

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 October 31, 2004

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.)

320-5201 Great America Parkway, Santa Clara, California 95054

(Address of principal executive offices)

408.876.4346

(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 ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. 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: 37,638,462 common shares issued and outstanding as of December 1, 2004

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

XTEN NETWORKS, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2004

(Stated in US Dollars)

(Unaudited)

XTEN NETWORKS, INC.
INTERIM CONSOLIDATED BALANCE SHEETS
October 31, 2004 and April 30, 2004
(Stated in US Dollars)
(Unaudited)

	<u>ASSETS</u>	October 31, <u>2004</u>	April 30, <u>2004</u>
Current			
Cash		\$ 1,098,595	\$ 944,285
Accounts receivable		607,402	100,361
Prepaid expenses		55,520	13,671
Current assets of discontinued operations – Note 5		-	8,115
		<hr/>	<hr/>
		1,761,517	1,066,432
Capital assets		220,566	64,786
Trademarks		670	335
Long-term assets of discontinued operations – Note 5		-	4,000
		<hr/>	<hr/>
		\$ 1,982,753	\$ 1,135,553
		<hr/> <hr/>	<hr/> <hr/>

(a) LIABILITIES

Current			
Accounts payable and accrued liabilities		\$ 248,954	\$ 31,156
Advances payable – Notes 4 and 7		242,280	226,727
Due to related parties – Notes 4 and 6		68,185	125,250
Unearned revenue		25,300	-
Warranty payable		20,811	-
Liabilities of discontinued operations – Note 5		-	18,915
		<hr/>	<hr/>
		605,531	402,048
		<hr/>	<hr/>

(b) STOCKHOLDERS' EQUITY

Common stock, \$0.001 par value – Note 8			
415,384,500 shares authorized			
37,638,462 shares issued (April 30, 2004 37,138,462)		37,638	37,138
Additional paid-in capital		1,951,395	951,895
Contributed surplus – Note 8		52,867	-
Deficit		(644,936)	(255,528)
Accumulated other comprehensive loss		(19,742)	-
		<hr/>	<hr/>
		1,377,222	733,505
		<hr/>	<hr/>
		\$ 1,982,753	\$ 1,135,553
		<hr/> <hr/>	<hr/> <hr/>

XTEN NETWORKS, INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
for the three and six months ended October 31, 2004 and 2003
(Stated in US Dollars)
(Unaudited)

	Three months ended October 31, <u>2004</u>	Three months ended October 31 <u>2003</u>	Six months ended October 31, <u>2004</u>	Six months ended October 31, <u>2003</u>
Revenues				
Software sales	\$ 653,618	\$ 102,534	\$ 1,120,269	\$ 224,264
Consulting fees	23,746	13,480	44,246	110,772
	<u>677,364</u>	<u>116,014</u>	<u>1,164,515</u>	<u>335,036</u>
Expenses				
Amortization	23,431	2,000	40,938	4,500
Bad debts (recovery)	(5,253)	-	7,800	-
Computer expenses	373	-	2,287	-
Consulting fees	30,444	118,942	145,641	-
Foreign exchange loss (gain)	(19,880)	89	(12,190)	88
Licenses and permits	39,257	777	85,055	1,446
Office and miscellaneous	39,932	456	52,328	777
Professional fees	26,341	2,781	49,749	3,114
Public relations	38,954	-	38,954	-
Rent – Note 6	17,027	12,562	35,931	25,022
Stock-based compensation	52,867	-	52,867	-
Telephone and internet	2,771	-	10,604	-
Travel and promotion	90,062	4,345	151,906	10,240
Wages, commissions and benefits – Note 6	518,502	-	879,766	344,753
Warranty expense	20,811	-	20,811	-
	<u>875,639</u>	<u>141,952</u>	<u>1,562,447</u>	<u>389,940</u>
Loss from continuing operations	(198,275)	(25,938)	(397,932)	(54,904)
Income from discontinued operations				
Gain on disposal of subsidiary – Note 5	-	-	8,524	-
Net loss for the period	(198,275)	(25,938)	(389,408)	(54,904)
Other comprehensive income (loss):				
Foreign currency adjustments	(19,742)	-	(19,742)	-
Comprehensive loss	<u>\$ (218,017)</u>	<u>\$ (25,938)</u>	<u>\$ (409,150)</u>	<u>\$ (54,904)</u>
Basic and diluted loss per share – continuing operations	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Basic and diluted income per share – discontinued operations	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Weighted average number of shares outstanding	<u>\$ 37,214,549</u>	<u>\$ 3,690,300</u>	<u>\$ 37,176,505</u>	<u>\$ 3,675,300</u>

