Stern and Company.(6)
- 10.29 Letter to the Company dated December 31, 2003, from Abraham Keinan.(6)
- 10.30 Agreement between Swiftnet Limited and Dan Kirschner.(8)
- 10.31 Agreement and Plan of Merger.(7)
- 10.32 Escrow Agreement.(7)
- 10.33 Release Agreement.(7)
- 10.34 Employment Agreement date March 10, 2005, between Xfone USA, Inc. and Wade Spooner.(7)
- 10.35 Employment Agreement date March 10, 2005, between Xfone USA, Inc. and Ted Parsons.(7)
- 10.36 First Amendment to Agreement and Plan of Merger (to acquire WS Telecom, Inc.).(11)
- 10.37 Finders Agreement with The Oberon Group, LLC.(11)
- 10.38 Agreement with The Oberon Group, LLC.(11)
- 10.39 Management Agreement between WS Telecom, Inc. and Xfone USA, Inc.(8)
- 10.40 Engagement Letter to Tommy R. Ferguson, Confidentiality Agreement, and Executive Inventions Agreement dated August 19, 2004. (11)
- 10.41 Voting Agreement dated September 28, 2004.(11)
- 10.42 Novation Agreement executed September 27, 2004.(11)
- 10.43 Novation Agreement executed September 28, 2004.(11)
- 10.44 Investment Agreement dated August 26, 2004, with Ilan Shoshani.(12)
- 10.44.1 Addendum and Clarification to the Investment Agreement with Ilan Shoshani dated September 13, 2004. (12)

- 10.45 Agreement dated November 16, 2004, with Elite Financial Communications Group.(13)
- 10.46 Financial Services and Business Development Consulting Agreement dated November 18, 2004, with Dionysos Investments (1999) Ltd. (13)
- 10.47 Agreement and Plan of Merger to acquire I-55 Internet Services, Inc. dated August 18, 2005.(14)
- 10.48 Agreement and Plan of Merger to acquire I-55 Telecommunications, LLC dated August 26, 2005.(15)
- 10.49 Securities Purchase Agreement, dated September 27, 2005, by and between the Company and Laurus Master Fund, Ltd. (16)
- 10.50 Secured Convertible Term Note, dated September 27, 2005, by the Company in favor of Laurus Master Fund, Ltd.; Adjustment Provision Waiver Agreement, dated September 27, 2005, by and between the Company and Laurus Fund, Ltd. (16)
- 10.51 Common Stock Purchase Warrant, dated September 27, 2005, by the Company in favor of Laurus Master Fund, Ltd. (16)
- 10.52 Registration Rights Agreement, dated September 27, 2005, by and between the Company and Laurus Master Fund, Ltd. (16)
- 10.53 Master Security Agreement, dated September 27, 2005, by and between the Company, Xfone USA, Inc., eXpeTel Communications, Inc., Gulf Coast Utilities, Inc., and Laurus Master Fund, Ltd. (16)
- 10.54 Stock Pledge Agreement, dated September 27, 2005, by and between the Company, Xfone USA, Inc., and Laurus Master Fund, Ltd. (16)
- 10.55 Subsidiary Guarantee dated September 27, 2005, by Xfone USA, Inc., eXpeTel Communications, Inc. and Gulf Coast Utilities, Inc. in favor of Laurus Master Fund, Ltd. (16)
- 10.56 Funds Escrow Agreement, dated September 27, 2005, by and between the Company, Laurus Master Fund, Ltd. and Loeb & Loeb LLP; Disbursement Letter, dated September 27, 2005. (16)
- 10.57 Incremental Funding Side Letter, dated September 27, 2005, by and between the Company and Laurus Master Fund, Ltd. (16)
- 10.58 Securities Purchase Agreement dated September 28, 2005, by and between the Company and Crestview Capital Mater, LLC, Burlingame Equity Investors, LP, Burlingame Equity Investors II, LP, Burlingame Equity Investors (Offshore), Ltd., and Mercantile Discount - Provident Funds. (16)
- 10.59 Registration Rights Agreement, dated September 28, 2005, by and between the Company and Crestview Capital Mater, LLC, Burlingame Equity Investors, LP, Burlingame Equity Investors II, LP, Burlingame Equity Investors (Offshore), Ltd., and Mercantile Discount - Provident Funds. (16)
- 10.60 Common Stock Purchase Warrant, dated September 28, 2005, by the Company in favor of the Crestview Capital Mater, LLC, Burlingame Equity Investors, LP, Burlingame Equity Investors II, LP, Burlingame Equity Investors (Offshore), Ltd., and Mercantile Discount - Provident Funds. (16)
- 10.61 Escrow Agreement, dated September 28, 2005, by and between the Company, the Purchasers and Feldman Weinstein LLP. (16)
- 10.62 Management Agreement dated October 11, 2005.(17)
- 10.63 First Amendment to Agreement and Plan of Merger (to acquire I-55 Internet Services, Inc.), dated October 10, 2005. (17)
- 10.64 Letter Agreement with MCG Capital Corporation dated October 10, 2005.(17)
- 10.65 Securities Purchase Agreement, dated November 23, 2005, between the Company and Mercantile Discount - Provident Funds, Hadar Insurance Company Ltd., The Israeli Phoenix Assurance Company Ltd. and Gaon Gemel Ltd. (18)
- 10.66 Registration Rights Agreement, dated November 23, 2005, between the Company and Mercantile Discount - Provident Funds, Hadar Insurance Company Ltd., The Israeli Phoenix Assurance Company Ltd. and Gaon Gemel Ltd. (18)
- 10.67 Common Stock Purchase Warrant, dated November 23, 2005, by the Company in favor of Mercantile Discount - Provident Funds, Hadar Insurance Company Ltd., The Israeli Phoenix Assurance Company Ltd. and Gaon Gemel Ltd. (18)
- 10.68 Escrow Agreement, dated November 23, 2005, between the Company, the Escrow Agent, and Mercantile Discount - Provident Funds, Hadar Insurance Company Ltd., The Israeli Phoenix Assurance Company Ltd. and Gaon Gemel Ltd. (18)

