MPHASE TECHNOLOGIES INC
Form S-1
July 12, 2007

As filed with the Securities and Exchange Commission on July 12, 2007

Registration No. 333- ________

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

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

New Jersey	**7385**	**22-2287503**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

587 Connecticut Avenue
Norwalk, Connecticut 06854-1711
Telephone: (203) 831-2242
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Martin S. Smiley
Chief Financial Officer

mPHASE TECHNOLOGIES, INC.

587 Connecticut Avenue
Norwalk, Connecticut 06854-1711
Telephone: (203) 831-2242
Telecopy: (203) 853-3304
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed maximum offering price per share(1)	Proposed maximum aggregate offering price(1)	Amount of Registration fee
Common Stock,$.01 par value	185,914,911	**$ .095**	17,661,916	$ 542.23
Common Stock $.01 par value issuable upon exercise of warrants	33,010,306	**$ .095**	$ 3,135,979	$ 96.27
Common Stock $.01 par value issuable upon exercise of options	42,535,500	**$ .095**	$ 4,040,872	$ 124.05
			Total	$ 762.55

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, on the basis of the average of the bid and ask prices per share of our common stock, as reported on the OTC Bulletin Board, on June 29, 2007.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SUCH SECTION 8(A), MAY DETERMINE.

July 12, 2007

PROSPECTUS

mPHASE TECHNOLOGIES, INC.

Shares of Common Stock

This prospectus relates to the resale of up to 261,460,717 shares of common stock, of which 185,914,911 shares are issued and outstanding, and up to 75,545,806 shares that may be issued upon the exercise of warrants and options held by the selling stockholders. The selling stockholders listed on pages 51-56 may sell the shares from time to time.

Our common stock is listed on the Over-the-Counter Bulletin Board under the symbol XDSL.OB The last reported sales price of our common stock on June 29, 2007 was $.095 per share.

THESE SECURITIES ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. PLEASE REFER TO RISK FACTORS BEGINNING ON PAGE 10.

Our principal executive offices are located at 587 Connecticut Avenue, Norwalk, Connecticut 06854-1711. Our phone number is (203) 838-2741.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED ANY OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is July 12, 2007.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR THOSE DOCUMENTS TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY ONLY BE USED WHERE IT IS LEGAL TO SELL THESE SECURITIES.

THE DELIVERY OF THIS PROSPECTUS OR ANY ACCOMPANYING SALE DOES NOT IMPLY THAT: (1) THERE HAVE BEEN NO CHANGES IN OUR AFFAIRS AFTER THE DATE OF THIS PROSPECTUS; OR (2) THE INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT AFTER THE DATE OF THIS PROSPECTUS.

PROSPECTUS SUMMARY

You should read this Prospectus Summary together with the more detailed information contained in this prospectus, including the risk factors and financial statements and the notes to the financial statements. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in the Risk Factors section and elsewhere in this prospectus.

From inception (October 2, 1996), through March 31, 2007 the Company had incurred (unaudited) development stage losses of $162,520,429 and a stockholders   deficit of approximately $2,634,400. Cumulatively, through June 30, 2006 and March 31, 2007, (unaudited) the Company had negative cash flows from operations of approximately $67,257,660 and $73,398,128 respectively. The auditors report for the fiscal year ended June 30, 2006 is qualified as to the Company   s ability to continue as a going concern. Management estimates the Company either directly or through its newly formed operating subsidiaries (see page 5) needs to raise between $5 million and $10 million during the next 12 months to sustain its current level of operations.

mPHASE TECHNOLOGIES, INC.

mPhase Technologies, Inc. (mPhase, the Company, we or us), a New Jersey corporation, founded in 1996 is a publicly-held company with approximately 17 thousand shareholders and approximately 388,000,000 million shares of common stock outstanding as of June 29, 2007. The Company   s common stock is traded on the NASDAQ Over the Counter Bulletin Board under the ticker symbol XDSL. We are headquartered in Norwalk, Connecticut with offices in Little Falls, New Jersey and New York, N.Y. mPhase shares common office space and common management with Microphase Corporation, a privately-held company. Microphase sells radio frequency and filtering technologies to the defense and telecommunications industry. Microphase has been in operation for over 50 years and supports mPhase with engineering, administrative and financial resources, as needed.

mPhase is a developer and seller of broadband communications products for telephone service providers. The Company   s TV+ solution is the middleware/software necessary for the delivery by telephone service providers of broadcast quality television, video on demand, high speed internet and voice utilizing internet protocol (IPTV). mPhase believes that its IPTV solution is the most cost-effective, standards based, scalable solution with carrier class quality and security available for telecommunications service providers around the world. mPhase believes that telecommunication service providers will find the cost-effective, scalable architecture of the TV+ middleware will result in significant cost savings in the number of servers and routers necessary to deploy IPTV to its customers on a significant scale. This is especially true for telephone service providers outside of the United States that face substantial hardware costs to upgrade their existing backbone and infrastructure necessary for the delivery of broadcast television. Since such hardware costs constitute up to 95% of the capital expenditures in deploying IPTV, the savings are often a key financial ingredient enabling a telecommunications service provider to deploy IPTV. Thus the Company believes its software can be a compelling solution for such deployments. The deployment of a full range of converged broadband services is critical for many telecommunications service providers to retain traditional telephone customers by offering a full package of services. Our TV+ solution enables a telephone service provider to provided a   triple play   of voice, broadcast television and high speed internet over any existing infrastructure including copper, fiber or coax. Our current release of the TV+ solution is a culmination of years of development of a world-class television delivery solution for telecommunication service providers.

Our TV+ solution is currently part of a test deployment of IPTV by Comstar/Odessa, a major telecommunications service provider in the Ukraine. The Company faces significant technical and financial challenges in order to achieve the successful completion of acceptance testing criteria. However, upon the TV+ solution successfully meeting the technical and features criteria of the acceptance test Comstar/Odessa has indicated that it will commence deployment of IPTV to 6,000 customers. Such a deployment would, constitute the first major deployment of its TV+solution and could constitute a significant breakthrough for additional deployments of its IPTV solution in the Ukraine and Russia.

The Company has also recently established a significant reseller relationship with Net Dialogue, a major integrator and reseller of telecommunications products and services for several large telephone service providers in Russia.

Since our inception in 1996 we have been a development-stage company. During the past three years, mPhase has transformed itself from a developer of closed end proprietary technology for the delivery of broadcast television over DSL to a Company that has developed a carrier class middleware/software solution for the delivery of IPTV. mPhase s IPTV solution is designed for operation with any transport mechanism using IP protocol including multicast routers, digital subscriber line access multiplexers and set top boxes of all major vendors.

In February of 2004, the Company entered into the field of nanotechnology research and development of micro power cell batteries of various voltages. The purpose of this initiative is consistent with the Company s strategy of establishing a product portfolio of cutting edge, innovative high technology products for new and emerging areas of high growth. The initial goal is to develop batteries for military applications having significantly longer shelf life prior to activation. The batteries would have instant on capabilities due to their extremely small internal size, and power management capabilities to significantly extend their duty cycle periods than are currently available in the market. The Company believes that such development is consistent with its strategy of being a pioneer in areas of high growth technology and potentially diversifies its mix of products. In March of 2005, the Company announced that it had expanded its nanotechnology research and efforts to develop extremely sensitive uncooled magnetic sensors, commonly known as a magnetometer, as a new product line.

On April 17, 2007, the Company announced that it had formed AlwaysReady, Inc., a New Jersey Corporation, as a new wholly-owned subsidiary. The Company plans to transfer all of its nanotechnology assets and appropriate liabilities to such company as a first step in the separation of its nanotechnology product line from its IPTV product. The Company plans to staff AlwaysReady, Inc with a new management team experienced in the nanotechnology area in order to unlock and maximize overall shareholder value. On May 29, 2007, AlwaysReady, Inc announced the hiring of Source Capital Group, an investment banking firm specializing in the raising of private equity, to raise a minimum of $1.5 million in a Private Placement in which the Company would sell up to a 10% interest in AlwaysReady, Inc to institutional and accredited investors. In addition the Company announced that it planned to eventually transform AlwaysReady, Inc. into a publicly traded company. mPhase plans to retain a 90% interest in Always Ready, Inc. and the shares of common stock of Always Ready, Inc. will be registered on appropriate filings with the SEC under the Securities Act of 1933, as amended, as well as the Securities Exchange Act of 1934, as amended, and listed for trading on the over the counter bulletin board.

On June 20, 2007, the Company announced that it is forming a new subsidiary, Granita Media, Inc (Granita), a Delaware corporation, that will provide targeted advertising to users of the TV+ middleware solution. Through the use of specific viewer demographics such as age, gender and defined consumer preferences, the Company believes that a new form of broadcast television advertising could develop that is more powerful and focused than is currently being used by broadcasters. It is believed that targeted advertising software to be developed by Granita will enhance mPhase s middleware by offering a source of additional revenues for a telephone service provider deploying IPTV. mPhase plans to fund the new company initially through up to $500,000 of equity to be provided by employees and additional outside institutional financing which will involve the sale of up to 10% of the common stock of Granita with mPhase retaining 90% of the stock of Granita.

THE OFFERING

Common stock offered: Up to 261,460,717 shares of common stock, of which 185,914,911 shares are issued and outstanding and up to 75,545,806 shares may be issued upon exercise of warrants and options held by the selling stockholders.

Common Stock to be outstanding after this offering: Approximately 391 million shares of common stock. This does not include an aggregate of approximately 209 million shares that are reserved for issuance pursuant to outstanding employee stock options, non-employee stock options and warrants.

Use of proceeds: We will not receive any proceeds from the sale and issuance of the common stock included in this offering. However, we will receive approximately $47 million upon the exercise of all of the warrants and options by the selling stockholders.

Risk Factors: An investment in our common stock is subject to significant risks. You should carefully consider the information set forth in the Risk Factors section of this prospectus as well as other information set forth in this prospectus, including our financial statements and related notes.

Dividend policy: We do not expect to pay dividends on our common stock in the foreseeable future. We anticipate that all future earnings, if any, generated from operations will be retained to develop and expand our business.

Plan of Distribution: The shares of common stock (OTC Bulletin Board symbol: XDSL.OB) offered for resale may be sold by the selling stockholders pursuant to this prospectus in the manner described under Plan of Distribution.

We have applied for trademarks on certain marks which relate to our products. This prospectus also contains product names, trade names and trademarks of ours as well as those of other organizations. All other brand names and trademarks appearing in this prospectus are the property of their respective holders.

FORWARD-LOOKING STATEMENTS

In addition to the other information contained in this prospectus, investors should carefully consider the risk factors disclosed in this prospectus in evaluating an investment in our common stock. This prospectus includes forward-looking statements . All statements other than statements of historical fact are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as may , will , expects , plans , anticipates , estimates , potential , or continue or the neg other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements contained herein and in such incorporated documents are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth above and for the reasons described elsewhere in this prospectus. All forward-looking statements and reasons why results may differ included in this prospectus are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results might differ.

SUMMARY FINANCIAL DATA

The selected financial data set forth below is derived from and should be read in conjunction with historical financial statements and notes included in this prospectus. Financial information for the years ended June 30, 1999, 2000 and 2001, are derived from financial statements that have been audited by Arthur Andersen LLP. Financial information relating to years ended June 30, 2002, 2003 and 2004, 2005 and 2006 are derived from financial statements that have been audited by Rosenberg, Rich, Baker, Berman & Company, independent auditors, and are included in this prospectus. Quarterly information and balances as of March 31, 2007 includes all adjustments and material disclosures that management considers necessary for a fair presentation. Such information has not been audited are not necessarily indicative of the operating results to be expected in the future.