SEE ACCOMPANYING NOTES

XTEN NETWORKS, INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six months ended October 31, 2004 and 2003
(Stated in US Dollars)
(Unaudited)

	<u>2004</u>	<u>2003</u>
Cash flows used in operating activities		
Comprehensive loss from continuing operations	\$ (409,150)	\$ (54,904)
Items not involving cash:		
Amortization	40,938	4,500
Gain on disposal of subsidiary	(8,524)	-
Stock-based compensation	52,867	-
Changes in non-cash working capital items:		
Accounts receivable	(507,041)	(43,374)
Prepaid expenses	(41,849)	-
Accounts payable and accrued liabilities	225,369	25,022
Unearned revenue	25,300	-
Warranty payable	20,811	-
	<u>(601,279)</u>	<u>(68,756)</u>
Cash flows from financing activities		
Common stock issued	1,000,000	-
Advances payable	15,553	-
Increase (decrease) in due to related parties	(64,635)	46,213
	<u>950,918</u>	<u>46,213</u>
Cash flows used in investing activities		
Purchase of investment	-	(5,000)
Purchase of capital assets	(196,718)	(16,125)
Trademarks	(335)	-
	<u>(197,053)</u>	<u>(21,125)</u>
Increase (decrease) in cash from continuing operations	152,586	(43,668)
Increase in cash from discontinued operations	1,724	-
Increase (decrease) in cash during the period	154,310	(43,668)
Cash, beginning of the period	944,285	48,016
Cash, end of the period	<u>\$ 1,098,595</u>	<u>\$ 4,348</u>
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

XTEN NETWORKS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (DEFICIENCY)
for the period October 28, 2002 (Date of Incorporation) to October 31, 2004
(Stated in US Dollars)
(Unaudited)

	Number of Common <u>Shares</u>	<u>Par Value</u>	Additional Paid-in <u>Capital</u>	Contributed <u>Surplus</u>	<u>Deficit</u>	Accumulated Other Comprehensive <u>Loss</u>	<u>Total</u>
Balance, October 28, 2002 (Date of Incorporation)	-	\$ -	\$ -	-	-	-	-
Shares issued for cash at \$0.0001	3,570,600	357	-	-	-	-	357
Net loss for the period	-	-	-	-	(81,210)	-	(81,210)
Balance, April 30, 2003	3,570,600	357	-	-	(81,210)	-	(80,853)
Shares issued for cash at \$0.0001	5,429,400	543	-	-	-	-	543
Reverse acquisition	(9,000,000)	(900)	900	-	-	-	-
Outstanding shares prior to merger with Xten Networks, Inc.	18,138,462	18,138	(30,005)	-	-	-	(11,867)
Shares issued on merger with Xten Networks, Inc.	18,000,000	18,000	(18,000)	-	-	-	-
Shares issued for cash at \$1.00	1,000,000	1,000	999,000	-	-	-	1,000,000
Net loss for the year	-	-	-	-	(174,318)	-	(174,318)
Balance, April 30, 2004	37,138,462	37,138	951,895	-	(255,528)	-	733,505
Shares issued for cash on the exercise of warrants at \$0.0001	500,000	500	999,500	-	-	-	1,000,000
Stock-based compensation	-	-	-	52,867	-	-	52,867
Net loss for the period	-	-	-	-	(389,408)	-	(389,408)
Other comprehensive loss for the period	-	-	-	-	-	(19,742)	(19,742)
Balance, October 31, 2004	37,638,462	\$ 37,638	\$ 1,951,395	\$ 52,867	\$ (644,936)	\$ (19,742)	\$ 1,377,222

The number of shares outstanding prior to the merger with Xten Networks, Inc. (formerly Broad Scope Acquisition) reflects the forward split and the share cancellation (Note 4). The par value and additional paid-in capital were adjusted in conformity with the number of shares then issued.

XTEN NETWORKS, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2004
(Stated in US Dollars)
(Unaudited)

Note 1 Interim Reporting

While the information presented in the accompanying interim six 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, 2004 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, 2004 annual financial statements.

Operating results for the quarter ended October 31, 2004 are not necessarily indicative of the results that can be expected for the year ended April 30, 2005.

Note 2 Nature and Continuance of Operations

Xten Networks, Inc. (formerly Broad Scope Enterprises, 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.

Xten Networks provides Voice over Internet Protocol software and related consulting services to customers in Canada, the United States of America and in other areas of the world.

These 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 October 31, 2004, the Company has not yet achieved profitable operations and has generated an accumulated deficit of \$664,678 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.