- 10.69 Management Agreement with I-55 Telecommunications, LLC dated October 12, 2005.(19)
- 10.70 Agreement - General Terms and Conditions with EBI Comm, Inc., dated January 1, 2006.(21)
- 10.71 Asset Purchase Agreement with Canufly.net, Inc., dated January 10, 2006.(21)
- 10.72 Stock Purchase Agreement dated May 10, 2006, by and among the Company, Story Telecom, Inc., Story Telecom Limited, Story Telecom (Ireland) Limited, Nir Davison, and Trecastle Holdings Limited. (23)
- 10.73 Agreement dated May 25, 2006, by and among the Company and the shareholders of Equitalk.co.uk Limited. (24)
- 10.74 Securities Purchase Agreement, dated June 19, 2006, by and between the Company and the Purchasers. (25)
- 10.75 Registration Rights Agreement, dated June 19, 2006, by and between the Company and the Purchasers. (25)
- 10.76 Common Stock Purchase Warrant, dated June 19, 2006, by the Company in favor of the Purchasers.(25)
- 10.77 Escrow Agreement, dated June 19, 2006, by and between the Company, the Escrow Agent, and the Purchasers. (25)
- 10.78 Form of Indemnification Agreement between the Company and its Directors and Officers.(27)
- 10.79 Agreement to Purchase Promissory Note dated October 31, 2005, with Randall Wade James Tricou.(27)
- 10.80 Agreement to Purchase Promissory Note dated October 31, 2005, with Rene Tricou - Tricou Construction. (27)
- 10.81 Agreement to Purchase Promissory Note dated October 31, 2005, with Rene Tricou - Bon Aire Estates. (27)
- 10.82 Agreement to Purchase Promissory Note dated October 31, 2005, with Rene Tricou - Bon Aire Utility. (27)
- 10.83 Agreement to Purchase Promissory Note dated February 3, 2006, with Danny Acosta.(27)
- 10.84 Letter Agreement dated November 15, 2005, with Oberon Securities, LLC.(27)
- 10.85 Letter Agreement dated June 15, 2006, with Oberon Securities, LLC.(27)
- 10.86 Second Amendment to Agreement and Plan of Merger (to acquire WS Telecom, Inc.), dated June 28, 2006. (27)
- 10.87 General Contract for Services dated January 1, 2005, by and between the Company and Swiftnet Limited. (27)
- 10.88 Service Agreement dated December 6, 2005, by and between the Company and Elite Financial Communications Group, LLC. (27)
- 10.89 Agreement for Market Making in Securities dated July 31, 2006, by and between the Company and Excellence Nessuah Stock Exchange Services Ltd. (27)
- 10.90 Shareholders Loan Agreement, dated September 27, 2006, by and between Auracall Limited, Swiftnet Limited, and Dan Kirschner. (28)
- 10.91 Service Agreement, dated November 7, 2006, by and between the Company and Institutional Marketing Services, Inc. (28)
- 10.92 Consultancy Agreement, dated November 20, 2006, by and between the Company and Crestview Capital Partners, LLP. (29)
- 10.93 Agreement dated December 24, 2006, by and between the Company, Halman-Aldubi Provident Funds Ltd., and Halman-Aldubi Pension Funds Ltd. [translation from Hebrew]. (31)
- 10.94 First Amendment to Financial Services and Business Development Consulting Agreement dated February 8, 2007, by and between the Company and Dionysos Investments (1999) Ltd. (33)
- 10.95 Agreement dated February 8, 2007, by and between the Company, Swiftnet Limited, Campbeltown Business, Ltd., and Mr. Abraham Keinan. (33)
- 10.96 First Amendment to General Contract for Services, dated March 14, 2007, by and between the Company and Swiftnet Limited. (34)
- 10.97 Employment Agreement, dated March 28, 2007, between Swiftnet Limited and Abraham Keinan.(34)
- 10.98 Consulting Agreement, dated March 28, 2007, between the Company and Abraham Keinan. (34)
- 10.99 Employment Agreement, dated March 28, 2007, between Swiftnet Limited and Guy Nissenson.(34)
- 10.100 Consulting Agreement, dated March 28, 2007, between the Company and Guy Nissenson.(34)

