

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

Form 10-QSB

(Mark One)

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

For the quarterly period ended July 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-50346

XTEN NETWORKS, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

20-0004161

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

8th Floor, 100 West Pender Street, Vancouver, British Columbia, Canada V6B 1R8

(Address of principal executive offices)

604.878.0440

(Issuer's telephone number)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 37,915,462 common shares issued and outstanding as of September 14, 2005.

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

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

XTEN NETWORKS, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2005

(Stated in US Dollars)

(Unaudited)

XTEN NETWORKS, INC.
INTERIM CONSOLIDATED BALANCE SHEETS
 July 31, 2005 and April 30, 2005
 (Stated in US Dollars)
(Unaudited)

<u>ASSETS</u>	July 31, <u>2005</u>	April 30, <u>2005</u>
Current		
Cash	\$ 1,094,734	\$ 1,244,906
Accounts receivable	439,148	347,163
Prepaid expenses and deposits	64,881	41,713
	1,598,763	1,633,782
Equipment	271,703	266,403
Deposits	12,947	6,510
Trademarks	2,074	1,780
	\$ 1,885,487	\$ 1,908,475
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 354,693	\$ 301,635
Advances payable – Note 6	2,000	2,000
Due to related parties – Note 5	10,684	26,130
Unearned revenue	216,400	66,400
Customer deposits	110,235	88,000
Warranty payable	64,512	58,394
	758,524	542,559
<u>STOCKHOLDERS' EQUITY</u>		
Common stock, \$0.001 par value – Notes 7, 11 and 12		
415,384,500 shares authorized		
37,915,462 shares issued (April 30, 2005: 37,915,462)	37,915	37,915
Additional paid-in capital	2,241,105	2,241,105
Contributed surplus – Note 7	235,336	162,750
Deficit	(1,345,740)	(1,035,936)
Accumulated other comprehensive loss	(41,653)	(39,918)
	1,126,963	1,365,916
	\$ 1,885,487	\$ 1,908,475

XTEN NETWORKS, INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended July 31, 2005 and 2004
(Stated in US Dollars)
(Unaudited)

	<u>2005</u>	<u>2004</u>
Revenues		
Software sales	\$ 710,678	\$ 466,651
Consulting fees	116,618	20,500
	<hr/>	<hr/>
	827,296	487,151
	<hr/>	<hr/>
Expenses		
Amortization	50,807	17,507
Bad debts	20,152	13,053
Computer expenses	1,259	1,914
Consulting fees	104,136	115,197
Foreign exchange	1,900	1,048
Licenses and permits	(30,000)	45,798
Office and miscellaneous	20,935	12,396
Professional fees	58,673	23,408
Public relations	17,529	-
Rent – Note 5	40,557	18,904
Stock based compensation	72,586	16,600
Telephone and internet	16,716	7,833
Travel and promotion	59,885	61,844
Wages, commissions and benefits – Note 5	695,253	361,264
Warranty expense	6,118	-
Write-off of trademark	594	-
	<hr/>	<hr/>
	1,137,100	696,766
	<hr/>	<hr/>
Loss from continuing operations	(309,804)	(209,615)
Income from discontinued operations		
Gain on disposal of subsidiary – Note 4	-	8,524
	<hr/>	<hr/>
Net loss for the period	(309,804)	(201,091)
Other comprehensive loss		
Foreign currency adjustments	(1,735)	(6,642)
	<hr/>	<hr/>
Comprehensive loss	\$ (311,539)	\$ (207,733)
	<hr/>	<hr/>
Basic and diluted loss per share – continuing operations	\$ (0.01)	\$ (0.01)
	<hr/>	<hr/>
Basic and diluted loss per share – discontinued operations	\$ 0.00	\$ 0.00
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Weighted average number of shares outstanding	37,915,462	37,138,462
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SEE ACCOMPANYING NOTES

XTEN NETWORKS, INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended July 31, 2005 and 2004
(Stated in US Dollars)
(Unaudited)

	<u>2005</u>	<u>2004</u>
Cash flows used in operating activities		
Net loss for the period	\$ (309,804)	\$ (201,091)
Items not involving cash:		
Amortization	50,807	17,507
Foreign currency adjustments	(1,735)	(6,642)
Gain on disposal of subsidiary	-	(8,524)
Stock based compensation	72,586	16,600
Write-off of trademark	594	-
Changes in non-cash working capital items:		
Accounts receivable	(91,985)	(294,882)
Prepaid expenses and deposits	(23,168)	(4,245)
Accounts payable and accrued liabilities	53,058	116,408
Unearned revenue	150,000	-
Customer deposits	22,235	-
Warranty payable	6,118	-
	<hr/>	<hr/>
	(71,294)	(364,869)
Cash flows from (used in) financing activities		
Advances payable	-	3,968
Decrease in due to related parties	(15,446)	(51,319)
	<hr/>	<hr/>
	(15,446)	(47,351)
Cash flows used in investing activities		
Deposits	(6,437)	-
Purchase of equipment	(56,107)	(144,620)
Trademarks	(888)	(335)
	<hr/>	<hr/>
	(63,432)	(144,955)
Decrease in cash from continuing operations	(150,172)	(557,175)
Increase in cash from discontinued operations	-	1,724
Decrease in cash during the period	(150,172)	(555,451)
Cash, beginning of the period	1,244,906	944,285
Cash, end of the period	<hr/> <u>\$ 1,094,734</u>	<hr/> <u>\$ 388,834</u>
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>
Income taxes	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>

SEE ACCOMPANYING NOTES

XTEN NETWORKS, INC.
INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY
for the period from April 30, 2004 to July 31, 2005
(Stated in US Dollars)
(Unaudited)

	Number of <u>Shares</u>	<u>Par Value</u>	Additional <u>Paid-in</u> <u>Capital</u>	Contributed <u>Surplus</u>	<u>Deficit</u>	Accumulated Other Comprehensi ve <u>Loss</u>	<u>Total</u>
Balance, April 30, 2004	37,138,462	\$37,138	\$951,895	\$-	\$(255,528)	\$-	\$733,505
Shares issued for cash on the exercise of warrants	500,000	500	999,500	-	-	-	1,000,000
- at \$2.00							
Shares issued for debt	290,000	290	289,710	-	-	-	290,000
- at \$1.00							
Shares cancelled	(13,000)	(13)	-	-	-	-	(13)
- at \$0.001							
Stock-based compensation	-	-	-	162,750	-	-	162,750
Net loss for the year	-	-	-	-	(780,408)	-	(780,408)
Other comprehensive loss for the year	-	-	-	-	-	(39,918)	(39,918)
<hr/>							
Balance, April 30, 2005	37,915,462	37,915	2,241,105	162,750	(1,035,936)	(39,918)	1,365,916
Stock-based compensation	-	-	-	72,586	-	-	72,586
Net loss for the period	-	-	-	-	(309,804)	-	(309,804)
Other comprehensive loss for the period	-	-	-	-	-	(1,735)	(1,735)
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Balance, July 31, 2005	37,915,462	\$37,915	\$2,241,105	\$235,336	\$(1,345,74	\$(41,653)	\$1,126,963

SEE ACCOMPANYING NOTES

XTEN NETWORKS, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2005
(Stated in US Dollars)
(Unaudited)

Note 1 Interim Reporting

While the information presented in the accompanying interim three months consolidated financial statements is unaudited, it includes all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with accounting principles generally accepted in the United States of America. These interim financial statements follow the same accounting policies and methods of their application as the Company's April 30, 2005 annual consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the Company's April 30, 2005 annual financial statements.