Note 3 Significant Accounting Policies

These 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 consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Xten Networks R&D Inc., a company incorporated on May 10, 2004 in British Columbia, Canada. Comparative figures are those of Xten Networks (Note 4). All intercompany 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 has set up 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 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. 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 Accounting Principles Board Opinion 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.

Note 3 Significant Accounting Policies – cont'd

d) Foreign Currency Translation

The Company's wholly-owned subsidiary 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 year. 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 income (loss) for the year.

e) Comprehensive Loss

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

Note 4 Business Combination

On April 26, 2004, the Company entered into an Agreement and Plan of Merger with Xten Networks and Broad Scope Acquisition Corp. ("Broad Scope Acquisition"). Broad Scope Acquisition, a wholly owned subsidiary of the Company, was incorporated under the laws of the State of Nevada on April 2, 2004 for the purpose of completing a merger with Xten Networks. The merger was completed effective as of April 30, 2004. After the merger closed effective on April 30, 2004, Broad Scope Acquisition changed its name to Xten Networks, Inc.

On April 29, 2004, the Company entered into an Agreement and Plan of Merger with the merged company, Xten Networks, Inc. The merger was completed effective as of April 30, 2004. As a result of the mergers, the Company acquired all of the 9,000,000 issued and outstanding common shares of Xten Networks in exchange for 18,000,000 common shares of the Company. The Company changed its name to Xten Networks, Inc. to reflect the newly acquired business.

Note 4 Business Combination – (cont'd)

As a condition of the mergers, the Company completed a 5.53846 for 1 split of its common stock on March 23, 2004. Prior to the split, the Company had 7,775,000 common shares issued and outstanding. After the split, the Company had 43,061,532 shares issued and outstanding. Also, as a condition the mergers, two former directors of the Company agreed to surrender for cancellation, without consideration, 24,923,070 common shares. As a result of the stock split and stock cancellation, the Company had 18,138,462 common shares issued and outstanding immediately prior to the completion of the merger transactions.

In connection with the mergers, the Company completed a private placement of 1,000,000 units at \$1.00 per unit. Each unit consisted of one common share and one-half share purchase warrant. Each full share purchase warrant entitled the holder to purchase an additional common share at \$2.00 per share to April 26, 2005. These share purchase warrants were exercised during the quarter ended October 31, 2004.

In addition, certain creditors included in advances payable and due to related parties at October 31, 2004 have agreed to convert debt totalling \$290,000 into 290,000 common shares of the Company at \$1.00 per share.

The merger with Xten Networks has been accounted for using the purchase method on a reverse acquisition basis, whereby Xten Networks is treated as the accounting acquirer. These consolidated financial statements only include the operations of the Company, the accounting subsidiary, from the date of acquisition April 30, 2004. The net assets of the Company, the accounting subsidiary, at April 30, 2004 were as follows:

Current assets – cash	\$ 8,491
Capital assets – website – Note 5	4,000
Current liabilities – accounts payable	(7,464)
– due to related parties	(16,894)
Net asset deficiency	<u>\$ (11,867)</u>

The comparative figures for the three and six months ended October 31, 2003 are those of Xten Networks.

Note 5 Discontinued Operations

During the six months ended October 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 is an adult entertainment advertising website.

At April 30, 2004, the assets and liabilities of Broad Scope included in the consolidated financial statements were as follows:

Cash	\$	8,115
Capital assets – website	\$	4,000
Accounts payable	\$ (2,021)
Due to related parties	\$ (16,894)

The gain on disposal was determined as follows:

Net asset deficiency of Broad Scope:

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

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 6 Related Party Transactions

During the six months ended October 31, 2004 and 2003, the Company was charged the following expenses by directors or by companies with directors in common:

	Three months ended October 31,		Six months ended October 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Rent	\$ -	\$ 24,114	\$ 15,334	\$ 25,022
Wages, commissions and benefits	36,802	300,017	128,623	344,753
	<u>\$ 36,802</u>	<u>\$ 324,131</u>	<u>\$ 143,957</u>	<u>\$ 369,775</u>

Note 6 Related Party Transactions – cont'd)

The amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment. These amounts are due to directors of the Company or to companies with directors in common with the Company.

Note 7 Advances Payable

Advances payable are unsecured, non-interest bearing and have no specific terms of repayment. Included in the advances payable is \$209,385 (April 30, 2004: \$193,832) due to significant shareholders of the Company.