- 10.101 Settlement Agreement and Release dated May 31, 2007, by and among Embarq Logistics, Inc, Xfone USA, Inc. and the Company. (35)
- 10.102 Promissory Note dated May 31, 2007, by Xfone USA, Inc.(35)
- 10.103 Parent Guarantee dated as of May 31, 2007 by the Company in favor of Embarq Logistics, Inc.(35)
- 10.104 Share Purchase Agreement dated August 15, 2007, by and between Dan Kirschner, as Seller, Swiftnet Limited, as Buyer, and Xfone, Inc. (36)
- 10.105 Inter-Company Loan Agreement dated August 15, 2007, by and between Auracall Limited, as Lender, and Swiftnet Limited, as Borrower. (36)
- 10.106 Stock Purchase Agreement dated August [20], 2007, by and among the Company, NTS Communications, Inc., and the Shareholders of NTS Communications, Inc. (37)
- 10.107 Letter of Joint Venture dated June 15, 2007, by and among the Company and NTS Holdings, Inc.(37)
- 10.107.1 Form of Free Cash Flow Participation Agreement to be Entered into between the Company and NTS Holdings, Inc. Upon Consummation of the Acquisition. (37)
- 10.107.2 Form of Employment Agreement to be entered into between NTS Communications, Inc. and Barbara Baldwin upon Consummation of the Acquisition. (37)
- 10.107.3 Form of Employment Agreement to be entered into between NTS Communications, Inc. and Jerry Hoover upon Consummation of the Acquisition. (37)
- 10.107.4 Form of Employment Agreement to be entered into between NTS Communications, Inc. and Brad Worthington upon Consummation of the Acquisition. (37)
- 10.108 Employment Contract signed on August 26, 2007, by and between the Company's Israeli based Subsidiary Xfone 018 Ltd. and Roni Haliva. (38)
- 10.109 Subscription Agreement for the Purchase of Shares of Common Stock of the Company Dated October 23, 2007. (39)
- 10.110 Subscription Agreement for the Purchase of Shares of Common Stock of the Company Dated November 1, 2007. (41)
- 10.111 Form of Subscription Agreement for the Purchase of Units Consisting of Two Shares of Common Stock and One Common Stock Purchase Warrant. (42)
- 10.112 Form of Common Stock Purchase Warrant.(42)
- 10.113 First Amendment to Stock Purchase Agreement.(43)
- 10.114.1 Employment agreement dated as of February 26, 2008, by and among NTS Communications, Inc. and Barbara Baldwin. (44)
- 10.114.2 Employment agreement dated as of February 26, 2008, by and among NTS Communications, Inc. and Jerry Hoover. (44)
- 10.114.3 Employment agreement dated as of February 26, 2008, by and among NTS Communications, Inc. and Brad Worthington .(44)
- 10.115 Free cash flow participation agreement dated as of February 26, 2008, by and among Xfone, Inc. and NTS Holdings, Inc. (44)
- 10.116 Escrow agreement dated as of February 26, 2008, by and among Xfone, Inc., Chris Chelette, Robert Healea and Kevin Buxkemper the NTS shareholders representatives, and Trustmark National Bank, as Escrow Agent. (44)
- 10.117 Release, effective as of February 26, 2008, entered into by each of Barbara Baldwin, Jerry Hoover and Brad Worthington (44)
- 10.118 Noncompetition, nondisclosure and nonsolicitation agreement dated as of February 26, 2008, by and among Xfone, Inc., Telephone Electronics Corporation, Joseph D. Fail, Chris Chelette, Robert Healea, Joey Garner, and Walter Frank. (44)
- 10.119 Second amendment to stock purchase agreement entered into by each of February 26, 2008 by and among Xfone, Inc., NTS Communications, Inc. and Chris Chelette, Robert Healea and Kevin Buxkemper, as the NTS shareholders representatives. (44)
- 10.120 Modification of Financial Consulting Agreement between Xfone, Inc. and Oberon Securities, LLC in connection with NTS Communications Transaction. (45)
- 10.121 Fees Due to Oberon Securities, LLC from Xfone, Inc. in connection with services provided in conjunction with the acquisition of NTS Communications, Inc. (45)
- 10.122 Agreement of Principles dated March 17, 2008 by and between Xfone 018 Ltd. and Tiv Taam Holdings 1 Ltd. [Free Translation from Hebrew]. (46)
- 10.123 Compromise Agreement dated March 25, 2008, between Xfone, Inc., Story Telecom, Inc., Story Telecom Limited, Trecastle Holdings Limited and Nir Davison. (47)