SUMMARY OPERATING DATA
Year Ended June 30,
(in thousands except per share data)

	2002	2003	2004	2005	2006	Cumulative from inception October 2, 1996 to June 30, 2006
Total revenues	$2,582	$1,582	$4,641	$1,711	$975	$22,296
Cost of sales	2,415	1,493	4,068	1,446	974	16,335
Research and development	3,820	3,538	4,070	5,127	8,035	51,579
General and administrative	7,039	2,684	4,178	6,580	11,121	96,756
Depreciation and amortization	670	515	123	63	79	3,031
Operating loss	(11,361)	(6,649)	(7,798)	(11,505)	(19,234)	(145,405)
Other income (expense), net	142	50	150	382	(5,182)	(5,905)
Interest income (expense)	(26)	(51)	(111)	(111)	(35)	(150)
Net loss	($11,245)	($6,650)	($7,759)	($11,234)	($24,451)	($151,460)
Basic and diluted net loss per share	($.23)	($.10)	($.10)	($.10)	($.12)	
Shares used in basic and diluted net loss per share	49,617,280	65,217,088	77,677,120	108,657,578	199,610,372	

BALANCE SHEET DATA
As of June 30
(in thousands)

	2002	2003	2004	2005	2006	March 31, 2007
Cash and cash equivalents	$47	$397	$90	$351	$1,360	$315
Working capital (deficit)	(94)	(1,405)	(2,112)	(1,674)	(1,093)	(3,011)
Total assets	6,942	3,782	2,591	2,232	2,182	1,666
Long-term obligations, net of current portion	2,891	2,608	1,038	315	0	0
Total stockholders (deficit)	$ (42)	$ (3,229)	$ (2,918)	$ (1,618)	$ (606)	$(2,634)

mPHASE TECHNOLOGIES, INC.
(A Development Stage Company)
Consolidated Statements of Operations
(Unaudited)

	Nine Months Ended March 31, 2006	2007	(Date of Inception) to March 31, 2007
REVENUES	$832,999	$135,743	$22,431,350
COSTS AND EXPENSES			
Cost of Sales	729,475	88,207	16,422,148
Research and Development (including non-cash stock related charges of $200,850, $0 and $2,318,519, for 2006, 2007 and inception to date respectively)	6,120,253	4,964,404	56,543,605
General and Administrative (including non-cash stock related charges of, $4,510,350, $1,124,647 and $58,319,301 for 2006, 2007 and inception to date respectively)	8,002,079	5,012,073	101,768,166
Depreciation and Amortization	57,644	66,314	3,097,316
TOTAL COSTS AND EXPENSES	$14,909,451	$10,130,998	$177,831,235
LOSS FROM OPERATIONS	($14,076,452)	($9,995,255)	($155,399,885)
OTHER INCOME			
Interest Income (Expense), net	(25,498)	(10,930)	(161,071)
Other Income (Expense) net	(4,902,302)	(1,054,187)	(6,959,473)
TOTAL OTHER INCOME (EXPENSE)	($4,927,800)	($1,065,117)	($7,120,544)
NET LOSS	($19,004,252)	($11,060,372)	($162,520,429)
LOSS PER COMMON SHARE, basic and diluted	($0.09)	($0.04)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted	211,186,500	309,018,261	

RISK FACTORS

An investment in the common stock offered by this prospectus involves a high degree of risk. In addition to the other information in this prospectus and any supplements to this prospectus, you should carefully consider the following risks before making an investment decision.

CAUTIONARY STATEMENT

In addition to the Risk Factors set forth below it is important for you to consider the following:

mPhase was advised in April 2002 that following an investigation by the staff of the Securities and Exchange Commission, the staff intended to recommend that the Commission file a civil injunctive action against Packetport.com, Inc. (Packetport) and its Officer s and Directors. Such recommendation related to alleged civil violations by Packetport and such Officers and Directors of various sections of the Federal Securities Laws. The staff has alleged civil violations of Sections 5 and 17(a) of the Securities Act of 1933 and Sections 10(b) and 13(d) of the Securities Exchanges Act of 1934. As noted in other public filings of mPhase, the Chief Executive Officer and Chief Operating Officer of mPhase also serve as Directors and Officers of Packetport. At that time these persons advised mPhase that they deny any violation of law on their part and intend to vigorously contest such recommendation or action, if any.

On November 15, 2005, the Commission filed a civil enforcement action against 6 individuals and 4 companies as a result of its investigation in federal district court in the State of Connecticut alleging various violations of the Securities Act of 1933 including Sections 5, Section 17(a) and the Securities Exchange Act of 1934 including Sections 10b, Rule 10b-5, Sections, 12,Section 13, Section 16 in connection with the purchase and sale of stock of Packetport in the period on or about December 14, 1999 into February of 2000. The defendants include the Chief Executive Officer and Chief Operating Officer of mPase as well as Microphase Corporation, a privately held Connecticut corporation that shares common management with mPhase. mPhase Technologies, Inc. is not named as a party in the enforcement action. The Chief Executive Officer and Chief Operating Officer of mPhase, and Microphase Corporation, each deny any violation of the law by each or any of them and intend to vigorously contest all charges set forth in such enforcement action by the Commission.

In a ruling (3:05 CV 1747 (PCD)), dated March 21, 2007, the Honorable Peter C. Dorsey, Senior U.S. District Court Judge for the United States District Court For The District Of Connecticut, granted a motion by defendants, Ronald A. Durando and Packetport Inc. joined by defendants Gustave T. Dotoli , Microphase Corporation and Packetport.com, Inc. to dismiss under Federal Rule 41(b) of the Federal Rules of Civil Procedure the civil lawsuit filed on November 15, 2005 by the Securities and Exchange Commission against Packetport.com, Inc. et. al for lack of prosecution.

On April 4, 2007, the Securities and Exchange Commission filed a motion with the United States District Court requesting a reconsideration of the motion to dismiss granted by the Court in favor of the defendants.

In a ruling dated May 23, 2007, the Judge Peter C. Dorsey granted the motion for reconsideration filed by the Securities and Exchange Commission and reversed his earlier ruling of March 21, 2007 and reinstated the case on the judicial calendar to proceed to trial.

Risks Related to Financial Aspects of Our Business

The Company engages in the new and emerging business of developing products using the science of Nanotechnology which entails significant exploratory development and commercial risk.

The Company has expended over $3.6 million from February of 2004 through the date hereof pursuant to 12 month contracts with the Bell Labs division of Lucent Technologies, Inc. during such period to develop longer life battery cells for military applications as well as commercial applications such as RFID (Radio Fequency Identification) tags. The Company expects to continue exploratory research with Lucent Technologies, Inc. and is currently in negotiations for an extension of such contract for an additional 12 months at the rate of $100,000 per month . Even though a feasibility prototype product has been successfully developed, pure research involves a high degree of risk with significant uncertainty as to whether a commercially viable product will result

From March 10, 2005 through the date hereof, the Company has spent over $2.4 million with the Bell Labs division of Lucent Technologies, Inc for new research and development of uncooled magnetic ultra sensors using the science of Nanotechnology. The Company is currently negotiating to extend its Development Agreement with Bell Labs for the Magnetometer research for another 12 months through June of 2008 at $100,000 per month each. The Company does not expect significant revenues from either product for at least 2 years.

mPhase s stock price has suffered significant declines during the past seven years and remains volatile.

The market price of our common stock closed at $7.88 on July 26, 2000 and closed at $.095 on June 29, 2007. During such period the number of shares outstanding of the Company increased from approximately 30 million shares to 388 million shares. Such increase was the result of periodic private placements by the Company in order to finance company operations. Stocks in telecommunications equipment providers of DSL products have been very volatile during such period. Our common stock is a highly speculative investment and is suitable only for such investors with financial resources that enable them to sustain the loss of their entire investment in such stock. Because the price of our common stock is less than $5.00 per share and is not traded on the NASDAQ National or NASDAQ Small Cap exchanges, it is considered to be a penny stock limiting the type of customers that broker/dealers can sell to. Such customers consist only of established customers and Accredited Investors (within the meaning of Rule 501 of Regulation D of the Securities Act of 1933, as amended-generally individuals and entities of substantial net worth) thereby limiting the liquidity of our common stock.

We have reported net losses for each of our fiscal years from our inception in 1996 and for the nine months (unaudited) ended March 31, 2007 respectively and may not be able to operate profitability in the future.

We have had substantial losses since our inception in 1996 (including $24,450,650 and $11,234,324 for the fiscal years ended June 30, 2006 and June 30, 2005, respectively and (unaudited) $11,060,372 and $19,004,252 for the nine month period ending March 31, 2007 and March 31, 2006 respectively) and cannot be certain when or if we will ever be profitable. We expect to continue to have net losses for the foreseeable future and have a need to raise not less than $5-10 million in additional cash in the next 12 months through further offerings to continue operations. We have never been profitable from our inception in October, 1996 through March 31, 2007 (unaudited) and we have incurred (a) accumulated losses of $162,520,429 and a stockholder s deficit of $2,634,400 and (b) cumulative negative operating cash flow of $73,398,128 and negative working capital of $3,011,440.

Our independent auditor s report express doubt about our ability to continue as a going concern.

The reports of the Company s outside auditors Rosenberg, Rich, Baker, Berman & Company with respect to its latest audited 10K for the fiscal years ended June 30, 2006, 2005, 2004, June 30, 2003 and June 30, 2002 stated that there is substantial doubt of the Company s ability to continue as a going concern. Such opinion from our outside auditors makes it significantly more difficult and expensive for the Company to raise additional capital necessary to continue our operations.

Our common stock is subject to significant dilution upon issuance of shares we have reserved issuance.

As of June 29, 2007, we have warrants, options outstanding convertible into approximately 215 million total shares of mPhase common stock which, upon conversion, may adversely affect the future price of our common stock. As of June 29, 2007 we have warrants and options convertible into approximately 112 million shares of our common stock at $.20 per share or less that, upon exercise, will result in significant dilution to many of our current shareholders and may adversely affect the future price of our common stock. We may be forced to raise additional cash for operations by selling additional shares of our common stock at depressed prices causing further dilution to our shareholders.

Risks Related to Our Operations

We have been a development-stage company since our inception in 1996 and have not to date had a significant or successful deployment of any of our solutions for the delivery of broadcast television, high-speed internet and voice by a major telephone service provider.

We have had to date no material revenues derived from sales of our TV+ solution. There has been to date only one sale of our IPTV solution for 1000 customers of a telecommunications service provider in Russia which has discontinued deployment of our TV+ solution. In addition a lab test trial by a major telecommunications service provider in the Ukraine currently faces significant financial and technical challenges in order to pass a technical acceptance test that requires many product features currently still in development by the Company. There are no other deployments of our TV+ Solution by telephone service providers globally and there currently is uncertainty as to the extent, if at all, that deployments of IPTV will occur in the future.

We depend upon outsourcing of our research and product development of our Nanotechnology products to the Bell Labs division of Lucent Technologies Inc.

We depend upon Lucent Technologies Inc. for the successful development of our Nanotechnology products and our business would be materially adversely affected if Lucent Technologies Inc. were to terminate our relationship or fail to renew our Development Agreement for the Magnetometer that is currently being negotiated.

The loss of key personnel could adversely affect our business.

Management and employment contracts with all of our officers have expired and no assurances can be given that such executives will remain with the Company or that the Company will be able to successfully enter into agreements with such key executives. All of our officers and other key employees have been granted stock options that are intended to represent a key component of their compensation. Such options may not provide the intended incentives to such persons if our stock price declines or experiences significant volatility.

Risks Related to Our Targeted Markets

Economic support from affiliated companies has been significant.

During the downturn in the telecommunications industry beginning in 2001, both Microphase Corporation, and Janifast Ltd. provided significant financial support to mPhase in the form of either cash infusions or conversions of related party debt. Such companies, which share common management with mPhase, are under no legal obligation to and may not be able to sustain such economic support of mPhase in the future should such support be necessary.

We may incur substantial expenditures in the future in order to protect our intellectual property.

We have recently filed a provisional patent with respect to our TV+ solution in order to protect our product, however a final patent has not yet been applied for or granted. Even if a patent is ultimately granted ,the telecommunications industry, in general, is characterized by a large number of patents and frequent patent litigation based upon claims of patent infringement when compared to other industries.

Historically the sale of infrastructure products to telecommunication providers in the international markets has a long lead-time and a multiplicity of risks.

We expect initially that revenues from our TV+ solution to be derived from international emerging markets and our success depends upon our ability to sell our flagship television platform outside of the United States where political, currency and regulatory risks are significantly greater. As a result of their distance from the United States, different time zones, culture, management and language differences, these operations pose greater risk than selling in the United States. Our sales cycle for our TV + solution is lengthy (since it involves a major strategic decision by an international telecommunications service provider) and we may incur significant marketing expenses with no guarantee of future sales. A significant market for our legacy Traverser DVDDS never developed and may never develop for our TV +solution if international telephone service providers fail to successfully deploy broadband services including high speed data and television. Increased consolidation of telephone service providers worldwide have significantly limited the current recovery of capital expenditures for broadband and other deployment from the economic downturn that began in 2001in the industry. Future market demand that will cause telephone service providers to aggressively roll out IPTV, in general, is highly unpredictable especially in markets outside of the United States. Certain telephone companies (especially in developing international economies) may have infrastructure that is not of sufficient quality to accommodate the mPhaseTV+ solution. Changes in foreign taxes and import duties and economic and political instability in international markets pose a greater risk to our operations than U.S. markets.

Our television platform may not achieve compliance with regulatory requirements in foreign countries.

Our mPhaseTV+ solution may fail to meet foreign regulatory standards. Since initially we are targeting markets for our television platform involves countries outside of the United States, such product is subject to greater regulatory risks since it must comply with different standards of different countries than can vary widely in the telecommunications industry. The failure to meet such regulatory standards would result in potential customers in countries outside of the United States not deploying of our TV+ solution.

The telecommunications industry is subject to intense competition characterized by swift changes in technology.

The telecommunications equipment industry is subject to swift and continuing innovation and technological changes that could render our TV+ solution obsolete and intense competition in the industry could prevent our ever becoming profitable. Our competitors that sell IPTV solutions that compete with and mPhase TV+ middleware include much larger and better known and capitalized companies with significantly greater selling and marketing experience and financial resources. Such competitors include for middleware a joint venture between Microsoft and Alcatel, as well as Minverva, Orca Interactive, Siemens, VBrick Systems and Video Furnance. End to end solutions competitors for IPTV include UTStarcom, mxWare and Industrial. Telephone service providers that are our targeted customers face competition from cable-based technologies, fixed wireless technologies and satellite technologies that may cause them not to deploy our TV+ product.