Note 8 Common Stock

- a) The Company issued 4,500,000 common shares at \$0.002 per share for cash proceeds of \$9,000. In accordance with SEC guidance on valuing shares in the first year prior to an Initial Public Offering (“IPO”), these shares were deemed to be issued at \$0.15 per share, resulting in a \$0.148 per share discount. The amount of discount of \$666,000 was charged to operations during the year ended April 30, 2004.
- b) The Company issued 3,250,000 common shares at \$0.01 per share for cash proceeds of \$32,500. In accordance with SEC guidance on valuing shares in the first year prior to an IPO, these shares were deemed to be issued at \$0.15 per share, resulting in a \$0.14 per share discount. The amount of discount of \$455,000 was charged to operations during the year ended April 30, 2004.
- c) The Company issued 25,000 common shares as consideration for legal services rendered. The shares were valued at the Company’s IPO price of \$0.15 per share.
- d) The Company completed a forward split of its common shares on a 5.53846 for 1 basis. Prior to the split, the Company had 7,775,000 common shares issued and outstanding and after the split the Company had 43,061,532 common shares issued and outstanding.
- e) Two former directors of the Company agreed to surrender for cancellation, without consideration, 24,923,070 common shares. After the cancellation and prior to the merger transaction with Xten Networks, Inc. (formerly Broad Scope Acquisition), the Company had 18,138,462 common shares issued and outstanding.
- f) The Company issued 1,000,000 common shares pursuant to a private placement of 1,000,000 units at \$1.00 per unit for cash proceeds of \$1,000,000. Each unit consisted of one common share and one-half share purchase warrant. Each full share purchase warrant entitled the holder to purchase an additional common share at \$2.00 per share to April 26, 2005.

Note 8 Common Stock – (cont'd)

- g) Included in the 18,000,000 common shares issued on the merger transaction with Xten Networks, Inc. are 210,000 common shares which will vest to consultants over the period from December 18, 2003 to December 31, 2004. If the consultants cease to provide services to the Company, the Company has the right to purchase the non-vested shares at \$0.001 per share. At October 31, 2004, two consultants had ceased to provide services to the Company and therefore the Company has the right to purchase the non-vested shares.
- h) 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.

Commitments:

Stock-based Compensation Plan

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
Granted – Consultants ⁽²⁾	100,000	\$1.87
Granted – Employees ⁽³⁾	350,000	\$1.80
Granted – Consultants ⁽⁴⁾	150,000	\$1.58
Granted – Employees ⁽⁵⁾	900,000	\$1.58
	<hr/>	<hr/>
Balance, October 31, 2004	2,300,000	\$1.60
	<hr/> <hr/>	<hr/> <hr/>

- ⁽¹⁾ At October 31, 2004, there were 800,000 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 at a rate of 200,000 per year beginning May 31, 2005 and ending May 31, 2008.

Note 8 Common Stock – (cont'd)

Commitments: - (cont'd)

- (2) At October 31, 2004, there were 100,000 consultants share purchase options outstanding entitling the holders 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 October 31, 2004, 20,000 of these share purchase options had vested with the balance vesting as follows: 20,000 on December 31, 2004, 20,000 on June 30, 2005, 20,000 on December 31, 2005, and 20,000 on June 30, 2006. The Company recorded a stock-based compensation charge of \$27,667 to October 31, 2004 in respect to these options.

- (3) At October 31, 2004, 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 expire on August 13, 2009.

These share purchase options vest over four years at a rate of 87,500 per year beginning August 13, 2005 and ending August 13, 2008.

- (4) At October 31, 2004, there were 150,000 consultants 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 25, 2009.

At October 31, 2004, 30,000 of these share purchase options had vested with the balance vesting as follows: 15,000 on December 31, 2004, 15,000 on March 31, 2005, 15,000 on June 30, 2005, 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 recorded a stock-based compensation charge of \$25,200 to October 31, 2004 in respect to these options.

- (5) At October 31, 2004, there were 900,000 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 at a rate of 225,000 per year beginning October 26, 2005 and ending October 26, 2008.

Note 8 Common Stock – (cont'd)

Commitments: - (cont'd)

As disclosed in Note 3(c), 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 are as follows:

	Six months ended October 31, <u>2004</u>
Net loss for the period as reported	\$ (409,150)
Stock-based compensation	(72,288)
	<hr/>
Pro forma loss for the period	\$ (481,438)
	<hr/>
Pro forma basic and diluted loss per share	\$ (0.01)
	<hr/> <hr/>

The fair value of the share purchase options granted during the period was determined using the Black-Scholes model with the following assumptions:

	Six months ended October 31, <u>2004</u>
Risk free rate	2.00%
Dividend yield	0%
Weighted average expected volatility	50.1%
Weighted average expected option life	5 yrs
	 Six months ended October 31, <u>2004</u>
Weighted average fair value	\$ 0.73
Total options granted	2,300,000
Total fair value of options granted	\$ 1,679,500

Note 9 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\$8,203). 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\$4,922) 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 instalments, each instalment being \$10,000. The customer did not pay the instalments 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.