- 10.124 Securities Purchase Agreement dated March 25, 2008, between Xfone, Inc., Trecastle Holdings Limited and Nir Davison. (47)
- 10.125 Third Amendment to Stock Purchase Agreement entered into as of April 25, 2008 by and among Chris Chelette, Robert Healea and Kevin Buxkemper, as Sellers' Representative, NTS Communications, Inc. and Xfone, Inc. (48)
- 16.1 Letter dated January 31, 2006 from Chaifetz & Schreiber, P.C. to the Securities and Exchange Commission. (20)
- 21.1 List of Subsidiaries (Amended as of March 31, 2008) (26)
- 23 Consent of Stark Winter Schenkein & Co., LLP (49)
- 23.1 Consent of Chaifetz & Schreiber, P.C.(30) (22.1)
- 23.2 Consent of Gersten Savage LLP - incorporated in the legal opinion filed as Exhibit 5.
- 23.3 Consent of Postlethwaite & Netterville, APAC dated February 7, 2006.(21.1)
- 23.4 Consent of Postlethwaite & Netterville, APAC dated February 7, 2006.(21.1)
- 23.5 Consent of Phillips & Associates, CPA's dated April 16, 2008. (49)
- 31.1 [Certification pursuant to section 302 of the Sarbanes - Oxley Act of 2002.](#)
- 31.2 [Certification pursuant to section 302 of the Sarbanes - Oxley Act of 2002.](#)
- 32.1 [Certification of Officer pursuant to section 906 of the Sarbanes - Oxley Act of 2002.](#)
- 32.2 [Certification of Officer pursuant to section 906 of the Sarbanes - Oxley Act of 2002.](#)