Operating results for the quarter ended July 31, 2005 are not necessarily indicative of the results that can be expected for the year ended April 30, 2006.

Note 2 Nature and Continuance of Operations

Xten Networks, Inc., (the "Company") was incorporated in the State of Nevada on April 18, 2003. The Company's common shares are quoted for trading on the Over-The-Counter Bulletin Board in the United States of America.

The Company provides Voice over Internet Protocol software and related consulting services to customers in North America, South America, Europe, Asia and other areas of the world.

These interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations and to generate sustainable significant revenue. There is no guarantee that the Company will be able to raise any equity financing or generate profitable operations. As at July 31, 2005, the Company has not yet achieved profitable operations and has generated an accumulated deficit of \$1,387,393 since incorporation. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Xten Networks, Inc.
Notes to the Interim Consolidated Financial Statements
July 31, 2005
(Stated in US Dollars)
(Unaudited) – Page 2

Note 3 Significant Accounting Policies

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results may vary from these estimates.

The interim consolidated financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

a) Basis of Presentation

These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Xten Networks R&D Inc., a company incorporated by the Company on May 10, 2004 in British Columbia, Canada and CounterPath Solutions, Inc. (formerly Ineen, Inc.), a company incorporated by the Company on March 1, 2005 in the State of Nevada. All inter-company transactions and balances have been eliminated.

b) Revenue Recognition

The Company receives revenues consisting of software sales and consulting fees. The Company recognizes revenues when persuasive evidence of an arrangement exists, the product is delivered or the services are rendered and collection is reasonably assured. A one-year warranty on software products is provided by the Company. The Company records a warranty provision in the amount of 2% of software sales, which is amortized over a 12-month term. The Company has also set up unearned revenue on software sales, which defers a portion of all software sales greater than \$10,000 to compensate for the cost of providing support services to customers. The Company recognizes this deferred revenue evenly over a twelve month period from the date of the sale. The Company will review these policies annually.

c) Stock-based Compensation

The Company has elected to apply the intrinsic value method of APB No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its stock options on options granted to employees and directors. Under APB 25, compensation expense is only recorded to the extent that the exercise price is less than the market value of the underlying stock on the measurement date, which is usually the date of grant. Stock-based compensation for employees is recognized on an accelerated basis over the vesting period of the individual options. Stock options granted to non-employees are accounted for under Statement of Financial Accounting Standards ("FAS") No. 123 "Accounting for Stock-Based Compensation" and are recognized at the fair value of the options as determined by an option pricing model as the related services are provided and the options earned. Pro forma fair value information with respect to options granted to employees and directors is disclosed in accordance with FAS 123.

Xten Networks, Inc.
Notes to the Interim Consolidated Financial Statements
July 31, 2005
(Stated in US Dollars)
(Unaudited) – Page 3

Note 3 Significant Accounting Policies – cont'd

d) Foreign Currency Translation

The Company's wholly-owned subsidiary, Xten Networks R&D Inc., translates amounts from its functional currency, Canadian dollars, to the reporting currency, United States dollars, in accordance with FAS No. 52, "Foreign Currency Translation". At each balance sheet date, recorded balances that are denominated in a currency other than US dollars are adjusted to reflect the current exchange rate which may give rise to a foreign currency translation adjustment accounted for as a separate component of stockholders' deficiency and included in comprehensive loss.

Monetary assets and liabilities are translated into the functional currency at the exchange rate in effect at the end of the period. Non-monetary assets and liabilities are translated at the exchange rate prevailing when the assets were acquired or the liabilities assumed. Revenues and expenses are translated at the rate approximating the rate of exchange on the transaction date. All exchange gains and losses are included in the determination of net loss for the year.

e) Comprehensive Loss

The Company has adopted FAS No. 130 "Reporting Comprehensive Income". Comprehensive loss is comprised of foreign currency translation adjustments.

f) New Accounting Standards

In December 2004, the Financial Accounting Standards Board issued FAS 123R "Share-Based Payment", a revision to FAS 123. FAS 123R replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the grant-date fair value of those instruments, with limited exceptions. FAS 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. For small business filers, FAS 123R will be effective for interim or annual periods beginning after December 15, 2005. Early adoption is permitted in periods in which financial statements have not yet been issued. The Company expects to adopt FAS 123R on February 1, 2006. As permitted by FAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method. Accordingly, the adoption of FAS 123R's fair value method will have a significant impact on the statement of operations, although it will have no impact on the overall financial position. The impact of adoption of FAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted FAS 123R in prior periods, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 8 to the consolidated financial statements.

Xten Networks, Inc.
Notes to the Interim Consolidated Financial Statements
July 31, 2005
(Stated in US Dollars)
(Unaudited) – Page 4

Note 4 Discontinued Operations

During the three months ended July 31, 2004, the Company disposed of its wholly owned subsidiary, Broad Scope Entertainment, Inc. (“Broad Scope”) to a former director of the Company in consideration of Broad Scope forgiving all amounts owed by the Company. Broad Scope’s business was an entertainment advertising website.

The gain on disposal was determined as follows:

Net asset deficiency of Broad Scope:

Cash	\$	6,391
Equipment		4,000
Accounts payable		(2,021)
Due to related parties		(16,894)
		<hr/>
	\$	8,524

Broad Scope had no operations from May 1, 2004 to the date of disposal. Broad Scope advanced the Company \$1,724 during the period from May 1, 2004 to the date of disposal.

Note 5 Related Party Transactions

During the three months ended July 31, 2005 and 2004, the Company was charged the following expenses by directors of the Company or by companies with directors of the Company in common:

	Three months ended July 31,	
	<u>2005</u>	<u>2004</u>
Rent	\$ 14,324	\$ 15,334
Wages, commissions and benefits	<u>102,473</u>	<u>91,821</u>
	<u>\$ 116,797</u>	<u>\$ 107,155</u>

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

The amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment. The amounts due to related parties are advances and rent due to directors of the Company and to a company with directors of the Company in common.