Note 10 Segmented Information

Revenues by geographic segment are as follows:

	Three months ended October 31,		Six months ended October 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
North America	\$ 113,223	\$ 73,719	\$ 207,536	\$ 209,241
Asia	30,971	-	356,316	-
Europe	505,900	42,295	528,900	50,895
South America	24,400	-	36,400	-
Other	2,870	-	35,363	74,900
	<u>\$ 677,364</u>	<u>\$ 116,014</u>	<u>\$ 1,164,515</u>	<u>\$ 335,036</u>

During the six months ended October 31, 2004, two customers accounted for 68.7% of revenues.

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", "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 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 (US\$) and are prepared in conformity with generally accepted accounting principles in the United States of America for interim financial statements. The following discussion should be read in conjunction with our consolidated financial statements and the related notes that appear elsewhere in this quarterly report.

As used in this quarterly report, the terms "we", "us", "our company", and "Xten" mean Xten Networks, Inc., unless otherwise indicated. All dollar amounts refer to US dollars unless otherwise indicated.

Overview

General

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, our focus had been operating an adult entertainment and services directory website.

Effective on April 30, 2004, we acquired, by way of a merger, all of the shares of Xten Networks, a private Nevada company. Xten Networks (formerly Evove, Inc.) 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 the session initiation protocol (SIP), which is used to make or receive phone calls from a computer (a "softphone") running the Windows 2000, Windows XP, Mac OS X or Linspire operating systems, or a personal digital assistant (PDA) running the Pocket PC operating system. Using our software, in conjunction with an IP telephony service, based upon SIP, people can make and receive calls to/from a telephone to any of these devices (PCs and PDAs).

We are a provider of high-quality SIP software for IP telephony (internet protocol telephony), 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 PSTN.

On September 13, 2004, we launched eyeBeam V1.0, a video SIP softphone. eyeBeam supports open standards video utilizing SIP (session initiation protocol) 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 SIP telephony features offered in the award-winning X-PRO SIP softphone, including call transfer/forward, caller ID, 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. eyeBeam does not replace our current softphone products, X-PRO and X-Lite, but adds another product to our offerings. The next release of eyeBeam, V1.1, due before the end of 2004, will include Instant Messaging and Presence support.

General - Explanation of Comparative Periods

As discussed above, we acquired Xten Networks, Inc. on April 30, 2004. The acquisition was accounted for using the purchase method of accounting as applicable to reverse acquisitions because the continuing business is that of Xten Networks, Inc. Under reverse acquisition accounting, the post-acquisition entity is accounted for as a recapitalization of Xten Networks, Inc.

Accordingly, the historical financial statements and financial information presented in this quarterly report prior to the merger are those of Xten Networks, Inc. (the private Nevada company).

Six months ended October 31, 2004 compared to six months ended October 31, 2003

The following presentation and discussion relates to the consolidated operations of Xten Networks, Inc. (formerly Broad Scope Enterprises, Inc.) for the six months ended October 31, 2004 and of Xten Networks, Inc. (the private Nevada company) for the six months ended October 31, 2003.

	Six months ended October 31, 2004	Six months ended October 31, 2003
Sales	1,164,515	335,036
General and Administration	225,159	27,245
Consulting and Professional Fees	1,128,023	347,867
Travel and Promotion	151,906	10,240

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 six months ending October 31, 2004, we generated \$1,164,515 in revenue compared to \$335,036 for the six months ending October 31, 2003.

For the six months ending October 31, 2004, we generated \$1,120,269 in software sales revenue compared to \$224,264 for the six months ending October 31, 2003. This is an increase of \$896,005 or 399.5% from the same period last year. The significant increase in software sales revenue consisted of fees paid to us by numerous small, medium and large IP telephony service providers, however, of our software sales revenue for the six months ended October 31, 2004, approximately 44.6%, or \$500,000 came from one customer and 26.8%, or \$300,000 came from another customer. The larger of the two customers (calculated by software sales revenues), Neotel Networks Ltd., purchased a private label, unlimited license to our eyeBeam SDK (software development kit). The second largest customer, Deutsche Telekom, AG, T-Com, purchased a private label, unlimited license to our X-PRO SDK (software development kit). Under the terms of our agreement, neither Neotel Networks nor Deutsche Telekom, AG, T-Com are required to display any Xten trademarks due to the fact that they purchased a private label version of our

SDKs. We will provide basic support, which includes product bug-fixes and timely email support during the one-year period following the date of sale. Bug-fixes are software updates which fix a known deficiency in the software product. Product upgrades are separate from bug-fixes and include new or enhanced product features.