- (1) Denotes previously filed exhibits: filed on August 10, 2001 with Xfone, Inc.'s SB-2 Registration Statement.
- (2) Denotes previously filed exhibits: filed on October 16, 2001 with Xfone, Inc.'s SB-2/Amendment 1 Registration Statement.
- (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 2 Registration Statement.
- (6) Denotes previously filed exhibit: filed on April 15, 2004 with Xfone's, Inc. SB-2 Amendment 1 Registration Statement.
- (7) Denotes previously filed exhibit: filed on June 1, 2004 with Xfone, Inc.'s Form 8-K.
- (8) Denotes previously filed exhibit: filed on June 7, 2004 with Xfone, Inc.'s SB-2/Amendment 2 Registration Statement.
- (9) Denotes previously filed exhibit: filed on August 11, 2004 with Xfone's, Inc. SB-2 Amendment 3 Registration Statement.
- (10) Denotes previously filed exhibit: filed on September 13, 2004 with Xfone's, Inc. SB-2 Amendment 4 Registration Statement.
- (11) Denotes previously filed exhibits: filed on October 4, 2004 with Xfone, Inc.'s Form 8-K
- (12) Denotes previously filed exhibits: filed on November 29, 2004 with Xfone, Inc.'s Form 8-K.
- (13) Denotes previously filed exhibits; filed on March 31, 2005 with Xfone, Inc.'s Form 10-KSB.
- (14) Denotes previously filed exhibit: filed on August 22, 2005 with Xfone, Inc.'s Form 8-K.
- (15) Denotes previously filed exhibit: filed on August 31, 2005 with Xfone, Inc.'s Form 8-K.
- (16) Denotes previously filed exhibits: filed on October 3, 2005 with Xfone, Inc.'s Form 8-K.
- (17) Denotes previously filed exhibits: filed on October 11, 2005 with Xfone, Inc.'s Form 8-K/A #1.
- (18) Denotes previously filed exhibits: filed on November 29, 2005 with Xfone, Inc.'s Form 8-K.