Xten Networks, Inc.
 Notes to the Interim Consolidated Financial Statements
 July 31, 2005
 (Stated in US Dollars)
 (Unaudited) – Page 5

Note 6 Advances Payable

Advances payable are unsecured, non-interest bearing and have no specific terms of repayment.

Note 7 Common Stock – Notes 11 and 12

During the year ended April 30, 2005:

- a) The Company issued 500,000 common shares at \$2.00 per share for cash proceeds of \$1,000,000 pursuant to the exercise of share purchase warrants.
- b) The Company issued 290,000 common shares at \$1.00 per share pursuant to a debt settlement agreement with a significant shareholder of the Company.

Commitments:

The Company has a stock-based compensation plan whereby stock options are granted in accordance with the policies of regulatory authorities at an exercise price equal to the market price of the Company's stock on the date of the grant. A summary of the status of the plan is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, April 30, 2004	-	-
Granted – Employees ⁽¹⁾	800,000	\$1.50
Cancelled – Employees ⁽¹⁾	(125,000)	\$1.50
Granted – Consultants ⁽²⁾	100,000	\$1.87
Granted – Employees ⁽³⁾	350,000	\$1.80
Cancelled – Employees ⁽³⁾	(350,000)	\$1.80
Granted – Consultants ⁽⁴⁾	150,000	\$1.58
Granted – Employees ⁽⁵⁾	900,000	\$1.58
Cancelled – Employees ⁽⁵⁾	(300,000)	\$1.58
Granted – Employees ⁽⁶⁾	495,000	\$1.06
Cancelled – Employees ⁽⁶⁾	(50,000)	\$1.06
Granted – Employees ⁽⁷⁾	60,000	\$1.15
Granted – Employees ⁽⁸⁾	115,000	\$1.10
Granted – Employees ⁽⁹⁾	380,000	\$1.06
Granted – Consultants ⁽¹⁰⁾	175,000	\$1.17
Granted – Employees ⁽¹¹⁾	20,000	\$1.18
Granted – Consultants ⁽¹²⁾	150,000	\$1.07
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Balance, April 30, 2005	2,870,000	\$1.34

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Xten Networks, Inc.
 Notes to the Interim Consolidated Financial Statements
 July 31, 2005
 (Stated in US Dollars)
 (Unaudited) – Page 6

Note 7 Common Stock – Notes 11 and 12 – (cont'd)

Commitments: – (cont'd)

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, April 30, 2005	2,870,000	\$1.34
Granted – Employees ⁽¹³⁾	1,082,659	\$0.70
Granted – Consultants ⁽¹⁴⁾	33,333	\$0.70
Granted – Employees ⁽¹⁵⁾	500,000	\$0.72
Granted – Consultants ⁽¹⁶⁾	75,000	\$0.67
Granted – Employees ⁽¹⁷⁾	1,500,000	\$0.74
	<hr/>	<hr/>
Balance, June 31, 2005	6,060,992	\$1.01
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- (1) At July 31, 2005, there were 675,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$1.50 per share. These options expire on May 31, 2009.

These share purchase options vest over four years with 25% of the options vesting on May 31, 2005 and the remaining 75% vesting 1/36th each month until May 31, 2008.

- (2) At July 31, 2005, there were 100,000 consultants share purchase options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$1.87 per share. These options expire on July 21, 2009.

At July 31, 2005, 60,000 of these share purchase options have vested with the balance vesting as follows: 20,000 on December 31, 2005 and 20,000 on June 30, 2006. The Company has recorded a stock-based compensation charge of \$52,567 in respect to these options.

- (3) At January 31, 2005, there were 350,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$1.80 per share. These options were cancelled during the three months ended April 30, 2005.

- (4) At July 31, 2005, there were 150,000 consultants share purchase options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$1.58 per share. These options expire on October 24, 2009.

At July 31, 2005, 75,000 of these share purchase options have vested with the balance vesting as follows: 15,000 on September 30, 2005, 15,000 on December 31, 2005, 15,000 on March 31, 2006, 15,000 on June 30, 2006, and 15,000 on September 30, 2006. The Company has recorded a stock-based compensation charge of \$67,200 in respect to these options.

Xten Networks, Inc.
Notes to the Interim Consolidated Financial Statements
July 31, 2005
(Stated in US Dollars)
(Unaudited) – Page 7

Note 7 Common Stock – Notes 11 and 12 – (cont'd)

Commitments: – (cont'd)

- (5) At July 31, 2005, there were 600,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$1.58 per share. These options expire on October 26, 2009.

These share purchase options vest over four years with 25% of the options vesting on October 26, 2005 and the remaining 75% vesting 1/36th each month until October 26, 2008.

- (6) At July 31, 2005, there were 445,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$1.06 per share. These options expire on December 31, 2009.

These share purchase options vest over four years with 25% of the options vesting on December 31, 2005 and the remaining 75% vesting 1/36th each month until December 31, 2008.

- (7) At July 31, 2005, there were 60,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$1.15 per share. These options expire on January 13, 2010.

These share purchase options vest over four years with 25% of the options vesting on January 13, 2006 and the remaining 75% vesting 1/36th each month until January 13, 2009.

- (8) At July 31, 2005, there were 115,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$1.10 per share. These options expire on January 31, 2010.

These share purchase options vest over four years with 25% of the options vesting on January 31, 2006 and the remaining 75% vesting 1/36th each month until January 31, 2009.

- (9) At July 31, 2005, there were 380,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$1.06 per share. These options expire on February 7, 2010.

These share purchase options vest over four years with 25% of the options vesting on February 7, 2006 and the remaining 75% vesting 1/36th each month until February 7, 2009.

- (10) At July 31, 2005, there were 175,000 consultants share purchase options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$1.17 per share. These options expire on February 28, 2010.

Xten Networks, Inc.
Notes to the Interim Consolidated Financial Statements
July 31, 2005
(Stated in US Dollars)
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Note 7 Common Stock – Notes 11 and 12 – (cont'd)

Commitments: – (cont'd)

⁽¹⁰⁾ At July 31, 2005, 70,000 of these share purchase options had vested with the balance vesting as follows: 17,500 on September 30, 2005, 17,500 on December 31, 2005, 17,500 on March 31, 2006, 17,500 on June 30, 2006, 17,500 on September 30, 2006 and 17,500 on December 31, 2006. The Company has recorded a stock-based compensation charge of \$50,808 in respect to these options.

⁽¹¹⁾ At July 31, 2005, there were 20,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$1.18 per share. These options expire on March 18, 2010.