Deployment of our television platform requires significant additional investments by telecommunications service providers.

Our Customers may need to build a digital head-end to download television content from satellites involving a significant additional capital expenditure to utilize the digital Television capabilities of our TV+ solution. For customers desiring feature rich solutions such as video on demand, the installation of additional routers and servers may be required to upgrade the internet backbone capabilities of such customer. Such additional capital costs may cause a number of potential customers not to deploy our TV+ solution.

Risk Factors Related to Our Targeted Markets

We may not be able to evolve our technology, products and services or develop new technology, products and services that are acceptable to our customers.

The market for our IPTV middleware is characterized by:
Rapid technology change;
New and improved product introductions;
Changing customer demands; and
Evolving industry standards and product obsolescence.

Our future success will depend upon our ability to continually enhance our IPTV solution to deliver feature rich, open standards, carrier class television on the most scaleable cost efficient platform custom tailored to the rigorous and varied demands of telecommunications service providers. The development of enhanced and new technology, products and services is a complex and uncertain process requiring high levels of innovation, highly-skilled engineering and development personnel, and the accurate anticipation of technological and market trends. We may not be able to identify, develop, market or support new or enhanced technology, products, or services on a timely basis, if at all owing to our size and limited financial resources.

Telecommunications service providers outside of the United States must be able to access sources for broadcast television content in order to deploy our TV+ Solution.

In order to have an incentive to deploy the IPTV solution, an international telecommunications service provider must have access, to multiple channels of Television programming from content providers at prices that enable such provider to earn a profit from the deployment of television programming. In certain of our key target markets, such as Brazil, only cable companies are permitted under current law to provide such content and therefore a local service provider must establish a working relationship with such a cable provider to have an incentive to utilize our products.

USE OF PROCEEDS

The selling stockholders will receive the proceeds from the resale of the shares of common stock. We will not receive any proceeds from the resale of the shares of common stock by the selling stockholders. However, we will receive approximately $47 million if all of the warrants and options are converted to purchase shares of common stock registered under this prospectus which would be used for general working capital.

PRICE RANGE OF COMMON STOCK

The primary market for our common stock is the OTC Bulletin Board, where it trades under the symbol XDSL.OB . The following table sets forth the high and low closing bid prices for the shares for the periods indicated as provided by the National Quotation Bureau, Inc. The quotations shown reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

Year/Quarter	High	Low
Fiscal year ended June 30, 1999		
First Quarter	$4.25	$0.75
Second Quarter	3.65	1.56
Third Quarter	5.63	1.88
Fourth Quarter	8.75	2.91
Fiscal year ended June 30, 2000		
First Quarter	$9.25	$2.96
Second Quarter	6.18	2.50
Third Quarter	19.12	6.50
Fourth Quarter	14.12	6.00
Fiscal year ended June 30, 2001		
First Quarter	$9.25	$3.00
Second Quarter	5.93	1.46
Third Quarter	3.38	1.22
Fourth Quarter	2.61	1.03
Fiscal year ended June 30, 2002		
First Quarter	$1.67	$.31
Second Quarter	.86	.31
Third Quarter	.62	.27
Fourth Quarter	.50	.23
Fiscal year ended June 30, 2003		
First Quarter	$.32	$.15
Second Quarter	.31	.15
Third Quarter	.36	.19
Fourth Quarter	.42	.28
Fiscal Year ended June 30, 2004		
First Quarter	$.42	$.29
Second Quarter	$.61	$.26
Third Quarter	$.69	$.41
Fourth Quarter	$.46	$.29
Fiscal Year ended June 30, 2005		
First Quarter	$.31	$.21
Second Quarter	$.35	$.23
Third Quarter	$.59	$.30
Fourth Quarter	$.41	$.24
Fiscal Year ended June 30, 2006		

First Quarter	**$.28**	**$.22**
Second Quarter	**$.30**	**$.16**
Third Quarter	**$.42**	**$.21**
Fourth Quarter	**$.32**	**$.19**
Fiscal Year ended June 30, 2007		
First Quarter	**$.21**	**$.16**
Second Quarter	**$.20**	**$.15**
Third Quarter	**$.24**	**$.15**

As of June 29, 2007 (unaudited), we had approximately 388 million shares of common stock outstanding and approximately 17 thousand stockholders. The last reported sales price of our common stock on June 29, 2007 was $.095 per share.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and expand our business. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be based upon our financial condition, operating results, capital requirements, plans for expansion, restrictions imposed by any financing arrangements and any other factors that the board of directors deems are relevant.

SELECTED FINANCIAL DATA

The selected financial data set forth below is derived from and should be read in conjunction with historical financial statements and notes included in this prospectus. Financial information for the years ended June 30, 1999, 2000 and 2001, are derived from financial statements that have been audited by Arthur Andersen LLP. Financial information relating to years ended June 30, 2002, 2003 and 2004, 2005 and 2006 are derived from financial statements that have been audited by Rosenberg, Rich, Baker, Berman & Company, independent auditors, and are included in this prospectus. Quarterly information includes all adjustments and material disclosures that management considers necessary for a fair presentation. Such information has not been audited are not necessarily indicative of the operating results to be expected in the future.

SELECTED OPERATING DATA
Year Ended June 30,
(in thousands except per share data)

	2002	**2003**	**2004**	**2005**	**2006**	**Cumulative from inception October 2, 1996 to June 30, 2006**
Total revenues:	$2,582	$1,582	$4,641	$1,711	$975	$22,296
Cost of sales	2,415	1,493	4,068	1,446	974	16,335
Research and development	3,820	3,538	4,070	5,127	8,035	51,579
General and administrative	7,039	2,684	4,178	6,580	11,121	96,756
Depreciation and amortization	670	515	123	63	79	3,031
Operating loss	(11,361)	(6,649)	(7,798)	(11,505)	(19,234)	(145,405)
Other income (expense), net	142	50	150	382	(5,182)	(5,905)
Interest income (expense)	(26)	(51)	(111)	(111)	(35)	(150)
Net loss	($11,245)	($6,650)	($7,759)	($11,234)	($24,451)	($151,460)
Basic and diluted net loss per share	($0.23)	($0.10)	($0.10)	($0.10)	($0.12)	
Shares used in basic and diluted net loss per share	49,617,280	65,217,088	77,677,120	108,657,578	199,610,372	

- Does not include any common stock equivalents since their effect would be anti-dilutive.

mPHASE TECHNOLOGIES, INC.
(A Development Stage Company)
Consolidated Statements of Operations
(Unaudited)

	Nine Months Ended March 31, 2006	Nine Months Ended March 31, 2007	(Date of Inception) to March 31, 2007
REVENUES	$832,999	$135,743	$22,431,350
COSTS AND EXPENSES			
Cost of Sales	729,475	88,207	16,422,148
Research and Development (including non-cash stock related charges of $200,850, $0 and $2,318,519, for 2006, 2007 and inception to date respectively)	6,120,253	4,964,404	56,543,605
General and Administrative (including non-cash stock related charges of, $4,510,350, $1,124,647 and $58,319,301 for 2006, 2007 and inception to date respectively)	8,002,079	5,012,073	101,768,166
Depreciation and Amortization	57,644	66,314	3,097,316
TOTAL COSTS AND EXPENSES	$14,909,451	$10,130,998	$177,831,235
LOSS FROM OPERATIONS	($14,076,452)	($9,995,255)	($155,399,885)
OTHER INCOME			
Interest Income (Expense), net	(25,498)	(10,930)	(161,071)
Other Income (Expense) net	(4,902,302)	(1,054,187)	(6,959,473)
TOTAL OTHER INCOME (EXPENSE)	($4,927,800)	($1,065,117)	($7,120,544)
NET LOSS	($19,004,252)	($11,060,372)	($162,520,429)
LOSS PER COMMON SHARE, basic and diluted	($0.09)	($0.04)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted	211,186,500	309,018,261	

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

SELECTED BALANCE SHEET DATA:
As of June 30,
(in thousands except per share data)

	2002	2003	2004	2005	2006	March 31, 2007 (unaudited)
Cash and cash equivalents	$47	$397	$90	$351	$1,360	$315
Working capital (deficit)	(94)	(1,405)	(2,112)	(1,674)	(1,093)	(3,011)
Total assets	6,942	3,782	2,591	2,232	2,182	1,666
Long-term obligations, net of current portion	2,891	2,608	1,038	315	0	0
Total stockholders (deficit)	$(42)	$(3,229)	$(2,918)	$(1,618)	$(606)	$(2,634)

SELECTED QUARTERLY DATA

FISCAL 2007 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three Months Ended September 30,	December 31	March 31,
Total revenues	$105,846	$14,742	$15,155
Costs and Expenses:			
Cost of sales	85,390		2,817
Research and development	1,990,313	1,723,411	1,250,680
General and administrative	1,961,832	1,405,347	1,644,895
Depreciation and amortization	21,899	21,739	22,676
Operating loss	3,953,588	3,135,755	2,905,912
Interest expense, Net	(4,414)	(7,734)	1,218
Other Income (expense)		(695,352)	(358,835)
Net Loss	(3,958,002)	($3,838,841)	($3,263,529)
Basic and diluted net loss per share	(.01)	($.01)	($.01)
Shares used in basic and diluted net loss per share	282,306,237	300,483,022	327,195,047

FISCAL 2006 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three Months Ended September 30,	December 31	March 31,	June 30,
	(in thousands, except share amounts)			
Total revenues	$381	$168	$284	$142
Costs and Expenses:				
Cost of sales	338	135	256	246
Research and development	1,861	1,961	2,298	1,915
General and administrative	1,092	2,090	4,820	3,119
Depreciation and amortization	21	20	17	22
Operating loss	(2,931)	(4,038)	(7,107)	(5,160)
Interest expense, Net	(14)	(6)	(5)	(10)
Other Income (expense)	(13)	(4,270)	(498)	(402)
Net Loss	$(2,958)	(8,314)	(7,610)	(5,572)
Basic and diluted net loss per share	$(.02)	(.05)	(.03)	(.03)
Shares used in basic and diluted net loss per share	152,291,645	174,998,048	262,539,165	270,387,574

FISCAL 2005 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three Months Ended September 30,	December 31	March 31,	June 30,
	(in thousands, except share amounts)			
Total revenues	$179	$295	$564	$673
Costs and Expenses:				
Cost of sales	130	245	448	623
Research and development	1,101	1,055	1,664	1,307
General and administrative	709	2,071	2,636	1,164
Depreciation and amortization	1	127	65	(130)
Operating loss	(1,762)	(3,203)	(4,249)	(2,291)
Interest expense, Net	(29)	(66)	(37)	21
Other Income (expense)	(41)	(37)	(60)	520
Net Loss	$(1,832)	(3,306)	$(4,346)	$(1,750)
Basic and diluted net loss per share	$(.02)	(.04)	$(.04)	$(.01)
Shares used in basic and diluted net loss per share	89,719,962	93,388,584	120,015,504	137,719,500

FISCAL 2004 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three Months Ended September 30,	December 31	March 31,	June 30,
	(in thousands, except share amounts)			
Total revenues	$2,489	$1,291	$555	$306
Costs and Expenses:				
Cost of sales	2,099	1,191	484	294
Research and development	611	843	1,404	1,212
General and administrative	605	914	803	1,856
Depreciation and amortization	46	28	27	22
Operating loss	(872)	(1,685)	(2,162)	(3,078)
Interest expense, Net	(16)	(16)	(20)	(59)
Other Income (expense)	23	-	(152)	279
Net Loss	$(865)	$(1,701)	$(2,334)	$(2,858)
Basic and diluted net loss per share	$(.01)	$(.02)	$(.03)	$(.03)
Shares used in basic and dilute net loss per share	71,725,318	72,814,272	81,564,405	84,885,017

FISCAL 2003 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three Months Ended September 30,	December 31	March 31,	June 30,
	(in thousands, except share amounts)			
Total revenues	$210	$562	$210	$600
Costs and Expenses:				
Cost of sales	197	547	205	544
Research and development	803	753	906	1,076
General and administrative	893	731	544	516
Depreciation and amortization	131	129	129	127
Operating loss	(1,814)	(1,598)	(1,574)	(1,662)
Interest expense, Net	(18)	(15)	(11)	(7)
Other Income (expense)	41	-	9	11
Gain (Loss) on investments	-	(16)	(12)	17

Net Loss	$(1,791)	$(1,629)	$(1,588)	$(1,641)
Basic and diluted net loss per share	$(.03)	$(.07)	$(.02)	$(.02)
Shares used in basic and diluted net loss per share	60,881,131	65,914,466	65,956,810	68,164,160

FISCAL 2002 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three Months Ended September 30,	December 31	March 31,	June 30,
	(in thousands, except share amounts)			
Total revenues	$537	$545	$866	$634
Costs and Expenses:				
Cost of Sales	457	530	724	704
Research and development	1,111	1,257	539	913
General and administrative	2,862	1,641	1,355	1,181
Depreciation and amortization	193	209	136	132
Operating loss	(4,086)	(3,092)	(1,888)	(2,296)
Interest expense, Net	(10)	(1)	(5)	(10)
Other Income (expense)	33	5	85	19
Net Loss	$(4,063)	$(3,088)	$(1,808)	$(2,287)
Basic and diluted net loss per share	$(.10)	$(.07)	$(.03)	$(.04)
Shares used in basic and diluted net loss per share	42,037,506	44,645,458	55,606,168	56,459,167

COMPANY OPERATIONS

The following is management s discussion and analysis of the operations of mPhase, since its inception in 1996 which should be read in conjunction with the accompanying financial statements, financial data, and the related notes.

CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE LITIGATION REFORM ACT OF 1995:

Some of the statements contained in or incorporated by reference in this Prospectus discuss the Company s plans and strategies for its business or state other forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. The words anticipate, believe, estimate, expect, plan, intend, should, s similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. These forward-looking statements include, among others, statements concerning the Company s expectations regarding its working capital requirements, gross margins, results of operations, business, growth prospects, competition and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Any forward-looking statements contained in this Prospectus are subject to risks and uncertainties that could cause actual results to differ materially from those results expressed in or implied by the statements contained herein.

OVERVIEW

mPhase Technologies, Inc. (mPhase, the Company, we or us), a New Jersey corporation, founded in 1996 is a publicly-held company with approximately 17,000 shareholders and approximately 391 million shares of common stock outstanding as of July 9, 2007. The Company s common stock is traded on the NASDAQ Over the Counter Bulletin Board under the ticker symbol XDSL.

mPhase is a developer of broadband communications products, specifically, IPTV plus digital subscriber line (DSL) products for telecommunications service providers around the world. In February of 2004 mPhase entered into the new and emerging area of NanoTechnology. Since our inception in 1996 we have been a development-stage company and operating activities have related primarily to research and development, establishing third-party manufacturing relationships and developing product brand recognition among telecommunications service providers.

We are headquartered in Norwalk, Connecticut with offices in Little Falls, New Jersey and New York, New York. mPhase shares common office space and common management with Microphase Corporation, a privately-held company. Microphase is a seller of radio frequency and filtering technologies to the defense industry. Microphase has been in operation for over 50 years and supports mPhase with engineering, administrative and financial resources, as needed.

Description of Operations

mPhase Technologies, Inc. (mPhase or the Company) is a development stage technology company. The Company is a developer and seller of broadband communications products for telephone service providers. The Company s TV+ solution is an open-standards, carrier class solution of middleware/software enabling telephone service providers to deliver broadcast television using internet protocol (IPTV), video on demand, voice and high-speed internet over such providers existing infrastructure. The Company also provides systems integration solutions for delivery of broadcast television (IPTV), video on demand, high-speed internet and voice using internet protocol over the existing infrastructure of a telephone service provider. The Company s TV+ solution is highly scalable (compared to other middleware requires less routers and servers) with significant cost savings and is reliable middleware designed to operate with any IP based network. In addition the Company designs, manufacturers and sells DSL component products including its new customer premises VDSL splitter. In fiscal year 2004, the Company entered into the field of nanotechnology research and development of micro power cell batteries of various voltages. In 2005, the Company expanded its products in the field of nanotechnology research and development into electronic sensors or magnetometers using micro electrical mechanical systems.

IPTV and TV+ Solutions

mPhase introduced its first TV over DSL platform, the Traverser Digital Video and Data Delivery System (DVDDS), in 1998. The DVDDS is a patented end to end system that enables a telecommunications service provider to deliver up to several hundred channels of motion picture experts group two (MPEG-2) standard broadcast digital television, high speed internet and voice over copper telephone lines between a central office facility of the provider and a customer s premise. mPhase has not, as yet, derived any material revenues from sales of the DVDDS. The DVDDS is a proprietary technology developed in conjunction with Georgia Tech Research Corporation (GTRC) and is one of the first systems of its kind developed. The system is the only system on the market that utilizes non- Internet Protocol (IP) transmission over ADSL. The legacy DVDDS platform has been replaced by the Company s TV+ solution.

Our current TV+ solution, utilizes a communications framework based upon Internet Protocol (IP) instead of Asynchronous Transfer Mode (ATM) that is utilized by earlier versions of the product. ATM is an industry standard for transportation of data based upon a packaging of information into a fixed-size cell format for transportation across networks. Many telecommunications service providers currently deploy equipment that handles this protocol because it can support voice, video, data and multimedia applications simultaneously with a high degree of reliability. IP is another transport protocol that maintains network information and routes packets across networks. IP packets are larger and can hold more data than ATM cells. Historically, there have been concerns that service providers would be unable to provide the same quality of service with IP because it is not optimized for time-sensitive signals such as broadcast television and voice. Nevertheless, there is a greater demand by telecommunication service providers for IP systems for delivery of television, voice and high-speed data because such systems are significantly more cost effective to deploy based upon greater scalability.

Our TV+ solution is an open standards-based carrier class technology that may be used over any infrastructure such as fiber, coax, or copper. The TV+ solution may be used in combination with the set top box of any vendor and will operate with any DSLAM or multicast routers transport equipment used for delivery of IPTV. We believe the system s architecture is the most reliable and highly scalable solution available for IPTV. Our solution enables a telecommunications service provider to custom tailor the deployment of feature rich IP television, video on demand, high-speed internet and voice. The solution allows a service provider to start small and test its take rate among customers with a maximum of flexibility of design, features and cost allowing it to enter the market for converged services to its customers on an optimal basis.

mPhase DSL Component Products.

mPhase continues to design and market a line of DSL component products. mPhase is currently developing and marketing a new VDSL customer premises splitter designed to meet the current migration of deployments by telephone service providers from ADSL to VDSL.

Nanotechnology

Effective February 3, 2004, mPhase entered into a Development Agreement with Lucent Technologies, Inc. to commercialize the use of nano power cell technology. The initial agreement was for a 12 month period of exploratory development at the cost of $100,000 per month of a new form of power cell having a shelf life far in excess of conventional battery technology. In March of 2005 the Company extended such Agreement for another 12 months at the cost of $100,000 per month to continue development of the nano power cell product and the Company in currently negotiating with Lucent to extend the Agreement upon the same terms through March of 2006 and in May of 2006 extended such Agreement through February of 2007. We have extended such Agreement through April 27, 2007. We believe that this arrangement with the Bell Labs division of Lucent will give mPhase the opportunity to develop and offer breakthrough battery technology and other potential applications, initially to the government market for defense and homeland security and ultimately to the commercial market. It is anticipated that the initial applications for nano power cells will address the need to supply emergency and reserve power to a broad range of products for the defense department.

The Company believes that its entry into this new field of high technology growth will provide product diversification without negatively affecting its focus upon its traditional products aimed at delivery of Television over DSL. The Company developed a lab prototype of its first nano power cell product that was completed in the second quarter of fiscal year 2005. The Company is unable, at this time, to predict when significant commercialization and material revenues will be derived from its entry into the NanoTechnology business.

On March 10, 2005 the Company announced and agreement with the Bell Labs research and development arm of Lucent Technologies, Inc. to co develop using the science of nanotechnology and commercialize uncooled magnetic ultra-sensitive sensors for a host of defense and civilian applications. The agreement with Bell Labs is for a 12 month period at a cost of $100,000 per month to the Company and was renewed in May of 2006 through March of 2007 upon the same terms. The sensors, technically referred to as magnetometers, are based upon Micro Electro Mechanical Systems (MEMS) using designs based upon fundamental breakthroughs made in the past few years at Bell Labs as part of the New Jersey Nanotechnology Consortium. Initial tests of theses MEMS magnetometers indicate sensitivities 1000 times those achieved in presently available uncooled magnetometers. Such devices are designed to create a new generation of magnetometers suitable for navigation based applications as well as ultra sensitive magnetic field sensors that will enable military combatants to detect with greater accuracy and range hostile military forces. Commercial applications may include inexpensive navigational components for mobile phones to sensing devices for identification used in homeland security products, as well as sensors used in diagnostic systems for detection of metal fatigue for numerous industrial applications.

On June 8, 2007, the Company and Bell Labs extended at a cost of $100,000 per month for 12 months the Development Agreement with respect to the nano power cell technology that had expired on April 27 of 2007. The Company is currently in discussions with Bell Labs to renew for an additional twelve months the Development Agreement for the Magnetometer product that expired in March of 2007 on similar terms.

Nano Battery:

mPhase Technologies along with its partner Alcatel Lucent/Bell Labs has been jointly conducting research since February 2004 that demonstrates control and manipulation of fluids on superhydrophobic surfaces to create power cells by controlling wetting behavior of electrolyte on nanostructured electrode surfaces. The scientific research conducted this year has set the groundwork for continued exploration in the development of intelligent nanotechnology power cells (nano-batteries), and forms a path to commercialization of the technology for a broad range of market opportunities. During the first half of calendar year 2005 the battery team has been testing modifications and enhancements to the internal design of the battery to optimize its power and energy density characteristics, as well as making engineering improvements that will assist in making the battery easier to manufacture when the project research that level of maturity. In the second half of calendar year 2005, the technical team has improved the robustness and manufacturability of the prototype battery by designing a porous membrane structure with honeycomb features. A successful demonstration of this working prototype battery using these new modifications was demonstrated in January of 2006 and subsequently highlighted in the February 2006 issue of Scientific American magazine.

In June of 2005 the battery project was expanded to include a joint technical development effort through December 2005 between mPhase and Rutgers University to potentially incorporate a Lithium based design. This work program has initially started as a modest technology effort to help characterize and test the nano battery design using Lithium chemistry and determine if the current design is capable of supporting the lithium based chemistry. The Company continued its work with Rutgers University in 2006 where a number of important scientific tests were conducted. Based upon the results of these on going tests, the Company may decide to accelerate the work effort beyond its current level of funding.

Magnetometer:

In February 2005 mPhase and Lucent Technologies Bell Laboratories entered into a joint effort to develop a family of magnetometer designs suitable for both low sensitivity applications, to extremely sensitive designs used for more complex applications. Magnetometers can be used in a wide range of applications that include military surveillance, securing the retail environment, automotive sensors and actuators, industrial processing, medical imaging, scientific measurements, detection of mineral deposits and even air and space exploration. In sensor networks ultra-sensitive magnetometers can be used, for example, to detect and accurately pinpoint battlefield objects or they might also be used to study the workings of the human brain.

Magnetometers work by sensing changes in magnetic fields due to the motion of magnetic objects or changes in electrical currents generated by those objects. The magnetometer detects these objects by measuring time-varying magnetic signals that are superimposed on the combination of earth s background field (used to orient compasses) and static magnetic fields due to nearby magnetic objects.

Highly Sensitive Magnetometers - The enhanced sensitivity of these devices results from two scientific advances recently made researchers at Alchaetel / Lucent Bell Labs. Presently, the highest sensitivity magnetometers commercially available require cooling to cryogenic temperatures. Called SQUIDs (for Superconducting Quantum Interference Devices) these devices only work at the temperature where liquid helium boils, -455 degrees below zero Fahrenheit, making such magnetometers expensive and bulky and therefore ill-suited for remote-sensing applications. Room temperature magnetometers, on the other hand, are less sensitive, and use technology that was developed in World War II for detecting submarines.

The new technology being developed by Bell Labs and mPhase employs a number of different designs based on Micro-Mechanical Systems (MEMS). These designs use the very high Quality Factor (Q) of the mechanical resonance in single crystals of silicon. A resonance is similar to the fundamental frequency of a tuning fork. When tapped, a tuning fork will vibrate for a length of time inversely proportional to the internal friction of vibration within the metal of the tuning fork. A comparable tuning fork made from single crystal silicon, which has less internal friction than the hardest metal, will vibrate almost a thousand times longer. Based on this principal, a device employing a high Q resonator will have enhanced amplitude of vibration at the resonance frequency, and hence will display a greater sensitivity to external perturbations that affect its resonance frequency. By coupling the mechanical motion of a bar or a paddle constructed from silicon to the ambient magnetic field, this high mechanical sensitivity can be converted to high magnetic field sensitivity. The technical approach that the team is developing can be achieved either statically with an integrated magnetic film, or dynamically through motion of the silicon bar or paddle.

The Benefits of MEMS - Commercial magnetometers using purely electronic detection, such as Hall, magneto-resistance or flux-gate devices, have sensitivities limited by their *electronic* Q-factor. This Q-factor depends on the natural electrical resistance, or electronic friction, of the metal in the circuit. For room-temperature operations it is therefore difficult to reduce the electrical Q-factor. Mechanical resonators made from semiconductor-grade silicon, on the other hand, exhibit mechanical Q-factors, approaching 100,000 at room temperature. These new, smaller and less costly magnetometers should be 100-1000 times more sensitive than existing commercial devices in terms of size and power consumption, thus enabling the creation of a new class of sensor systems that mPhase plans on commercializing.

The mPhase and Lucent magnetometer team has successfully reached an early milestone and have produced a number MEM based sensor samples from the clean room facilities and are working on integrating them into the surrounding electronic circuitry so that measurement, characterization and sensitivity testing can be conducted. We are currently able to achieve sensitivities at room temperature of better than .1 micro gauss per root hertz squared and with additional development the goal is improvement of at least one order of magnitude.