- (19) Denotes previously filed exhibit: filed on January 23, 2006 with Xfone, Inc.'s Form 8-K/A #3.
- (20) Denotes previously filed exhibit: filed on January 31, 2006 with Xfone, Inc.'s Form 8-K/A #1.
- (21) Denotes previously filed exhibit: filed on January 31, 2006 with Xfone, Inc.'s Form 8-K.
- (21.1) Denotes previously filed exhibits: filed on February 7, 2006 with Xfone, Inc.'s Form SB-2 Amendment 3.
- (22) Denotes previously filed exhibit: filed on March 15, 2006 with Xfone, Inc.'s Form 8-K.
- (22.1) Denotes previously filed exhibit: filed on March 31, 2006 with Xfone, Inc.'s Form 10-KSB.
- (23) Denotes previously filed exhibit: filed on May 16, 2006 with Xfone, Inc.'s Form 8-K.
- (24) Denotes previously filed exhibit: filed on May 30, 2006 with Xfone, Inc.'s Form 8-K.
- (25) Denotes previously filed exhibits: filed on June 20, 2006 with Xfone, Inc.'s Form 8-K.
- (26) Denotes previously filed exhibit; filed on April 15, 2008 with Xfone, Inc.'s Form 10-KSB/A.
- (27) Denotes previously filed exhibits: filed on July 31, 2006 with Xfone, Inc.'s Form 8-K.
- (28) Denotes previously filed exhibits: filed on November 14, 2006 with Xfone, Inc.'s Form 10-QSB.
- (29) Denotes previously filed exhibit: filed on November 22, 2006 with Xfone, Inc.'s Form 8-K.
- (30) Denotes previously filed exhibits: filed on November 30, 2006 with Xfone, Inc.'s Form SB-2.
- (31) Denotes previously filed exhibit: filed on December 28, 2006 with Xfone, Inc.'s Form 8-K.
- (32) Denotes previously filed exhibit: filed on February 5, 2007 with Xfone, Inc.'s Form 8-K.
- (33) Denotes previously filed exhibits: filed on February 8, 2007 with Xfone, Inc.'s Form 8-K.
- (34) Denotes previously filed exhibits; filed on March 30, 2007 with Xfone, Inc.'s Form 10-KSB.
- (35) Denotes previously filed exhibits: filed on May 31, 2007 with Xfone, Inc.'s Form 8-K.
- (36) Denotes previously filed exhibits: filed on August 15, 2007 with Xfone, Inc.'s Form 8-K.
- (37) Denotes previously filed exhibits: filed on August 22, 2007 with Xfone, Inc.'s Form 8-K.
- (38) Denotes previously filed exhibit: filed on August 27, 2007 with Xfone, Inc.'s Form 8-K.
- (39) Denotes previously filed exhibit: filed on October 23, 2007 with Xfone, Inc.'s Form 8-K.
- (40) Denotes previously filed exhibit: filed on October 25, 2007 with Xfone, Inc.'s Form 8-K.
- (41) Denotes previously filed exhibit: filed on November 5, 2007 with Xfone, Inc.'s Form 8-K.
- (42) Denotes previously filed exhibits: filed on December 14, 2007 with Xfone, Inc.'s Form 8-K.
- (43) Denotes previously filed exhibit: filed on February 14, 2008 with Xfone, Inc.'s Form 8-K.
- (44) Denotes previously filed exhibits: filed on February 26, 2008 with Xfone, Inc.'s Form 8-K.
- (45) Denotes previously filed exhibits: filed on March 6, 2008 with Xfone, Inc.'s Form 8-K.
- (46) Denotes previously filed exhibit: filed on March 17, 2008 with Xfone, Inc.'s Form 8-K.
- (47) Denotes previously filed exhibits: filed on March 25, 2008 with Xfone, Inc.'s Form 8-K.
- (48) Denotes previously filed exhibits: filed on May 1, 2008 with Xfone, Inc.'s Form 8-K.
- (49) Denotes previously filed exhibits: filed on April 18, 2008 with Xfone, Inc.'s Form S-1.

## 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.

### **XFONE, INC.**

Date: May 15, 2008

By: /s/ Guy Nissenson

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Guy Nissenson  
President, Chief Executive Officer and  
Director  
(principal executive officer)

Date: May 15, 2008

By: /s/ Niv Krikov

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Niv Krikov  
Principal Accounting Officer, Treasurer and  
Chief Financial Officer  
(principal accounting and financial officer)

Section 302 Certification  
CERTIFICATIONS

I, Guy Nissenson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

May 15, 2008

By: /s/ Guy Nissenson

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Guy Nissenson  
President, Chief Executive Officer and  
Director

Section 302 Certification  
CERTIFICATIONS

I, Niv Krikov, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

May 15, 2008

By: /s/ Niv Krikov

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Niv Krikov  
Treasurer, Chief Financial Officer  
and Principal Accounting Officer

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 Quarterly Report on Form 10-Q of Xfone, Inc. (the "Company") for the fiscal period ended March 31, 2008, 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:

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

May 15, 2008

By: /s/ Guy Nissenson

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Guy Nissenson  
President, Chief Executive Officer and  
Director

**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 Quarterly Report on Form 10-Q of Xfone, Inc. (the "Company") for the fiscal period ended March 31, 2008, 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:

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

May 15, 2008

By: /s/ Niv Krikov

\_\_\_\_\_  
Niv Krikov  
Treasurer, Chief Financial Officer  
and Principal Accounting Officer