These share purchase options vest over four years with 25% of the options vesting on March 18, 2006 and the remaining 75% vesting 1/36th each month until March 18, 2009.

⁽¹²⁾ At July 31, 2005, there were 150,000 consultants share purchase options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$1.07 per share. These options expire on March 29, 2010.

At July 31, 2005, 45,000 of these share purchase options had vested with the balance vesting as follows: 15,000 on August 31, 2005, 15,000 on November 30, 2005, 15,000 on February 28, 2006, 15,000 on May 31, 2006, 15,000 on August 31, 2006, 15,000 on November 30, 2006 and 15,000 on February 28, 2007. The Company has recorded a stock-based compensation charge of \$34,100 in respect to these options.

⁽¹³⁾ At July 31, 2005, there were 1,082,659 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$0.70 per share. These options expire on May 12, 2010.

These share purchase options vest over four years with 25% of the options vesting on May 12, 2006 and the remaining 75% vesting 1/36th each month until May 12, 2009.

⁽¹⁴⁾ At July 31, 2005, there were 33,333 consultants share purchase options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$0.70 per share. These options expire on May 12, 2010.

These share purchase options vest over four years with 25% of the options vesting on May 12, 2006 and the remaining 75% vesting 1/36th each month until May 12, 2009. The Company has recorded a stock-based compensation charge of \$736 in respect to these options.

Xten Networks, Inc.
 Notes to the Interim Consolidated Financial Statements
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 (Unaudited) – Page 9

Note 7 Common Stock – Notes 11 and 12 – (cont'd)

Commitments: – (cont'd)

(15) At July 31, 2005, there were 500,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$0.72 per share. These options expire on June 1, 2010.

These share purchase options vest over four years with 25% of the options vesting on June 1, 2006 and the remaining 75% vesting 1/36th each month until June 1, 2009.

(16) At July 31, 2005, there were 75,000 consultants share purchase options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$0.67 per share. These options expire on June 13, 2010.

These share purchase options vested 50,000 on June 13, 2005 and 25,000 on July 1, 2005. The Company has recorded a stock-based compensation charge of \$33,525 in respect to these options.

(17) At July 31, 2005, there were 1,500,000 employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$0.74 per share. These options expire on June 16, 2010.

These share purchase options vest over four years with 25% of the options vesting on June 16, 2006 and the remaining 75% vesting 1/36th each month until June 16, 2009.

The Company does not record compensation expense on granting of stock options to employees. Disclosure of pro forma loss and loss per share figures had the Company elected to follow the fair value method for employees for the three months ended July 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Comprehensive loss for the period as reported	\$(311,539)	\$(207,733)
Stock-based compensation	<u>(126,823)</u>	<u>(22,000)</u>
Pro forma loss for the period	<u>\$(438,362)</u>	<u>\$(229,733)</u>
Pro forma basic and diluted loss per share	<u>\$(0.01)</u>	<u>\$(0.01)</u>

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Note 7 Common Stock – Notes 11 and 12 – (cont'd)

Commitments: – (cont'd)

The fair value of the share purchase options outstanding at July 31, 2005 and April 30, 2005 was determined using the Company's historical stock prices and the Black-Scholes option pricing model with the following assumptions:

	July 31, <u>2005</u>	April 30, <u>2005</u>
Risk free rate	2.5%	2.0%
Dividend yield	0%	0%
Weighted average expected volatility	64.6%	58.3%
Weighted average expected option life	5 yrs	5 yrs
Weighted average fair value	\$ 0.55	\$ 0.68
Total options outstanding	6,060,992	2,870,000
Total fair value of options outstanding	\$ 3,326,956	\$ 1,943,750

Note 8 Contingencies

- a) During the year ended April 30, 2004, the Company sold software to a customer for \$41,295. The customer filed a misrepresentation claim against the Company in the amount of Cdn\$10,000 (US\$8,169). On August 11, 2004, the parties in the above noted action participated in a settlement conference before the British Columbia Small Claims Court. During that settlement conference, the parties came to an agreement to settle the dispute. The Company has entered into a settlement agreement with JP Tech pursuant to which JP Tech has agreed to release the Company and settle all claims relating to the agreement and dismiss the lawsuit on a without costs basis. The Company is in the process of finalizing the exchange of documents pursuant to the terms of the settlement agreement and has agreed to pay to JP Tech Cdn\$6,000 (US\$4,902) upon receipt by the Company of a full release.
- b) During the year ended April 30, 2004, the Company sold software to a customer for \$64,400. The customer paid \$34,400 against the purchase price, with the remaining balance of \$30,000 to be paid in monthly installments, each installment being \$10,000. The customer did not pay the installments and on March 2, 2004, the customer filed a claim for \$34,400. Management of the Company believes that the claim is without foundation or merit. The Company has written off the unpaid balance of \$30,000.

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Note 8 Contingencies – (cont'd)

- c) On February 14, 2005, the Company received correspondence from Xtend Communications Corporation (“XCC”) alleging that the Company’s use of the trademark “XTEN” infringes upon XCC’s registered trademarks. XCC, through counsel, has demanded that the Company cease all use, promotion or advertisement of any trademarks it deems to be confusingly similar to XCC’s registered trademarks, including the use of the “XTEN” trademark. On June 29, 2005, the Company entered into a settlement agreement and release whereby the Company agreed to cease using the “XTEN” trademark by September 29, 2005 in consideration of XCC ceasing its lawsuit and releasing the Company from any further claims.

Note 9 Segmented Information

Revenues by geographic segment are as follows:

	Three months ended July 31,	
	<u>2005</u>	<u>2004</u>
North America	\$709,012	\$106,313
South America	6,085	-
Europe	73,497	325,345
Asia	38,445	23,000
Other	257	32,493
	<hr/> \$827,296	<hr/> \$487,151

During the three months ended July 31, 2004, one customer accounted for 61.5% of revenues.

During the three months ended July 31, 2005, two customers accounted for 57.3 % of revenues.

Note 10 Lease Commitments

The Company has entered into leases for premises which expire December 31, 2006 and require the following minimum payments for the periods ended:

July 31, 2006	\$ 159,088
December 31, 2006	<hr/> 66,287
	<hr/> \$ 225,375

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Note 11 Employment Contract

On June 16, 2005, the Company entered into an employment contract with the President of the Company to pay him an annual salary of CDN\$225,000 (US\$183,809). The Company also agreed to make certain severance payments should the Company terminate his employment without just cause ranging from CDN\$37,500 (US\$30,635) and increasing to CDN\$450,000 (US\$367,617) after 24 months. On September 7, 2005, the President resigned and the Company agreed to pay severance in accordance with the terms of the employment contract. In addition, 1,500,000 (Note 7⁽¹⁷⁾) employee share purchase options were cancelled.