The Company is currently negotiating the extension through June of 2008 with Bell Labs of its Magnetometer Development Agreement and its Battery Development Agreement each at a cost of $100,000 per month.

NOTES ON OPERATIONS

Revenues. To date, all material revenues have been generated from sales of the POTS Splitter Shelves and other DSL component products to a small number of telecommunications companies. mPhase believes that future revenues are difficult to predict because of the length and variability of the commercial roll-out of the IPTV to various telecommunications service providers and the Company s recent entry into the NanoTechnology business that is essentially exploratory research both with respect to the potential battery and magnetometer applications. Since the Company believes that there may be a significant international market for its TV+ IPTV solution involving many different countries, with different regulations, certifications and commercial practices than the United States, future revenues are highly subject to the changing variables and uncertainties. The Company is negotiating a royalty on gross revenues received by Janifast Ltd. in connection with sales of the new VDSL customer premises splitter product.

Cost of revenues. The costs necessary to generate revenues from the sale of POTS Splitter Shelves and other related DSL component products include direct material, labor and manufacturing. mPhase paid these costs to Janifast Ltd., which has facilities in the People s Republic of China and is owned by and managed by certain senior executives of the Company. The cost of revenues also includes certain royalties paid to Microphase Corporation, a privately held corporation organized in 1955, which shares certain common management with the Company and is majority-owned by a director of mPhase. Costs for future production of the TV + solution will consist primarily of payments to selected software vendors and developers for the development of custom features required by a particular purchaser of the IPTV middleware. Such major vendors include Espial Group and Magpie Telecom Insiders, Inc and systems integration by Velankani Systems. mPhase is currently negotiating a payment in shares of stock to Microphase in connection with the design of its new VDSL customer premises splitter product.

Research and development. Research and development expenses consist principally of the payments made to Magpie Telecom Insiders, Inc., Espial, Bitband and Velankani , for development of the TV+ IPTV solution and the Bell Labs division of Alcatel/Lucent for development of our nanotechnology products respectively. The IPTV+ solution consists primarily of middleware/software designed for the delivery of feature rich, carrier class, broadcast TV, high speed internet and voice by telecommunications service providers open using standards based equipment and transport configurations. There are a number of potential military and commercial applications for our nanotechnology products. All research and development costs are expensed as incurred.

General and administrative. Selling, general and administrative expenses consist primarily of salaries and related expenses for personnel engaged in direct marketing of the TV+ solution for IPTV and DSL component products including our new VDSL customer premises splitter, as well as support functions including executive, legal and accounting personnel. Certain administrative activities are outsourced on a monthly fee basis to Microphase and mPhase leases its principal office in Norwalk, Connecticut from Microphase.

Non-Cash compensation charges. The Company makes extensive use of common stock grants, options and warrants as a form of compensation to employees, directors and outside consultants. We incurred non-cash compensation charges totaling $59,071,377 from inception (October 2, 1996) through June 30, 2006, of which $2,318,519 was included in research and development expenses and $56,752,858 was included in general and administrative expenses. We incurred non-cash compensation charges of $60,196,024 from inception (October 2, 1996) through March 31, 2007 (unaudited), of which $2,318,519 was included in research and development expenses and $58,319,301 was included in general and administrative expenses.

TWELVE MONTHS ENDED JUNE 30, 2006 VS. JUNE 30, 2005

Revenues. Total revenues for the year ended June 30, 2006 decreased to $975,482 from $1,711,085 for the year ended June 30, 2005. The decrease was primarily attributable to decreased sales of the Company s POTS Splitter product line caused by a downturn of orders from one customer that orders component products from the Company. The Company also recognized $280,000 of revenue in connection with the first sale of 1000 ports of Release 2.0 its TV+ solution to a major telecommunications service provider in Russia in fiscal year 2005 but received no additional orders for Version 3.0 of its TV+ solution in fiscal year 2006. The Company cannot predict when the demand for telecommunication equipment will resume, however we do expect certain added revenue in fiscal year 2007 from deployments of our TV+ solution.

Cost of revenues. Cost of sales was $974,583 for the year ended June 30, 2006 as compared to $1,446,151 in the year ended June 30, 2005. Cost of revenues decreased for the twelve months ended June 30, 2006 compared to the prior period ending June 30, 2005 primarily because of decreased sales. Gross margins for the period ended June 30, 2006 were 1.0%. The gross margins have varied dramatically as spending among telecommunication providers has contracted, coupled with downward pressures related to the supply and demand of telecommunications products. The single most significant reason the margins decreased dramatically was due to the reduced selling price of our POTS Splitter product.

Research and Development. Research and development expenses were $8,034,964 for the year ended June 30, 2006 as compared to $5,127,438 in the year ended June 30, 2005, an increase of $2,907,526. Such expenditures included $4,384,749 incurred with Lucent Technologies, Inc. for the year ended June 30, 2006 as compared to $3,319,280 during the comparable period in 2005. In addition we incurred $2,346,875 with Microphase and other strategic vendors for the year ended June 30, 2006 as compared to $919,937 during the comparable period in 2005.

The significant increase in research and development expenses with Lucent Technologies, Inc. is due to the $1.2 million per month Development Agreement for the battery and power pack product utilizing nanotechnology. In addition, the Company has extended its research with Lucent Technologies related to the ultra electronic sensor devices for 12 months at a total cost of $1.2 million.

The elimination in research expenditures incurred with GTRC is due to the Company s refocus in development from its legacy Traverser DVDDS television delivery platform to its TV+ product.

Research expenditures incurred with Microphase sharply declined as the Company reexamined the viability of it Broadband Loop Watch product during the second half of fiscal year 2006. Expenditures that were incurred in fiscal year 2006 were related to the continuing development of the Company s DSL component products, including the Company s line of POTS Splitters and Microfilters and the Company s the Broadband Loop Watch.

General and Administrative Expenses. Selling, general and administrative expenses were $11,121,235 for the year ended June 30, 2006 up from $6,579,761 for the comparable period in 2005, an increase of $4,541,474.

Included is an increase of non-cash charges relating to the issuance of common stock and options to consultants, and employees which totaled $6,276,423 for the year ended June 30, 2006 as compared to $3,336,064 during the comparable period in 2005. Other components of the increase in selling, general and administrative expenses were increases in payroll of approximately $128,000 to $1,603,000, an increase in the use of outside consultants of approximately $399,000 to $1,103,000, marketing expenses such as trade shows of $104,000 to $372,000.

Other Income and Expense for the year ended June 30, 2006 reflects a non recurring charge of $5,530,504 for the value of shares issued to investors to reflect market changes in the common stock.

Net loss. mPhase recorded a net loss of $24,450,650 for the year ended June 30, 2006 as compared to a loss of $11,234,324 for the same period ended June 30, 2005. This represents a loss per common share of $(.12) in 2006 as compared to $(.10) in 2005, based upon weighted average common shares outstanding of 199,610,372 and 108,657,578 during the periods ending June 30, 2006 and June 30, 2005 respectively.

NINE MONTHS ENDED MARCH 31, 2007 VS. MARCH 31, 2006

REVENUE

Total revenues were $135,743 for the nine months ended March 31, 2007 compared to $832,999 for the nine months ended March 31, 2006. The decrease was attributable primarily to the phasing out of the Company s ADSL POTS Splitter line of products and its emphasis on developing a new VDSL customer premises POTS Splitter product to meet market advancements in technology.

COST OF SALES

Cost of sales was $88,207 for the nine months ended March 31, 2007 as compared to $729,475 in the comparable prior period. The decrease is a direct result of the aforementioned phasing out of the POTS Splitter line of business.

RESEARCH AND DEVELOPMENT

Research and development expenses were $4,964,404 for the nine months ended March 31, 2007 as compared to $6,120,253 during the comparable period in 2006; or a decrease of $1,155,849. The Company incurred most of its research and development expenses with vendors including Lucent, Microphase, Magpie Insiders, Inc., Bitband, Espial, Velankani and other strategic vendors. In the nine month period ended March 31, 2007 such charges totaled approximately $4.4 million as compared to $5.3 million during the comparable period in 2006. During the nine month period ended March 31, 2007, expenses incurred to third party vendors amounted to $1.6 million and $2.8 million for services related to Nanotechnology and IPTV, respectively. During the nine month period ended March 31, 2006, expenses incurred to third party vendors amounted to $2.0 million and $3.3 million for services related to Nanotechnology and IPTV, respectively.

GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $5,012,073 for the nine months ended March 31, 2007 down from $8,002,079 or an decrease of $2,990,006 from the comparable period in 2006. Included in selling, general and administrative costs are non-cash charges relating to the issuance of common stock and options to employees and consultants, which totaled $1,124,647 for the nine months ended March 31, 2007 as compared to $4,510,350 for the comparable period ended March 31, 2006 resulting in a decrease of $3,385,703. This decrease was offset by increases in payroll related costs which increased by approximately $383,304, investor relations and marketing which increased by $130,115 and legal and professional which increased by approximately $296,456.

OTHER INCOME AND (EXPENSE)

Other Income and (Expense) amounted to net expense of $1,065,117 for the nine months ended March 31, 2007 compared to a net expense of $4,927,800 for the comparable period ended March 31, 2006. This decrease is primarily owing to reparation expense which declined from $5,167,740 in 2006 versus $1,202,730 in 2007.

NET LOSS

The Company recorded a net loss of $11,060,372 for the nine months ended March 31, 2007 as compared to a loss of $19,004,252 for the nine months ended March 31, 2006. This represents a loss per common share of $.04 for the nine month period ended March 31, 2007 as compared to a loss per common share of $.09 for the nine months ending March 31, 2006; based upon weighted average common shares outstanding of 309,018,261 and 211,186,500 during the periods ending March 31, 2007 and 2006, respectively. Approximately $4.0 million of the decrease in the Company s net loss was the result of reparation cost in connection with the reduction in the strike price of certain warrants and issuance of additional shares in connection with private placements.

TWELVE MONTHS ENDED JUNE 30, 2005 VS. JUNE 30, 2004

Revenues. Total revenues for the year ended June 30, 2005 decreased to $1,711,085 from $4,641,346 for the year ended June 30, 2004. The decrease was primarily attributable to decreased sales of the Company s POTS Splitter product line especially during the first quarter of fiscal year 2004, caused by a downturn of orders from one customer that orders component products from the Company. The Company recognized $280,000 of revenue in connection with the first sale of 1000 ports of Release 2.0 its TV+ solution to a major telecommunications service provider in Russia. The Company continues to believe that its line of POTS Splitter products is positioned to be competitively priced with high reliability and connectivity, and as such has the potential to be significant part of DSL deployment. The Company cannot predict when the demand for telecommunication equipment will resume, however we do expect certain added revenue in fiscal year 2006 from the completion of Release 3.0 of our TV+ solution and Broadband Loop Watch Products.

Cost of revenues. Cost of sales was $1,446,151 for the year ended June 30, 2005 as compared to $4,068,255 in the year ended June 30, 2004. Cost of revenues decreased for the twelve months ended June 30, 2005 compared to the prior period ending June 30, 2004 primarily because of decreased sales. Gross margins for the period ended June 30, 2005 were 15.5%. The gross margins have varied dramatically as spending among telecommunication providers has contracted, coupled with downward pressures related to the supply and demand of telecommunications products. The single most significant reason the margins decreased dramatically was due to the reduced selling price of our POTS Splitter product. Discounts, consisting of a 2% discount from the amount invoiced if paid within 10 days were offered during fiscal year 2005. Such discounts amounted to $1,447 for the period ended June 30, 2005, and were offered to Covad Communication our leading telecommunications service provider customer. Discounts were offered in fiscal 2004 to Covad Communications amounting to 2% from the amount invoiced if paid within 10 days were offered to Covad Communications and amounted to $71,425.

Research and Development. Research and development expenses were $5,127,438 for the year ended June 30, 2005 as compared to $4,069,721 in the year ended June 30, 2004, an increase of $1,057,717. Such expenditures included $3,319,280 incurred with Lucent Technologies, Inc. for the year ended June 30, 2005 as compared to $2,328,602 during the comparable period in 2004. In addition we incurred $919,937 with Microphase and other strategic vendors for the year ended June 30, 2005 as compared to $99,494 during the comparable period in 2004.

The significant increase in research and development expenses with Lucent Technologies, Inc. is due to the continued and accelerated development of the TV+ product together with the extension of the $1.2 million month Development Agreement for an additional 12 months related to the battery and power pack product development utilizing nanotechnology and the entering into a second one year $1.2 million Development Agreement with Lucent to develop magnetic sensor devices also using nanotechnology. Such expenditures may increase in fiscal year 2006 since the Company s strategy is to further enhance the features and cost reduce its TV+ and expand its product line in the Nanotechnology area.

The elimination in research expenditures incurred with GTRC is due to the Company s refocus in development from its legacy Traverser DVDDS television delivery platform to its TV+ product.