For the six months ending October 31, 2004, we generated \$44,246 in consulting fees revenue compared to \$110,772 for the six months ending October 31, 2003. This is a decrease of \$66,526 or 60.1% from the same period last year. The significant decrease in consulting fees revenue for the six months ended October 31, 2004 is due to the fact that during the period in 2003 there was a one-time consulting fee of \$88,332 attributable to certain consulting services performed by us, which we do not foresee recurring. After taking this one-time consulting fee into account, for the six months ending October 31, 2004, we generated \$44,246 in consulting fees revenue compared to \$22,440 for the six months ending October 31, 2003.

Total expenses for the six months ended October 31 2004 were \$1,562,447 compared to \$389,940 for the previous six months ended October 31, 2003.

General and administration fees for the six months ended October 31, 2004 were \$225,159 compared to \$27,245 for the six months ended October 31, 2003. This is an increase of \$197,914 or 726.4% from the same period last year. The significant increase in general and administration fees expense 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.

Consulting and professional fees for the six months ended October 31, 2004 were \$1,128,023 compared to \$347,867 for the six months ended October 31, 2003. This is an increase of \$780,156 or 224.3% from the same period last year. These expenses represented the majority of our cash expenses and the significant increase in consulting and professional fees expense 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.

Travel and promotion expenses for the six months ended October 31, 2004 were \$151,906 compared to \$10,240 for the six months ended October 31, 2003. This is an increase of \$141,666 or 1,383.5% from the same period last year. The significant increase in travel and promotion expense was due primarily to a more active travel schedule for pre-sales activities, and our active participation in industry tradeshows.

Three months ended October 31, 2004 compared to three months ended October 31, 2003

The following presentation and discussion relates to the consolidated operations of Xten Networks, Inc. (formerly Broad Scope Enterprises, Inc.) for the three months ended October 31, 2004 and of Xten Networks, Inc. (the private Nevada company) for the three months ended October 31, 2003.

	Three months ended October 31, 2004	Three months ended October 31, 2003
Sales	677,364	116,014
General and Administration	138,314	13,795
Consulting and Professional Fees	628,154	121,723
Travel and Promotion	90,062	4,345

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 ending October 31, 2004, we generated \$677,364 in revenue compared to \$116,014 for the three months ending October 31, 2003.

For the three months ending October 31, 2004, we generated \$653,618 in software sales revenue compared to \$102,534 for the three months ending October 31, 2003. This is an increase of \$551,084 or 537.5% 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, however, approximately 76.5%, or \$500,000, of our software sales revenue came from one customer. The customer, Neotel Networks Ltd., purchased a private label, unlimited license to our eyeBeam SDK (software development kit). Under the terms of our agreement, Neotel Networks is not required to display any Xten trademarks due to the fact that they purchased a private label version of the eyeBeam SDK. We will provide basic support, which includes product bug-fixes and timely email support during the one-year period following the date of sale. Bug-fixes are software updates which fix a known deficiency in the software product. Product upgrades are separate from bug-fixes and include new or enhanced product features.

For the three months ending October 31, 2004, we generated \$23,746 in consulting fees revenue compared to \$13,480 for the three months ending October 31, 2003. This is an increase of \$10,266 or 76.2% from the same period last year. The significant increase in consulting fees revenue is due to the fact that during the period in 2004, there was an increase in software sales, which directly affected consulting fees.

Total expenses for the three months ended October 31 2004 were \$875,639 compared to \$141,952 for the previous three months ended October 31, 2003.

General and administration fees for the three months ended October 31, 2004 were \$138,314 compared to \$13,795 for the three months ended October 31, 2003. This is an increase of \$124,519 or 902.6% from the same period last year. The significant increase in general and administration fees expense 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.

Consulting and professional fees for the three months ended October 31, 2004 were \$628,154 compared to \$121,723 for the three months ended October 31, 2003. This is an increase of \$506,431 or 416.1% from the same period last year. These expenses represented the majority of our cash expenses and the significant increase in consulting and professional fees expense 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.

Travel and promotion expenses for the three months ended October 31, 2004 were \$90,062 compared to \$4,345 for the three months ended October 31, 2003. This is an increase of \$85,717 or 1,972.8% from the same period last year. The significant increase in travel and promotion expense was due primarily to a more active travel schedule for pre-sales activities, and our active participation in industry tradeshows.

Subsequent Events

On November 8, 2004, we received full-payment from Neotel Networks, Ltd., against their accounts receivable of \$500,000 recorded on our balance sheet as at October 31, 2004.