Note 12 Subsequent Events

- (1) On August 15, 2005, 30,000 (Note 7⁽¹³⁾) employee share purchase options were cancelled.
- (2) On August 29, 2005, the Company entered into an employment contract with the Chief Technology Officer of the Company to pay him an annual salary of CDN\$180,000 (US\$147,047). The Company also agreed to make certain severance payments should the Company terminate his employment without just cause ranging from CDN\$30,000 (US\$24,508) and increasing to CDN\$90,000 (US\$73,523) after 24 months.

In addition, the Company granted 1,200,000 employee share purchase options entitling the Chief Technology Officer of the Company the right to purchase one common share for each option held at \$0.61 per share. These options expire on August 29, 2015.

These share purchase options vest over four years with 12.5% of the options vesting on March 31, 2006 and the remaining 87.5% vesting 1/42nd each month until September 30, 2009.

- (3) On August 31, 2005, 30,000 (Note 7⁽¹³⁾) employee share purchase options were cancelled.
- (4) On September 7, 2005, the Company granted 510,000 employee share purchase options entitling the holders thereof the right to purchase one common share for each option held at \$0.61 per share. These options expire on September 7, 2010.

These share purchase options vest over four years with 25% of the options vesting on September 7, 2006 and the remaining 75% vesting 1/36th each month until September 7, 2009.

- (5) On September 12, 2005, the Company granted 50,000 consultants share purchase options entitling the holder thereof the right to purchase one common share for each option held at \$0.61 per share. These options expire on September 12, 2010.

These share purchase options vest over four years, 1/48th each month until September 12, 2009.

Item 2. Management's Discussion and Analysis and Plan of Operation.

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to "common shares" refer to our shares of common stock.

As used in this quarterly report, the terms "we", "us" and "our" mean Xten Networks, Inc., unless otherwise indicated.

Overview of Corporate History

We were incorporated under the laws of the State of Nevada on April 18, 2003. Until we acquired, by way of a merger, all of the shares of Xten Networks, a private Nevada company, the previous management, who resigned and were replaced as a result of the merger, were focused on operating an entertainment advertising website.

Effective April 30, 2004, we acquired, by way of a merger, all of the shares of Xten Networks, a private Nevada company. Xten Networks was incorporated under the laws of the State of Nevada on October 28, 2002. As a result of the merger, we acquired all of the 9,000,000 issued and outstanding shares in Xten Networks in exchange for agreeing to issue 18,000,000 shares of our common stock to the stockholders of Xten Networks. The stockholders of Xten Networks were entitled to receive two shares of our common stock for each one share of Xten Networks.

Business of Xten Networks

We design, develop and market software, based upon session initiation protocol (SIP), which is used to make or receive phone calls from a computer (or softphone) running the Windows 2000, Windows XP, Mac OS X or Linux operating systems, or a personal digital assistant (PDA) running the Windows Mobile Pocket PC operating system. Using our software, in conjunction with an internet protocol (IP) telephony service, based upon session initiation protocol (SIP), people can make and receive calls to or from a telephone to any of these devices (personal computers and personal digital assistants).

We are a provider of high-quality session initiation protocol (SIP) software for IP telephony (otherwise known as Voice-over-IP or VoIP), which is a general term for the technologies that use the internet protocol's packet-switched connections to exchange voice, video, text, fax, and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network (PSTN). Using the internet, calls travel as packets of data on shared lines, avoiding the tolls of the public switched telephone network (PSTN).

On September 13, 2004, we launched version 1.0 of our fourth and most recent IP telephony product, eyeBeam, a video session initiation protocol (SIP) softphone. eyeBeam supports open standards video utilizing session initiation protocol (SIP) and the H.263 video codec, which supports video transmissions that are television-like in their quality. This enables service providers to easily deliver high-quality videoconferencing via IP to their customers. The eyeBeam feature set includes an array of robust session initiation protocol (SIP) telephony features offered in our award-winning X-PRO SIP softphone, including call transfer/forward, caller identification, and 10-point conferencing. eyeBeam enhances this feature set with the addition of acoustic echo cancellation, voice activity detection, adaptive jitter buffer and message waiting indicator. eyeBeam is also available as a software development kit that includes the following low-level APIs (application programming interfaces): Audio, Video, HTTP, STUN, SIP Stack, SIP Call Control, SDP, RTP, ICE and DNS. On December 24, 2004, we launched version 1.1 of eyeBeam, which added instant messaging (IM) and presence support.

Three months Ended July 31, 2005 Compared to Three Months Ended July 31, 2004

The following presentation and discussion relates to the consolidated operations of Xten Networks, Inc. (formerly Broad Scope Enterprises, Inc.) for the three months ended July 31, 2005.

	Three months ended July 31, 2005	Three months ended July 31, 2004
Sales	\$827,296	\$487,151
Administration and Other	\$129,038	\$118,453
Consulting and Professional Fees and Wages	\$930,648	\$516,469
Public Relations	\$17,529	\$Nil
Travel and Promotion	\$59,885	\$61,844

Our operating activities during this period consisted primarily of selling our IP telephony software to telephone companies and IP telephony service providers, which provide IP telephony services to end users, and the continued development of our IP telephony software products.

For the three months ended July 31, 2005, we generated \$827,296 in revenue compared to \$487,151 for the three months ended July 31, 2004. This represents an increase of \$340,145 or 69.8% increase from the same period last year.

For the three months ended July 31, 2005, we generated \$710,678 in software sales revenue compared to \$466,651 for the three months ended July 31, 2004. This is an increase of \$244,027 or 52.3% from the same period last year. The significant increase in software sales revenue consisted of fees paid to us by numerous small and medium sized IP telephony service providers. Two customers accounted for 57.3% of our revenues for the three months ended July 31, 2005. One customer accounted for 61.5% of our revenues for the three months ended July 31, 2004.

For the three months ended July 31, 2005, we generated \$116,618 in consulting fees revenue compared to \$20,500 for the three months ended July 31, 2004. This is an increase of \$96,118 or 468.9% from the same period last year. The significant increase in consulting fees revenue is due to the fact that during the period in 2005, there was a significant increase in software sales, which directly affected consulting fees. Xten has also focused its efforts on developing a professional services department which has resulted in a significant revenue increase in consulting revenue.

Total expenses for the three months ended July 31, 2005 were \$1,137,100 compared to \$696,766 for the previous three months ended July 31, 2004.

Administration and other fees for the three months ended July 31, 2005 were \$129,038 compared to \$118,453 for the three months ended July 31, 2004. This is an increase of \$10,585 or 8.9% from the same period last year. The marginal increase in general and administration expenses was primarily due to the cost associated with the addition

of engineering staff required for research and development related to the ongoing development of our IP telephony software products and the addition of administrative staff required to administer the larger organization.