Research expenditures incurred with Microphase were related to the continuing development of the Company s DSL component products, including the Company s line of POTS Splitters and Microfilters and the Company s newest products, the Broadband Watch.

General and Administrative Expenses. Selling, general and administrative expenses were $6,579,761 for the year ended June 30, 2005 up from $4,177,961 for the comparable period in 2004, a decrease of $2,401,800. The increase in the selling, general and administrative costs was primarily the result of the addition of a number of new employees critical to the Company s needs in developing, marketing and selling the TV+ and NanoTechnology product lines with Lucent.

Included is an increase of non-cash charges relating to the issuance of common stock and options to consultants, which totaled $2,948,083 for the year ended June 30, 2005 as compared to $1,242,793 during the comparable period in 2004. Other components of the increase in selling, general and administrative expenses were increases in payroll of approximately $503,000 to $1,456,000, increase in the use of outside consultants of approximately $284,000 to $704,002, marketing expenses such as trade shows of $118,000 to $158,000, and advertising expenses of $68,000 to $90,000.

Depreciation and amortization. Total depreciation for the year ended June 30, 2005 was $227,629 of which $218,911 was charged against research and development. In 2004, total depreciation for the year ended June 30, 2004 was $649,704 of which $613,221 was charged against research and development. As a result, depreciation and amortization expense was $62,679 for the year ended June 30, 2005 compared to $122,878 for the year ended June 30, 2004. This decrease of depreciation and amortization expense totaled $60,199 is the result of reduced outlays for capital expenditures by the Company in its two most recent fiscal years. We expect to increase capital expenditures in connection with the deployment of equipment at test sites with various telecommunications service providers globally as deployment of our TV+ product progresses.

Net loss. mPhase recorded a net loss of $11,234,324 for the year ended June 30, 2005 as compared to a loss of $7,758,586 for the same period ended June 30, 2004. This represents a loss per common share of $(.10) in 2005 as compared to $(.10) in 2004, based upon weighted average common shares outstanding of 108,657,578 and 77,677,120 during the periods ending June 30, 2005 and June 30, 2004 respectively.

TWELVE MONTHS ENDED JUNE 30, 2004 VS. JUNE 30, 2003

Revenues. Total revenues for the year ended June 30, 2004 increased to $4,641,346 from $1,581,639 for the year ended June 30, 2003. The increase was primarily attributable to increased sales of the Company s POTS Splitter product line especially during the first quarter of fiscal year ended June 30, 2004, caused by an upturn in July and August of 2004 of orders from one customer that orders component products from the Company. The Company continues to believe that its line of POTS Splitter products is positioned to be competitively priced with high reliability and connectivity, and as such has the potential to be significant part of DSL deployment. The Company cannot predict when the demand for telecommunication equipment will resume, however we do not expect significant sales in the first two quarters of fiscal 2005.

Cost of revenues. Cost of sales was $4,068,255 for the year ended June 30, 2004 as compared to $1,493,394 in the year ended 30, 2003. Cost of revenues increased for the twelve months ended June 30, 2004 compared to the prior period ending June 30, 2003 primarily because of increased sales. Gross margins for the period ended June 30, 2004 were 12%. The gross margins have varied dramatically as spending among telecommunication providers has contracted, coupled with downward pressures related to the supply and demand of telecommunications products. The single most significant reason the margins decreased dramatically was due to the reduced selling price of our POTS Splitter product. Discounts, consisting of a 2% discount from the amount invoiced if paid within 10 days were offered during fiscal year 2004 . Such discounts amounted to $71,425 for the period ended June 30, 2004, and were offered to Covad Communication our leading telecommunications service provider customer. Discounts were offered in fiscal 2003 to an existing customer to accelerate collections in connection with an order of our POTS Splitter product and was treated as a purchase discount to each of customers, and the reduction to net sales lowered the gross margins in the period.

Research and Development. Research and development expenses were $4,069,721 for the year ended June 30, 2004 as compared to $3,538,305 in the year ended June 30, 2003, an increase of $531,416. Such expenditures included $2,328,602 incurred with Lucent Technologies, Inc. for the year ended June 30, 2004 as compared to $1,112,500 during the comparable period in 2003. In addition we incurred $99,494 with Microphase and other strategic vendors for the year ended June 30, 2004 as compared to $528,434 during the comparable period in 2003.

The significant increase in research and development expenses with Lucent Technologies, Inc. is due to the continued and accelerated development of the TV+ product together with the entry into a $1.2 million 12 month Development Agreement for battery and power pack product development utilizing Nanotechnology. Such expenditures are expected to increase in fiscal year 2005 since the Company s strategy is to further enhance the features and cost reduce its TV+ and expand its product line in the Nanotechnology area. The elimination in research expenditures incurred with GTRC is due to the Company s refocus in development from its legacy Traverser DVDDS television delivery platform to its TV+ product.

Research expenditures incurred with Microphase were related to the continuing development of the Company s DSL component products, including the Company s line of POTS Splitters and Microfilters and the Company s newest products, the iPOTS3.

General and Administrative Expenses. Selling, general and administrative expenses were $4,177,961 for the year ended June 30, 2004 up from $2,683,534 for the comparable period in 2003, an increase of $1,494,427. The increase in the selling, general and administrative costs was primarily the result of the addition of a number of new employees critical to the Company s needs in developing, marketing and selling the TV+ and NanoTechnology product lines with Lucent.

Included is an increase of non-cash charges relating to the issuance of common stock and options to consultants, which totaled $1,242,793 for the year ended June 30, 2004 as compared to $748,840 during the comparable period in 2003. Other components of the increase in selling, general and administrative expenses were increases in payroll of approximately $461,226 to $953,602, increase in the use of outside consultants of approximately $251,103 to $987,720, marketing expenses such as trade shows of $30,148 to $40,347, and advertising expenses of $20,439 to $21,948, all of which approximated $1,295,975 or 87% of the increase in spending.

Depreciation and amortization. Total depreciation for the year ended June 30, 2004 was $649,704 of which $613,221 was charged against research and development. In 2003, total depreciation for the year ended June 30, 2003 was $957, 457 of which $442, 040 was charged against research and development. As a result, depreciation and amortization expense was $122, 878 for the year ended June 30, 2004 compared to $515,417 for the year ended June 30 2003. This decrease of depreciation and amortization expense totaled $392,539 and is the result of reduced outlays for capital expenditures by the Company in its two most recent fiscal years. We expect to increase capital expenditures in connection with the deployment of equipment at test sites with various telecommunications service providers globally as deployment of our TV+ product progress.

Net loss. mPhase recorded a net loss of $7,758,586 for the year ended June 30, 2004 as compared to a loss of $6,650,211 for the same period ended June 30, 2003. This represents a loss per common share of $(.10) in 2004 as compared to $(.10) in 2003, based upon weighted average common shares outstanding of 77,677,120 and 65,217,088 during the periods ending June 30, 2004 and June 30, 2003 respectively.

The Outlook for the Company s Flagship Product

The Company believes significant deployments and resultant revenues of its TV+ solution are not expected until the second quarter of fiscal year 2008, which, if accompanied by a material upturn in spending in the telephone industry, could lead to increased sales, improve the Company s margins and provide the Company with the opportunity to become profitable.

Research and Development Activities

mPhase throughout its history has outsourced its research and development activity with respect to its IPTV solution as well as its POTS splitter products. GTARC conducted a significant amount of research and development for mPhase for the DVDDS legacy product. Microphase has performed research and development for mPhase with respect to certain component DSL products including the Company s current new VDSL customer premises splitter, low pass filters and POTS Splitters and the legacy DVDDS product. mPhase engaged Lucent for initial development of its TV+ solution and for development of two new products using the science of nanotechnology. Currently mPhase has transferred development work for the TV systems software development from Lucent to Velankani and has also engaged Magpie Insiders, Inc and Espial as significant vendors in the development of its TV+ solution.

For the year ended June 30, 2006, the Company spent $1,776,800 with Lucent Technologies, Inc. for its TV+ solution, compared to $1,584,800 for the period ended June 30, 2005. For the fiscal 2007, the Company has shifted its development work for the TV+ from Lucent Technologies, Inc. and Velankani Communications System, Inc. and has also engaged Magpie Insiders, Inc. and Espial for significant software development for the TV+ solution.

The Company expects to expand its research and development efforts with Lucent Technologies with respect to its NanoTechnology business segment. For fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004, the Company incurred research and development expenses of $8,034,964, $5,127,438 and $4,069,721, respectively, of which $2,500,000, $1,500,000 and $500,000, respectively, related to its nanotechnology product line.

Strategic Alliances Implemented

The Company has entered into Systems Integration Agreements with UKRCOM and NetDialogue, major systems integrators and resellers in the Ukraine and Russia, respectively, that are two key markets for the Company s IPTV solution.

Critical Accounting Policies

Revenue Recognition

As required, mPhase has adopted the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements , which provides guidelines on applying generally accepted accounting principals to revenue recognition based upon the interpretations and practices of the SEC.

Research and Development

Research and development costs are charged to operations as incurred in accordance with Statement of Financial Accounting Standards (SFAS), No.2, Accounting for Research and Development Cost.

Income Taxes

mPhase accounts for income taxes using the asset and liability method in accordance with SFAS No.109 Accounting for Income Taxes. Because of the uncertainty as to their future realizability of net operating loss carry forwards, no income tax benefit has been recorded in the accompanying financial statements. Utilization of net operating losses generated through March 31, 2007 may be limited due to changes in control of our common stock that occurred.

Stock-based Compensation

Financial Accounting Statement No. 123, Accounting for Stock Based Compensation, encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. For the periods prior to October 1, 2005, the Company had chosen to continue to account for stock-based compensation for grants to employees using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company s stock at the date of the grant over the amount an employee must pay to acquire the stock. The Company had adopted the disclosure only alternative described in SFAS 123 and SFAS 148, which require pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied.

On October 1, 2005, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 123R, Share-Based Payment (SFAS 123R). SFAS 123R revised SFAS 123, Accounting for Stock Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires companies to measure and recognize compensation expense for all employee stock-based payments at fair value over the service period underlying the arrangement. Therefore, the Company is now required to record the grant-date fair value of its stock-based payments (i.e., stock options and other equity-based compensation) in the statement of operations, The Company adopted FAS 123R using the modified prospective method, whereby fair value of all previously-granted employee stock-based arrangements that remained unvested at October 1, 2005 and all grants made on or after October 1, 2005 have been included in the Company s determination of stock-based compensation expense. The Company accounts for non-employee stock based awards in which goods or services are the consideration received for the equity instruments issued based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more readily determinable.

Inventory Reserve and Valuation Allowance

The Company carries its inventory at the lower of cost, determined on a first-in, first-out basis, or market. Historically, inventory consisted mainly of the Company s POTS Splitter Shelf and Filters. As of March 31,2007 inventory consist primarily of equipment necessary for deployment of its IPTV product line to specifically identified customers.

Material Related Party Transactions

The Company incurs costs for engineering, design and production of prototypes and certain administrative functions from Microphase Corporation and the purchase of product components and finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited. Directors that are significant shareholders of Janifast Limited include Messrs Ronald A. Durando, Gustave T. Dotoli, and Necdet F. Ergul.

Mr. Abraham Biderman is a Managing Director or Eagle Advisers, an investment banking firm, which has earned finder s fees equal to approximately 10% of funds raised. During the 12 months ended June 30, 2006 and the nine months ended March 31, 2007 such fees amounted to approximately $780,000 and $465,000 respectively.

Mr. Biderman beneficially owns a total of 1,587,733 shares of common stock, warrants and options and Mr. Anthony Guerino own a relatively small amount of stock, warrants and options in mPhase Technologies, Inc.

Mr. Durando, the President and CEO of mPhase, owns a controlling interest and is a director and COO of Janifast Limited. Mr. Durando and Mr. Dotoli are also officers of Microphase Corporation. Mr. Dotoli is also a shareholder of Janifast Limited. Mr. Ergul, the chairman of the board of mPhase, owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited. Microphase, Janifast, Hart Telephone and Lintel Corporation are significant shareholders of mPhase. Since inception, Microphase, Janifast and Hart Telephone have converted significant liabilities to equity. Management believes the amounts charged to the Company by Microphase, Janifast, mPhase Television.Net and Hart Telephone are commensurate to amounts that would be incurred if outside parties were used.

Since inception, the Messers Durando, Dotoli and Smiley have periodically advanced to the Company funds to meet short term working capital needs.

Mr. Durando s June 30, 2004 note payable balance of $300,000 was repaid by the Company during fiscal year 2005. Additionally, during fiscal year 2005, Mr. Durando made additional bridge loans to the Company evidenced by various 12% demand notes in the aggregate of $525,000. Mr. Durando was repaid a total of $450,000 of such loans in January of 2005. In addition, Mr. Durando converted $13,954 of the principal amount of a $75,000 promissory note leaving unpaid principal of $61,046 outstanding. Mr. Durando converted $13,000 of accrued and unpaid interest on various promissory notes of the Company into 65,000 shares of common stock and a 5 year warrant to purchase a like amount of common stock at $.25 per share.