Liquidity and Capital Resources

The following discussion relates to our interim financial statements.

During the six months ended October 31, 2004, we incurred a net loss of \$389,408.

Net cash used in operating activities for the six months ended October 31, 2004 was \$601,279. Lack of operating cash flow to date requires us to carefully manage funds generated from financing activities and sales of our IP telephony software products. Accounts payable and accrued liabilities are watched particularly closely.

Financing activities during the six months ended October 31, 2004, included an increase in advances payable of \$15,553, and a decrease in due to related parties of \$64,635 in respect to payment to those related parties. On October 13, 2004 we received \$1,000,000 in proceeds from the exercise of outstanding share purchase warrants.

Net cash used during the six months ended October 31, 2004, in investing activities was primarily for the purchase of capital assets totalling \$196,718. These capital assets consisted primarily of \$75,000 paid to UB Video Inc. as a license fee for UB Video's H.263 standard video codec which has been integrated into our latest product offering eyeBeam; and \$70,000 paid to Numerical Information as a license fee for unlimited use of acoustic echo cancellation software which has been integrated into some of our Windows and Mac OS X IP telephony software products; and \$10,000 to VoiceAge Corporation as a license fee for the EVRC (enhanced variable rate audio codec) which has been integrated into some of our Windows IP telephony software products.

The net increase in cash during the six months ended October 31, 2004 was \$154,310, leaving us with a cash balance at October 31, 2004 of \$1,098,595. Our accounts receivable balance at October 31, 2004 was \$607,402. However, on November 8, 2004 we received full-payment from Neotel Networks, Ltd., against their accounts receivable of \$500,000 recorded on our balance sheet as at October 31, 2004.

Plan of Operation and Cash Requirements

During the period from August 1, 2004 through October 31, 2004, we increased our development staff from 14 person to 26 persons, and we will continue to increase our development staff during the period from November 1, 2004 through April 30, 2005. Therefore we anticipate that we will require \$2,250,000 for the six months ended April 30, 2005 to continue to build-out market channels, support customers, continue interoperability testing with softswitch providers, complete independent market and product evaluations, recruit additional senior management, conduct continued research and development on our products and expand our marketing program. On October 13, 2004, we received proceeds of \$1,000,000 from the exercise of certain outstanding share purchase warrants.

We anticipate that we will expend approximately \$350,000 in salaries, not including salaries for those employees and consultants involved in sales, marketing, research, development, and investor relations; \$450,000 on sales and marketing activities including the salaries for employees and consultants involved in sales and marketing; \$1,200,000 on research and development activities including the salaries for employees and consultants involved in research and development; and \$250,000 in general and administrative expenses.

We may require additional debt or equity financing for our operations, which may not be readily available. This raises substantial doubt about our ability to continue as a going concern. However, management of our company believes that even though we currently have limited cash resources and liquidity, the funds available at October 31, 2004 combined with the collection of accounts receivables, anticipated revenues to be generated from the sales of our IP telephony software products, and the potential capital to be raised in current and future private placements, will allow our company to continue as a going concern.

Recently Issued Accounting Standards

Management does not believe that any recently issued, but not yet effective accounting standards if currently adopted could have a material effect on our financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2002, FASB finalized FAS 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 this Statement and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 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, this Statement eliminates the definition and requirements for recognition of exit costs in Issue 94-3. This Statement also establishes that fair value is the objective for initial measurement of the liability. The adoption of this statement is not expected to have a

material impact on the Company's financial position and results of operations. FAS 146 is effective for exit and disposal activities initiated after December 31, 2002.

In December 2002, the Financial Accounting Standards Board Issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123", ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock Based Compensation" ("SFAS 123") and provides alternative methods for accounting for a change by registrants to the fair value method of accounting for stock-based compensation. Additionally, SFAS 148 amends the disclosure requirements of SFAS 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. The statement 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 FASB 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"). 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 FASB 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 SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement 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. This Statement 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 Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). 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 Interpretation 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.

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 ("AICPA") Statement of Position ("SOP") 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 the Emerging Issues Task Force (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 Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") 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

The Company's functional and reporting currency is the United States of America dollar. These consolidated financial statements are remeasured to United States dollars in accordance with SFAS 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. The Company has not, to the date of these financials 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 the 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

The Company has elected to apply the intrinsic value method of Accounting Principles Board Opinion 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 SFAS 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 SFAS 123.

RISK FACTORS

Much of the information included in this current 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.