Consulting fees, professional fees, wages, commissions and benefits for the three months ended July 31, 2005 were \$930,648 compared to \$516,469 for the three months ended July 31, 2004. This is an increase of \$414,179 or 80.2% from the same period last year. These expenses represented the majority of our cash expenses and the significant increase in consulting fees, professional fees, wages, commissions and benefits' expenses was primarily due to the addition of engineering staff required for research and development related to the ongoing development of our IP telephony software products and commissions which are paid to both the sales and development teams with respect to sales of our IP telephony software products.

Public relations' expenses for the three months ended July 31, 2005 were \$17,529 compared to \$Nil for the three months ended July 31, 2004. This is an increase of \$17,529 from the previous year. This increase was due to our increased public relations activities.

Travel and promotion expenses for the three months ended July 31, 2005 were \$59,885 compared to \$61,844 for the three months ended July 31, 2004. This is a decrease of \$1,959 or 3.2% from the same period last year. The decrease in travel and promotion expense was due primarily to a more cost conscience approach to travel expenses and a more selective scheduling of pre-sales activities, and our active participation in industry tradeshows.

Liquidity and Capital Resources

As of July 31, 2005, we had \$1,094,734 in cash and cash equivalents compared to \$1,244,906 at April 30, 2005. This represents a decrease of \$150,172 or 12.1%. The Company had a working capital surplus of \$840,239 at July 31, 2005, compared to a surplus of \$1,091,223 at April 30, 2005. This represents a decrease of \$250,984 or 23.0%.

Operating Activities

Our operating activities resulted in net cash outflows of \$71,294 for the three months ended July 31, 2005. This compares with a net outflow of \$364,869 for the same period last year. This represents a \$293,575 or 80.5% decrease in the use of cash compared to the same period last year. The operating cash outflows for the three month period ended July 31, 2005 resulted from a net loss of \$309,804 with adjustments for non-cash expenses and changes in working capital balances.

Investing Activities

Investing activities resulted in net cash outflows of \$63,432 for the three months ended July 31, 2005. This compares with a net outflow of \$144,955 for the same period last year. This represents a \$81,523 or 56.2% decrease in the use of cash compared to the same period last year. During the three months ended July 31, 2005, we spent \$56,107 on property and equipment purchased during the period. This compares to equipment purchases of \$144,620 for the same period last year. At July 31, 2005, we did not have any material commitments for future capital expenditures.

Financing Activities

Financing activities resulted in net cash outflow of \$15,446 for the three months ended July 31, 2005, compared to net cash outflows of \$144,955 for the same period last year.

New Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (FASB) finalized Financial Accounting Standards (FAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". FAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between FAS 146 and EITF 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal

activity. FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost, as defined in EITF 94-3, was recognized at the date of an entity's commitment to an exit plan. A fundamental conclusion reached by the Board in this Statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. Therefore, FAS 146 eliminates the definition and requirements for recognition of exit costs in EITF 94-3. FAS 146 also establishes that fair value is the objective for initial measurement of the liability. The adoption of FAS 146 is not expected to have a material impact on our financial position and results of operations. FAS 146 is effective for exit and disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123". FAS 148 amends FAS 123, "Accounting for Stock Based Compensation" and provides alternative methods for accounting for a change by registrants to the fair value method of accounting for stock-based compensation. Additionally, FAS 148 amends the disclosure requirements of FAS 123 to require disclosure in the significant accounting policy footnote of both annual and interim financial statements of the method of accounting for stock-based compensation and the related pro-forma disclosures when the intrinsic value method continues to be used. FAS 148 is effective for fiscal years beginning after December 15, 2002, and disclosures are effective for the first fiscal quarter beginning after December 15, 2002.

In November 2002, the FASB issued FAS Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees and Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Recession of FASB Interpretation No. 34". FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. It also incorporates, without change, the guidance in FAS Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," which is being superseded. The disclosure provisions of FIN No. 45 are effective for financial statements of interim or annual periods that end after December 15, 2003 and the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2003 irrespective of a guarantor's year-end. We do not expect the adoption of FIN No. 45 to have a material impact on our results of operations or financial position.

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." FAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. FAS 150 is effective for financial instruments entered into or modified after March 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 except for mandatory redeemable financial instruments of nonpublic entities. We do not expect that the adoption of this standard will have a material effect on our financial position or results of operations.

In January 2003, the FASB issued FAS Interpretation No. 46, "Consolidation of Variable Interest Entities". The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure variable interest entity were established. As of June 30, 2004, we do not expect that the adoption of this standard will have a material effect on our financial position or results of operations.

In December 2004, the FASB issued FAS 123R "Share-Based Payment", a revision to FAS 123. FAS 123R replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of

employee services received in exchange for equity instruments, based on the grant-date fair value of those instruments, with limited exceptions. FAS 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. For small business filers, FAS 123R will be effective for interim or annual periods beginning after December 15, 2005. Early adoption is permitted in periods in which financial statements have not yet been issued. We expect to adopt FAS 123R on February 1, 2006. As permitted by FAS 123, we currently account for share-based payments to employees using APB 25's intrinsic value method. Accordingly, the adoption of FAS 123R's fair value method will have a significant impact on our statement of operations, although it will have no impact on our overall financial position. The impact of adoption of FAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted FAS 123R in prior periods, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 8 to our consolidated financial statements.

The adoption of these new pronouncements is not expected to have a material effect on our financial position or results of operations.

Application of Critical Accounting Policies

Website Development Costs

We recognize the costs associated with developing a website in accordance with the American Institute of Certified Public Accountants Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Relating to website development costs, the company follows the guidance pursuant to EITF No. 00-2, "Accounting for Website Development Costs".

Costs associated with the website consist primarily of software purchased from a third party. These capitalized costs are amortized based on their estimated useful life over three years. Payroll and related costs are not capitalized, as the amounts principally relate to maintenance. Internal costs related to the development of website content are expensed as incurred.

Impairment of Long-lived Assets

In accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. We recognize impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

Foreign Currency Translation

Our functional and reporting currency is the United States of America dollar. These consolidated financial statements are remeasured to United States dollars in accordance with FAS No. 52, "Foreign Currency Translation". Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date and capital accounts are translated at historical rates. Income statement accounts are translated at the average rates of exchange prevailing during the year and are included in the comprehensive income account in stockholders' equity, if applicable. Gains and losses arising on remeasurement or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in Canadian dollars. We have not, to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Financial Instruments

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, advances payable and due to related parties approximate fair value due to the short maturity of these instruments. Unless otherwise noted, it is management's opinion that our company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Revenue Recognition

We receive revenues consisting of software sales and consulting fees. We recognize revenues when persuasive evidence of an arrangement exists, the product is delivered or the services are rendered and collection is reasonably assured. We provide a one year warranty on software products. Management has set up a warranty provision in the amount of 2% of software sales, which is amortized over a 12-month term. Management has also set up deferred revenue on software sales, which defers a portion of all software sales greater than \$10,000 to compensate for the cost of providing support services to customers. We recognize this deferred revenue evenly over a twelve-month period from the date of the sale. We will review these policies annually.