On July 25, 2005, Mr. Smiley extended his 12% Promissory Note for $100,000 for an additional year. during August of 2005 Mr. Dotoli and Mr. Smiley, the COO and CFO and General Counsel of the Company respectively, each lent the Company $75,000. Mr. Dotoli was repaid the principal amount of such loan, in cash, in January of 2005 and Mr. Smiley converted his $75,000 loan into 375,000 shares of common stock of the Company plus a 5 year warrant to purchase a like amount of shares at $.25 per share. In January of 2005, Mr. Smiley received 425,000 shares of common stock of the Company as additional compensation for services performed. In June of 2005 Mr. Smiley converted his $100,0000 12% Promissory Note plus accrued interest into 520,000 shares of common stock plus a 5 year warrant to purchase 520,0000 shares of common stock at $.25 per share. In addition, Mr. Smiley converted $9,975 of accrued interest into 49,875 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share. Finally Mr. Smiley received 25,000 additional shares of common stock as a market adjustment to his equity investment of $25,000 on August 30, 2004.

During the nine month period ended March 31, 2006 Mr. Durando, Mr. Dotoli and Mr. Smiley advanced $50,000, $100,000 and $150,000 respectively in the form of Bridge Loans to the Company. Mr. Durando and Mr. Smiley s loans were repaid in full without any interest and Mr. Dotoli s loan was repaid, in full, with 12% accrued interest during the third quarter of fiscal year 2006.

In addition, at various points during the nine months ended March 31, 2007, Messrs, Durando, Dotoli and Smiley provided $490,000 in bridge loans to the Company which was evidenced by individual promissory notes. During December 2006, Messrs Durando and Dotoli agreed to convert their notes, in the amounts of $130,000 and $200,000 respectively, to a deferred compensation arrangement, the repayment terms of which have not been specified. Mr. Smiley has extended bridge loans to the Company of $160,000, evidenced by promissory notes for $101,000 and a $60,000 note with a 12% rate of interest. Both of the foregoing promissory notes are payable on demand.

Significant charges from related parties are summarized for the periods enumerated as follows:

	Year Ended June 30,				
	2002	2003	2004	2005	2006
Charges incurred with Janifast Ltd. included in:					
Cost of sales and ending inventory	$1,759,308	$178,959	$2,771,925	$1,536,494	$895,991
Total Janifast	$1,759,308	$178,959	$2,771,925	$1,536,494	$895,991
Charges incurred with Microphase Corp included in:					
Cost of sales and ending inventory (Including Royalties)	$200,440	$86,468	$140,123	$94,740	$32,014
Research and development	876,074	428,434	84,494	60,000	197,639
General and administrative	136,080	133,200	231,068	304,030	302,167
Total Microphase Corp.	$1,212,594	$648,102	$455,685	$458,770	$531,820
Total Charges with Related Parties included in:					
Cost of sales and ending inventory	$1,959,748	$265,427	$2,912,048	$1,631,234	$928,005
Research and development	940,113	428,434	84,494	60,000	197,639
General and administrative	136,080	133,200	231,068	304,030	302,167
Total Charges with Related Parties Included in Cost of Sales in the Consolidated Statement of Operations (including changes in inventory	$3,035,941	$827,061	$3,227,610	$1,995,264	$1,427,811

Liquidity and Capital Resources

From inception (October 2, 1996) through March 31, 2007 and June 30, 2006 the Company has incurred cumulative (a) development stage losses and has an accumulated deficit of $162,520,429 and $151,460,057 respectively and (b) negative cash flow from operations of $73,398,128 and $67,257,660 respectively. The auditors report for the fiscal year ended June 30, 2006 includes the statement that there is substantial doubt of the Company s ability to continue as a going concern. Management estimates that the Company needs to raise approximately $5-10 million during the next 12 months to continue operations. As of March 31, 2007, June 30, 2006, and June 30, 2005, the Company had a negative net worth of $2,634,400, $606,085 and $1,617,735 respectively.

At June 30, 2006 mPhase had working capital deficit of $1,093,784 as compared to a working capital deficit of $1,674,419 at June 30, 2005. At June 30, 2006, the Company had $1,359,925 of cash and cash equivalents and $106,237 of net accounts receivables to fund short-term working capital requirements.

At March 31, 2007, the Company had a working capital deficit of $3,011,440, and $315,055 of cash and cash equivalents to fund short- term working capital requirements. Cash used in operating activities was $6,730,469 during the nine months ending March 31, 2007. The cash used by operating activities principally consists of the net loss of $11,060,372, offset in part by changes in assets and liabilities, including an increase in accounts payable of $1,049,017, conversion of debt to equity of $909,294, non-cash charges of $1,124,647 for common stock, options and warrants issued for services and non-cash reparation charges of $1,202,730.

The Company s ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near term to: (1) satisfy its current obligations, (2) continue its research and development efforts, and (3) the successful wide scale development, deployment and marketing of its products. Historically, mPhase has funded its operations and capital expenditures primarily through private placements of common stock and warrants. Management expects that its near term financial needs will be provided by similar financing activities supplemented by sales of its IPTV products during the last half of calendar year end 2007.

Significant Contracts, Debt Conversions and Contingencies

The Company had entered into various agreements with GTARC, pursuant to which the Company received technical assistance in developing the Digital Video and Data Delivery System. The Company has incurred expenses in connection with technical assistance from GTARC totaling approximately $13,539,932 from the period from inception through June 30, 2006. This arrangement has since been terminated.

In February of 2004, the Company and GTRC entered into a final agreement to convert approximately $1.8 million in payables outstanding to GTRC and exchange mutual releases in consideration for the issuance to GTRC of a Warrant (which has been exercised on a cashless basis in February of 2005) resulting in the issuance of 4,949,684 shares of the Company s common stock valued at $.35 per share. In addition the Company was obligated to pay GTRC a total of $100,000 in quarterly installments payments commencing at the end of March of 2004. The Company has discontinued its efforts with respect to the Traverser DVDDS product line and is evaluating the need to protect patents. mPhase is the sole, worldwide licensee of the technology developed by GTARC and should a viable commercial product ever be developed , GTRC may receive a royalty of up to 5% of product sales.

During the fiscal year ended June 30, 2002 certain strategic vendors and related parties converted approximately $2.7 million of accounts payable and accrued expenses into 7,492,996 shares of the Company s common stock and 5,953,490 warrants. Such vendors include Microphase Corporation, Janifast, Ltd., and Piper Rudnick LLP, mPhase s outside counsel.

During the twelve months ending June 30, 2003, certain strategic vendors and related parties converted approximately $1.9 million of accounts payable and accrued expenses into 5,923,333 shares of the Company s common stock and warrants to purchase 3,706,800 shares of common stock of mPhase.

During the twelve months ending June 30, 2004, certain strategic vendors and related parties converted approximately $1.9 million of accounts payable and accrued expenses into 110,467 shares of the Company s common stock and warrants to purchase 5,069,242 shares of common stock of mPhase.

During the twelve months ending June 30, 2005, certain strategic vendors and related parties converted approximately $1.2 million of accounts payable and accrued expenses into 3,895,171 shares of the Company s common stock and warrants to purchase 4,616,571shares of the Company s common stock.

During the twelve months ended June 30, 2006 certain strategic vendors and related parties converted approximately $590,000 of accounts payable and accrued expenses into 3,336,864 shares of the Company s common stock and warrants to purchase 3,277,778 shares of common stock of mPhase.

During the nine months ended March 31, 2007, the Company converted accounts payable of $909,294 into 5,617,062 shares of common stock.

As of March 31, 2007, mPhase was obligated to pay Lucent Technologies, Inc. $200,000 for work performed in connection with the development of its Nanotechnology product line. The Company has incurred expense relative to such research with Lucent totaling a approximately $1,600,000 in the nine month period ended March 31, 2007.

Other significant contractual obligations require the Company to pay Magpie Telecom Insiders Inc, $265,000 related to the development of its TV+ product. This contract expired in January 2007 and involved total research expense of $910,000 for the nine months ended March, 31 2007 of which $415,000 was paid by the issuance of 2,441,176 shares of common stock valued at $.17 per share.

In addition, the Company had an agreement with Velankani Information Systems to further develop its TV+ product. During the nine months ended March 31, 2007, the Company incurred research expense of $896,957 of which

$239,294 was paid by the issuance of 1,407,617 shares of common stock valued at $.17 per share. The Company owed Velankani $342,802 as of March 31, 2007.

Finally, the Company has a support, licensing and upgrade agreement with Espial Group relating to the TV+ system, extending to December 31, 2008. This contract involves payments totaling $1,172,000 of which $514,000 will be due after March 31, 2007 in calendar year 2007, and $250,000 is due in 2008.

The Company has no commitments from affiliates or related parties to provide additional financing. The Company has, from time to time, been able to obtain financing from affiliates when conditions in the capital markets make third party financing difficult to obtain or when external financing is available only upon very unattractive terms to the Company, and when such capital has been available from the affiliates. As a result, conversions of Debt with related parties and strategic vendors during the periods enumerated is a follows:

	For the Years Ended June 30,			For the Nine Months Ended March 31, (Unaudited)	
Related Party Conversions	**2004**	**2005**	**2006**	**2006**	**2007**
Number of shares	0	3,259,879	3,000,000	3,000,000	830,769
Number of warrants	0	3,259,879	3,000,000	3,000,000	0
Amount converted	0	$651,976	$540,000	$540,000	$108,000
Strategic Vendor Conversions					
Number of shares	110,467	635,296	331,864	331,864	4,786,293
Number of warrants	5,069,242	1,356,696	277,778	277,778	0
Amount converted	$1,963,202	$926,894	$50,000	$50,000	$801,294
Totals					
Number of shares	110,467	3,895,175	3,331,864	3,331,864	5,617,062
Number of warrants	5,069,242	4,616,575	3,277,778	3,277,778	0
Amount converted	$1,963,202	$1,578,870	$590,000	$590,000	$909,294
Gain on extinguishment of Debt	$150,058	$418,696	$30,608	$30,608	$0

Effective March 10, 2005, the Company entered into a Development Agreement with Lucent Technologies, representing a total obligation of $1.2 million payable in 12 monthly installments of $100,000 each through March of 2006 for development of an ultra cool magnetometer sensor utilizing the science of nanotechnology. This agreement was also renewed in May of 2006 through March of 2007 upon the same terms. The Company is currently in negotiations with the Bell Labs division of Lucent to extend this agreement for an additional 12 months.

Effective November 28, 2004 and September 2, 2004, the Company entered into software development agreements with Espial and Magpie respectively calling for the payments of $95,000 and $312,000 in connection with development of Version 3.0 of its TV+ system. Effective September 2, 2004, the Company became obligated to pay Lucent Technologies Inc. a total amount of $1.2 million for development of Version 3.0 of its TV+ product. Such amount is payable in 8 installments of $158,600 each against 7 project milestones all of which are expected to be completed during fiscal year 2005.

Effective February 3, 2004, the Company became obligated to pay a total of $1.2 million to Lucent Technologies Inc. under a new Development Agreement in installments of $100,000 per month for a period of 12 months to develop a micro power source array using nanotextured superhydrophobic materials This Agreement was extended in February of 2005 for an additional 12 months for a total of $1.2 million to Lucent Technologies, Inc. payable in installments of $100,000 per month. An interim Agreement, on similar terms extended such Development Agreement through April 27, 2006. On June 8, 2007, the Company entered into a new 12 month Development Agreement through May of 2008 with Bell Labs that obligates the Company to pay a total of $1.2 million.

Effective August 30, 2004, the Company successfully renegotiated its payment agreement originally entered into in March of 2002 with Piper&Rudnick LLC, its outside counsel to cure all past arrearages owed under the original payment agreement. On August 30, 2004, the Company paid Piper & Rudnick LLC the sum of $100,000 cash and agreed to make future payments of $25,000 each on December 1, 2004, March 1, 2005, June 1, 2005, September 1, 2005 with a payment of $50,000 on December 1, 2005 and payments of $25,000 each on March 1, 2006, June 1, 2006, September 1, 2006 and a final payment of $75,000 on December 1, 2006. The Company is current with respect to its payments under this agreement. In addition, the Company issued a 5 year cashless warrant for 750,000 shares of its common stock valued at $.25 per share. The common stock in which such warrant is convertible into is being registered hereunder on this Form S-1 (See Selling Shareholders list) and could be sold in the open market (see Risk Factor on Page 8 hereof). In addition, Piper Rudnick LLC holds a cashless warrant covering 2,833,490 shares of its common stock that was originally issued as part of its original payment agreement in March of 2002 which shares are being registered as part of this Registration Statement filed on form S-1 by t;he Company (see Selling Shareholders).

Effective February 18, 2004 of fiscal year ended June 30, 2004, GTRC agreed to convert approximately $1.8 million of aggregate invoices for work performed for the Company in development of its TraverserDVDDS product into a 5 year cashless warrant to purchase 5,069,200 shares of the Company s common stock or stock valued at $.35 per share.

During the fiscal years ended June 30, 2002 and 2003 the Company was able to negotiate extended payment terms for overdue accounts payable with strategic vendors. These obligations are now classified as notes payable and included in current and long-term portions of notes payable in the accompanying balance sheets, based upon the revised payment terms. The Company believes they can maintain its present repayment schedule, or otherwise renegotiate such terms that are satisfactory to the Company and these vendors.