Our company has had negative cash flows from operations. Our business plan calls for significant expenses necessary to continue the development of our products and expand 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. We have estimated that we will require approximately \$2,250,000 to carry out our business plan in the year ended April 30, 2005. As of October 31, 2004, we have raised \$2,000,000 and have a cash balance of \$1,098,595 and an accounts receivable balance of \$607,402, of which \$500,000 was received on November 8, 2004, representing full-payment against an outstanding accounts receivable account. Management believes it will collect on all if not a significant portion of our accounts receivables and anticipates additional revenues to be generated from the sales of our IP telephony software products, but we may require an additional \$750,000 to satisfy our cash requirements for the balance of the year ended April 30, 2005. 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 eyeBeam 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 arrangement for financing. We will depend almost exclusively on 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 in the future this may result in dilution to our existing stockholders.

Our Certificate of Incorporation authorizes the issuance of 415,384,500 shares of common stock. Our board of directors have the authority to issue additional shares 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 Xten Networks. Such competition will potentially affect our chances of achieving profitability, and ultimately adversely affect our ability to continue as a going concern.

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

There is currently a limited market for our 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 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 SEC 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.

NASD 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 NASD (National Association of Securities Dealers Inc.) 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.

Some of our directors and officers will be 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.

Some of our directors and officers are 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 and www.xten.net, and making application to register the trademarks XTEN and 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 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.

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 favorably 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 October 31, 2004. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's president and chief executive officer. Based upon that evaluation, our company's president and chief executive officer 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 company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

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 and chief executive officer as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

During the year ended April 30, 2004, we sold software to a customer for \$41,295. The customer has filed a misrepresentation claim against our company in the amount of Cdn\$10,000 (US\$7,288). On August 11, 2004, the parties in the above noted action participated in a settlement conference before the Honourable Judge Yee of the British Columbia Small Claims Court. During that settlement conference, the parties came to an agreement to settle the dispute. We have entered into a settlement agreement with JP Tech pursuant to which JP Tech has agreed, inter alia, to release us and settle all claims relating to the agreement and dismiss the lawsuit on a without costs basis. We are 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\$4,922) upon receipt by us of a full release which has been agreed to by JP Tech at the settlement conference.

On May 15, 2003, we 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, an attorney, acting for the customer, gave notice to us of a claim for \$34,400 which is to be resolved by arbitration. At the time of filing this quarterly report, we have not been advised as to when the arbitration hearing would occur. Our management believes that the claim is without foundation or merit. We have written off the unpaid balance of \$30,000.

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

On October 18, 2004, we issued an aggregate of 500,000 shares of our common stock at a price of \$2.00 per share to one investor on exercise of outstanding warrants. We relied on Regulation S and/or Section 4(2) of the Securities Act of 1933. The investor was not a U.S. person as that term is defined in Regulation S and no sales efforts were conducted in the U.S.

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

3.2 Bylaws

3.3 Amended Bylaws

(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 with the SEC 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 with the SEC 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 with the SEC 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 with the SEC 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 with the SEC on July 16, 2003)

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

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

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

(14) Code of Ethics

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

(21) Subsidiaries of Xten Networks, Inc.

Xten Networks R&D Inc.

(31) Section 302 Certification

31.1 Section 302 Certification

31.2 Section 302 Certification

(32) Section 906 Certification

32.1 Section 906 Certification

32.2 Section 906 Certification

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/ Erik Lagerway
Erik Lagerway, President, COO and Director
(Principal Executive Officer)

By: /s/ Mark Bruk
Mark Bruk, CEO, Secretary, Treasurer & Director
(Principal Financial Officer and Principal Accounting Officer)

Date: December 3, 2004

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Erik Lagerway, President, COO and director of Xten Networks, Inc., certify that:

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

Date: December 3, 2004

/s/ Erik Lagerway
Erik Lagerway
President, COO and Director (Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Bruk, CEO, Secretary, Treasurer and a director of Xten Networks, Inc., certify that:

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

Date: December 3, 2004

/s/ Mark Bruk
Mark Bruk
CEO, Secretary, Treasurer and Director
(Principal 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**

The undersigned, Erik Lagerway, President and COO of Xten Networks, Inc., 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 quarterly report on Form 10-QSB of Xten Networks, Inc. for the six month period ended October 31, 2004 (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 Xten Networks Inc.

Dated: December 3, 2004

/s/ Erik Lagerway
Erik Lagerway
President and COO (Principal Executive Officer)

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

The undersigned, Mark Bruk, CEO, Secretary and Treasurer of Xten Networks, Inc., 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 quarterly report on Form 10-QSB of Xten Networks Inc. for the six month period ended October 31, 2004 (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 Xten Networks, Inc.

Dated: December 3, 2004

/s/ Mark Bruk
Mark Bruk
CEO, Secretary and Treasurer
(Principal Financial Officer and Principal Accounting Officer)