Stock-Based Compensation

We have elected to apply the intrinsic value method of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock options on options granted to employees and directors. Under APB 25, compensation expense is only recorded to the extent that the exercise price is less than the market value of the underlying stock on the measurement date, which is usually the date of grant. Stock-based compensation for employees is recognized on an accelerated basis over the vesting period of the individual options. Stock options granted to non-employees are accounted for under FAS No. 123 "Accounting for Stock-Based Compensation" and are recognized at the fair value of the options as determined by an option pricing model as the related services are provided and the options earned. Pro forma fair value information with respect to options granted to employees and directors is disclosed in accordance with FAS 123.

RISK FACTORS

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward looking statements". Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumption or other future performance suggested herein.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward looking statements".

Our new business operations will be subject to a number of risks and uncertainties, including those set forth below:

We will require significant additional financing, the availability of which cannot be assured.

Since inception, our company has had negative cash flows from operations. Our business plan calls for continued development of our products, increased marketing and promotional activities and expanding our position in the market. We may require additional financing to finance working capital and pay for operating expenses and capital requirements until we achieve a positive cash flow. However, there is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that:

- we incur unexpected costs in completing the development of our current and new software or encounter any unexpected technical or other difficulties;
- we incur delays and additional expenses as a result of technology failure;
- we are unable to create a substantial market for our products; or
- we incur any significant unanticipated expenses.

The occurrence of any of the aforementioned events could adversely affect our ability to meet our proposed business plans.

We do not have any arrangements for financing. We will depend on a mix of revenues and outside capital to pay for the continued development of our technology and the marketing of our products. Such outside capital may include the sale of additional stock and/or commercial borrowing. There can be no assurance that capital will continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to us. The issuance of additional equity securities by us would result in a dilution, possibly a significant dilution, in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, our business and future success may be adversely affected.

A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If the stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

If we issue additional shares of common stock in the future this may result in dilution to our existing stockholders.

We are authorized to issue 415,384,500 shares of common stock. Our board of directors have the authority to issue additional shares of common stock up to the authorized capital stated in the certificate of incorporation. Our board of directors may choose to issue some or all of such shares to acquire one or more businesses or to provide additional financing in the future. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares, such issuance also will cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change of control of our corporation.

We face larger and better-financed competitors, which may affect our ability to operate our business and achieve profitability.

Management is aware of similar products which do compete directly with our products and some of the companies developing these similar products are larger, better-financed companies and may develop products superior to those of our company. Such competition will potentially affect our chances of achieving profitability, and may ultimately adversely affect our ability to continue as a going concern.

If a market for our shares of common stock does not develop, stockholders may be unable to sell their shares.

There is currently a limited market for our shares of common stock, which trades on the OTCBB. Trading of stock on the OTCBB is frequently thin and highly volatile. There is no assurance that a market will develop in the stock after the corporate reorganization, in which case it will be difficult for stockholders to sell their stock.

Penny stock rules will limit the ability of our stockholders to sell their shares of common stock.

The Securities and Exchange Commission has adopted regulations which generally define “penny stock” to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors”. The term “accredited investor” refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Securities and

Exchange Commission which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

National Association of Securities Dealers Inc. sales practice requirements may also limit a stockholder's ability to buy and sell our stock.

In addition to the "penny stock" rules described above, the National Association of Securities Dealers Inc. (NASD) has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the NASD believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for its shares.

All of our directors and officers are currently located outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or some of our directors or officers.

All of our directors and officers are currently nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal securities laws against some of our directors or officers.

We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.

Our success and ability to compete depends to a significant degree on our proprietary technology incorporated in our software. Other than registering the domain names www.xten.com, www.xten.net, www.sipindex.com, www.voipmobility.com, www.xtunnels.org, www.videoblog.com, www.videoblog.net and www.videoblog.info, and applying to register the trademark EYEBEAM™, we have not taken any action to protect our proprietary technology. If any of our competitors copies or otherwise gains access to our proprietary technology or develops similar technologies independently, we would not be able to compete as effectively. We also consider our service marks, particularly our family of unregistered trademarks including EYEBEAM, X-PRO, X-Lite, X-Web, X-Tunnels, X-Look, X-Cipher and X.NET, invaluable to our ability to continue to develop and maintain the goodwill and recognition associated with our brand. The measures we take to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights.

On June 29, 2005, we entered into a settlement agreement and release whereby we agreed to cease using the XTEN trademark by September 29, 2005 in consideration of Xtend Communications Corporation ceasing its lawsuit and releasing us from any further claims. We, in contemplation of this change, have developed a brand and identity

consistent with our strategy, product and customers. We believe that this identity will better reflect the business of our company and allow us to continue to differentiate ourselves in the industry, providing additional momentum as we further roll out our business plan. We will launch this identity on or before September 29, 2005.

We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding any rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our website or other of our technologies.

Our products may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.

Our industry is characterized by rapid changes in technology and customer demands. As a result, our products may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new products and enhance our current products on a timely and cost-effective basis. Further, our products must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, we may not be able to adapt new or enhanced services to emerging industry standards, and our new products may not be favourably received.

Unless we can establish significant sales of our current products, our potential revenues may be significantly reduced.

We expect that a substantial portion, if not all, of our future revenue will be derived from the sale of our software products. We expect that these product offerings and their extensions and derivatives will account for a majority, if not all, of our revenue for the foreseeable future. Broad market acceptance of our VoIP and IP Telephony products is, therefore, critical to our future success and our ability to continue to generate revenues. Failure to achieve broad market acceptance of our software products, as a result of competition, technological change, or otherwise, would significantly harm our business. Our future financial performance will depend primarily on the continued market acceptance of our current software product offerings, and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that we will be successful in marketing our current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm our business.

Item 3. Controls and Procedures.

As required by Rule 13a-15 under the Exchange Act, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the period covered by this quarterly report, being July 31, 2005. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's president. Based upon that evaluation, our company's president concluded that our company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no significant changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's president as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On February 14, 2005, we received correspondence from Xtend Communications Corporation alleging that our use of our XTEN trademark infringes upon its registered trademarks. Xtend demanded that we cease all use, promotion, or advertisement of any marks it deems to be confusingly similar to Xtend's registered trademarks, including our use of the XTEN mark. On April 18, 2005, Xtend commenced a lawsuit in the United States District Court for Southern District of New York (Civil Number 05CV3930 (SHS)) alleging that our trademark infringed upon Xtend's registered trademarks. On June 29, 2005, we entered into a settlement agreement and release whereby we agreed to cease using the XTEN trademark by September 29, 2005 in consideration of Xtend ceasing its lawsuit and releasing us from any further claims. We, in contemplation of this change, have developed a brand and identity consistent with our strategy, product and customers. We believe that this identity will better reflect the business of our company and allow us to continue to differentiate ourselves in the industry, providing additional momentum as we further roll out our business plan. We will launch this identity on or before September 29, 2005.

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

The following table discloses securities of our company that have been repurchased by our company during the quarter ended July 31, 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
May 1 – 31, 2005	13,000 ⁽¹⁾	\$0.001	N/A	N/A

(1) On May 12, 2005, we entered into a share repurchase agreement with Marty Hofmeister, one of our employees, for the repurchase of 13,000 common shares of our company for a total purchase price of US\$13.

On May 12, 2005, we granted stock options to certain employees and a consultant for the option to purchase an aggregate of 1,115,992 shares of our common stock at an exercise price of \$0.70 per share, exercisable until May 12, 2010. The stock options are subject to vesting provisions as set forth in the stock option agreements dated May 12, 2005. We issued the stock options to non U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933) in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

On June 1, 2005, we granted stock options to an employee for the option to purchase an aggregate of 500,000 shares of our common stock at an exercise price of \$0.72 per share, exercisable until June 1, 2010. The stock options are subject to vesting provisions as set forth in the stock option agreement dated June 1, 2005. We issued the stock options to a non U.S. person (as that term is defined in Regulation S of the Securities Act of 1933) in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

On June 13, 2005, we granted stock options to a consultant for the option to purchase an aggregate of 75,000 shares of our common stock at an exercise price of \$0.67 per share, exercisable until June 13, 2010. The stock options are subject to vesting provisions as set forth in the stock option agreement dated June 13, 2005. We issued the stock options to a non U.S. person (as that term is defined in Regulation S of the Securities Act of 1933) in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

On June 16, 2005, we granted stock options to a director and officer for the option to purchase an aggregate of 1,500,000 shares of our common stock at an exercise price of \$0.74 per share, exercisable until June 16, 2010. The stock options are subject to vesting provisions as set forth in the employment agreement dated June 16, 2005. We issued the stock options to a non U.S. person (as that term is defined in Regulation S of the Securities Act of 1933)

in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933. On September 7, 2005, these stock options were cancelled.

On August 29, 2005, we granted stock options to an officer for the option to purchase an aggregate of 1,200,000 shares of our common stock at an exercise price of \$0.61 per share, exercisable until August 29, 2015. The stock options are subject to vesting provisions as set forth in the employment agreement dated August 29, 2005. We issued the stock options to a U.S. person in reliance on Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

On September 7, 2005, we granted stock options to two directors and two employees for the option to purchase an aggregate of 510,000 shares of our common stock at an exercise price of \$0.61 per share, exercisable until September 7, 2010. The stock options are subject to vesting provisions as set forth in the stock option agreements dated September 7, 2005. We issued the stock options to non U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933) in offshore transactions relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

On September 12, 2005, we granted stock options to a consultant for the option to purchase an aggregate of 50,000 shares of our common stock at an exercise price of \$0.61 per share, exercisable until September 12, 2010. The stock options are subject to vesting provisions as set forth in the stock option agreement dated September 12, 2005. We issued the stock options to a non U.S. person (as that term is defined in Regulation S of the Securities Act of 1933) in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

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.

Exhibits Required by Item 601 of Regulation S-B

(3) Articles of Incorporation and By-laws

3.1 Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

3.2 Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

3.3 Amended Bylaws (incorporated by reference from our Registration Statement on Form SB-2/A filed on September 3, 2003).

(4) Instruments defining the rights of security holders, including indentures

4.1 2004 Stock Option Plan effective May 18, 2004 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.2 Form of Stock Option Agreement for 2004 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.3 2005 Stock Option Plan effective March 4, 2005 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.4 Form of Stock Option Agreement for 2005 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

(10) Material Contracts

10.1 Domain Name Assignment Agreement, dated May 2, 2003, between Broad Scope Enterprises, Inc. and Hon Kit Ng (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.2 Subscription Agreement, dated April 20, 2003, between Broad Scope Enterprises Inc. and Hon Kit Ng (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.3 Subscription Agreement, dated May 1, 2003, between Broad Scope Enterprises Inc. and Hon Kit Ng (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.4 Subscription Agreement, dated May 2, 2003, between Broad Scope Enterprises Inc. and Simon Au (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.5 Form of Subscription Agreement between Broad Scope Enterprises Inc. and various private placement placees (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.6 Agreement and Plan of Merger among Broad Scope Enterprises Inc., Xten Networks, Inc., Broad Scope Acquisition Corp. and Mark Bruk (incorporated by reference from our Current Report on Form 8-K filed on May 10, 2004).

10.7 Agreement and Plan of Merger between Broad Scope Enterprises Inc. and Xten Networks, Inc. (incorporated by reference from our Current Report on Form 8-K filed on May 10, 2004).

10.8 Software Development Agreement between Xten Networks, Inc. (formerly Evove, Inc.) and Xten Networks (Canada) Inc. (formerly Xten Networks Inc.) (incorporated by reference from our Current Report on Form 8-K filed on May 10, 2004).

10.9 Debt Settlement and Subscription Agreement dated April 19, 2005 between Xten Networks, Inc. and Steven Bruk (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2005).

10.10 Employment Agreement dated June 16, 2005 between Xten Networks R&D Inc. and Larry Timlick (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2005).

10.11 Settlement Agreement and Release dated June 29, 2005 between Xtend Communications Corp. and Xten Networks, Inc. (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2005).

10.12 Share Repurchase Agreement dated May 12, 2005 between Xten Networks, Inc. and Marty Hofmeister (filed herewith).

(14) Code of Ethics

14.1 Code of Business Conduct and Ethics (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2004).

(21) Subsidiaries of Xten Networks, Inc.

Xten Networks R&D Inc. (incorporated in the Province of British Columbia, Canada)
CounterPath Solutions, Inc. (incorporated in the State of Nevada, U.S.A.)

(31) Section 302 Certification

31.1 Section 302 Certification (filed herewith).

(32) Section 906 Certification

32.1 Section 906 Certification (filed herewith).

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XTEN NETWORKS, INC.

By: /s/ Mark Bruk
Mark Bruk, CEO
(Principal Executive, Financial, and Accounting Officer)

Date: September 14, 2005