We have evaluated our cash requirements for fiscal year 2007 and beyond based upon certain assumptions, including our ability to raise additional working capital from equity financing and increased sales of our POTS Splitter. The Company anticipated that it would need to raise, at a minimum, approximately $10 million primarily in private placement of its common stock with accredited investors, in the next year. As of March 31, 2007, the Company has raised during the current fiscal year approximately $3,632,534 through the issuance of 25,643,608 shares of common stock through private placements and the exercise of warrants

RECENT TRANSACTIONS AFFECTING EQUITY

Private Placements

During the quarter ended September 30, 2006, the Company issued 6,780,716 shares of its common stock together with 5,555,556 of 5 year warrants to purchase one share each of the Company s common stock, with an exercise price of $.18 per share in private placements generating net proceeds of $1,104,000.

During the quarter ended December 31, 2006, the Company issued 6,622,223 shares of its common stock together with 5 year warrants to purchase 1,388,889 of the Company s common stock, with an exercise price of $.18 per share in private placements generating net proceeds of $833, 866. Included in these amounts are finders fees paid in cash and 566,667 additional shares of common stock.

During the quarter ended March 31, 2007, the Company issued 14,973,083 shares of its common stock. Private placements generating net proceeds of $1,787,850; included in this amount is an estimate of finders fees to be paid of $198,650.

Warrant Exercise

During the quarter ended September 30, 2006, the Company issued 138,889 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of $25,000 to the Company.

During the quarter ended December 31, 2006, the Company issued 12,101,780 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of $1,669,668 to the Company. In addition, the Company issued to certain investors new 5 year warrants to purchase 11,111,112 of the Company s common stock, with exercise prices ranging from $.15 - $.18 per share.

During the quarter ended March 31, 2007, the Company issued 2,500,000 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of $375,000 to the Company.

Stock Options and Warrants Issued for Services.

During the nine months ended March 31, 2007, the Company authorized the issuance of 4,015,000 in options and warrants of 2,044,440 to employees, officers, and consultants granting the right to purchase a like amount of common shares. Pursuant to the adoption of FAS 123(R), the Company recognized an expense in the amount of $785,259, all of which has been included in general and administrative expense. The fair value of options granted was estimated as of the date of grant using the Black-Scholes stock option pricing model, based on the following weighted average assumptions: annual expected return of 0%, annual volatility of approximately 80%, based on a risk-free interest rate of 4.8% and expected option life of 5 years.

During the nine months ended March 31, 2007, the Board of Directors authorized the issuance of 1,822,933 shares of common stock, with an aggregate value of $339,388 as compensation to consultants and employees. The stock value ranged in price from $.17 to $.20 per share, the fair value on the date of the awards.

Other Equity Transactions

During the nine months ended March 31, 2007, the Company converted accounts payable of $909,294 into 5,617,062 shares of common stock.

In addition, during the nine month period ended March 31, 2007, the Company became obligated to issue 11,007,819 of its common stock as reparation to affect revised pricing on previous private placements. This additional consideration was afforded to past investors who agreed to make an additional cash investment as part of a new private placement. The cost of such consideration was estimated to be the fair value of such shares at the time of the investment $1,202,730.

Subsequent Events

The Company s current low levels of liquidity have required that payments of accounts payable to vendors, including research partners, be extended beyond terms. The Company is actively engaged in negotiations with several vendors to work out an equitable restructure of payment terms and/or conversion of such debt into equity.

Subsequent to March 31, 2007, the Company has sustained operations primarily through the issuance of common stock in Private Placement Agreements pursuant to Regulation D of Rule 506 of the Securities Act of 1933, as amended with Accredited Investors. Since March 31, 2007 the Company has raised approximately $2.5 million under such agreements and issued in excess of 19.4 million shares of its common stock. In addition, pursuant to the terms of these agreements, the Company issued approximately 22.5 million shares to certain investors as reparation shares so as to reduce investors past cost per share and encourage additional investment. The proceeds of the Private Placement will be used for research and Development payments to vender and working capital. On June 26, 2007 Messrs. Dotoli and Durando provided temporary working capital in the amount of $160,000 which was repaid on July 5, 2007.

The Company also approved various incentive compensation arrangements with employees and consultants involving the issuance of common stock and the granting of options to purchase such stock. In total, 12,150,000 of common shares with an estimated value of $1,822,000 and 2,600,000 options with an estimated value $230,000 of were issued under such program. Included in this amount were grants to the Messer s Durando, Dotoli and Smiley of 4,000,000, 3,000,000 and 1,750,000 of restricted shares of common shares respectively for which an expense has been incurred of approximately $1,312,000. The exercise price of options granted ranged from $.20 to $.25 cents per share. In addition, the Company has incurred since March 31, 2007, and additional $172,541 in legal expenses in connection with the civil suit filed by the SEC on November 15, 2005 against Packetport.com, Inc and others (See Page 41 "Legal Proceedings").

On July 6, 2007, the Company announced that it had executed with Double U Master Fund, L.P, a limited partnership organized under the laws of the British Virgin Islands, a Private Equity Credit Agreement for an aggregate of up to $6 million in financing through the sale, from time to time of the common stock of mPhase at a 14% discount to its market value (determined as a set forth in the Private Equity Credit Agreement). The terms of the agreement provide that mPhase will have the option to PUT up to $300,000 of its common stock to the Partnership per month upon the effectiveness of a Form S-1 Registration Statement covering such shared of common stock to be filed by the company in the near future. mPhase is not obligated to draw any minimum amount of money under the Private Equity Credit Agreement.

BUSINESS

Overview

We develop market and sell innovative IPTV and DSL broadband telecommunications solutions. Our main focus is developing the most cost effective products to enable telecommunications service providers to deliver using internet protocol digital quality television (together with data and voice) over its existing infrastructure that may consist of copper, fiber, coax or some combination thereof. The primary markets for mPhase s television delivery products are regions of the world outside of the United State that do not have coaxial fiber infrastructure capable of delivering a large number of digital broadcast television channels. Therefore our television products are targeted primarily for International markets outside of the United States.

On February 3, 2004, mPhase entered into the emerging area of NanoTechnology as a new and second line of business with its execution of a new Research and Development Agreement with the Bell Labs division of Lucent Technologies, Inc. NanoTechnology involves the synthetic assembly of new structures and materials at the molecular level. NanoTechnology has many potential applications including in industries such as biotechnology, semi conductors and power cells and sensors. The Company is initially focusing its efforts in developing new power cells and sensors NanoTechnology products designed for military applications.

Outsourcing

The Company practices an outsourcing model whereby it contracts with third party vendors to perform certain functions rather than performing those functions internally. For instance, mPhase out sources its research of its TV+ product to several major vendors including Velankani Telecommunications, Bitband, Magpie Insiders, Inc and Espial. The Company also outsources exploratory research of micro electro mechanical systems development and its exploratory development of power source array fabrication using nanotextured superhydrophobic materials to the Bell Labs division of Alcahtel Lucent . It also out sources analog engineering development and certain administrative functions to Microphase Corporation and manufacturing of its new VDSL customer premises splitter product to Janifast Ltd.

We currently have no contracts in place for the manufacturing of our products with either Microphase Corporation or Janifast Ltd. or any other non-affiliated third party manufacturers. It is anticipated that we will receive a royalty that is presently being negotiated as a percentage of gross revenues based upon the sales of quantities of the new VDSL customer premises splitter product that will be made by Janifast Ltd.

With respect to manufacturing of its IPTV TV+ solution, mPhase has contracted with outside software vendors for product development with which it can establish long-term relationships. By using outside vendors, mPhase believes it can accelerate its time to market as well as avoid the substantial hiring of internal personnel required for internal production. With respect to its Nanotechnology product line, mPhase utilizes the extensive research and development facilities of bell labs which would otherwise not be available to mPhase owing to the high capital cost as well as long lead time necessary to establish such facilities.

The Company has entered into various Project Development Agreements during fiscal year 2007 with Velankani, Espial and Magpie Telecom Insiders, Inc. for development of portions of its TV+ middleware .

Industry Background

The Company believes there is a significant market for its latest TV+ solution for the delivery of IPTV. Telephone companies worldwide need to deliver a combination of services (i.e., voice, television and data) in order to reverse negative economic trends of reduced margins and customers. The multichannel television business is a growing industry. Much of the world is largely underserved, with little access to digital television programming. Cable, outside the US and pockets of Europe, is in the early stages of deployment. The mPhaseTV+ solution empowers telecommunications service providers to (a) capitalize upon this growing revenue-generating segment and (b) be able to compete more effectively with other technologies, such as cable where installed, and direct broadcast satellite (DBS) services.

We believe the incentive for telephone companies to deploy advanced digital services is significant. The traditional revenue model for telecommunications service providers is shifting as fixed line calling revenues are continuing to decline with the advent of wireless telephony and voice delivered over the Internet. Traditional telephone companies can no longer rely on a captured market and need to offer new, revenue-generating services in order to maintain or increase profitability and by offering new services to their customers.

Cable television providers are also beginning to offer cable telephony and cable modems for high-speed Internet service, in addition to their traditional multichannel television services. Additionally, in the U.S., direct broadcast satellites providers (DBS) are upgrading to two-way satellite communication to provide data services. In more advanced markets, these technologies have converged, leaving telephone, cable and direct satellite television providers competing for the same customers and the same dollars.

mPhase s flagship TV+ solution enables telephone companies and other communications service providers utilizing twisted pair telephone wires or any other existing infrastructure to respond to these competitive threats and immediately offer fully integrated broadband service packages to their subscribers. Importantly, with mPhase s products, telecommunications service providers are able to compete with cable and satellite providers in the high-margin multichannel digital television market. mPhase s product solution do not require a capital-intensive fiber nor cable build- out, long lead times, or a technically challenging deployment. Instead, utilizing their already installed telephone line infrastructure, telephone companies can increase their per subscriber revenue, capture additional market share, stave off competition and ultimately increase their overall market valuation by becoming full-service communications providers today.

Incumbent telecommunications service providers will have an opportunity to preempt wide digital cable or satellite adoption that deploy mPhase s IPTV solution and become market leaders in providing data and video services. Most telecommunications companies and industry analysts currently understand that data-only solutions are not sufficient to attract new customers, retain existing ones, and maintain or achieve profitability.

Our IP Television Solution

mPhase markets and sells its innovative IPTV delivery middleware/software as part of its TV+ solutions. The Company has refocused its efforts on IPTV software/middleware based upon carrier class open standards. Originally the Company s development of solutions for delivery of broadcast TV for telephone service providers was an end to end DSL proprietary hardware/software product line or our legacy Traverser DVDDS product. Our current TV+ solution is middleware necessary for the delivery of IPTV, voice and high-speed interned over any type of infrastructure of a telecommunications service provider. mPhase has initially developed its TV+ solution for telephone companies in parts of the world where access to multi-channel television is limited. As additional robust features required by major U.S. carriers are added through additional development work on the IPTV, the Company plans to target such carriers as strategic partners and customers.

mPhase introduced its first TV over DSL product, the Traverser Digital Video and Data Delivery System, (DVDDS) in 1998. The DVDDS, is an end-to-end system based upon proprietary technology developed in conjunction with Georgia Tech Research Corporation. Because it is an end-to-end video-over-ADSL (asymmetric digital subscriber line) equipment. The proprietary transport method utilized in the Traverser System is patent protected. The intellectual property embodied by the DVDDS System includes the ability to deliver a plurality of channels to a plurality of users, ensuring that all channels are available to all users at all times. The Company has replaced this legacy product with its newer TV+ solution.

As of December 30, 2006. the Company is testing for deployment in Ukraine, its IPTV solution or Release 6.0 of its TV+ solution. Over the years, the Company has spent over $30 million on research and development culminating in the IPTV product and believes it has significant experience and market knowledge in the field as a result of over 7 years of development efforts, changing market conditions and new technology developments in connection with

Internet Protocol delivery of video.

Bell Labs and mPhase initially commenced research on the TV+ solution in December of 2002 as a compliment to and enhancement of the software and set top boxes needed to delivery television over DSL using the Lucent Stinger DSLAM. Bell Labs had previously been working in a contract engineering capacity helping mPhase to cost-reduce its digital set top box. In May of 2006, the Company transferred the systems integration and development work for its IPTV middleware to Velakani and expanded the work of Magpie Telecom Insiders, Inc and Espial in connection with such development.

We believe that the TV+ solution is now the most reliable, scaleable and cost-effective system for the delivery of television services over copper telephone wires. For mPhase, the TV+ solution marks a shift in strategy from selling a complete, proprietary platform to providing an industry-standard, carrier class middleware for the deployment of IPTV by telecommunications service providers.

Releases 1.0 and 2.0 of the TV+ solution were designed by Bell Labs as ATM (asynchronous transfer mode) solutions then targeted to the traditional reliability and use of such protocol by the majority of telecommunications service providers. Subsequent releases of the TV+ solution marks the final evolution of the IP based solution ideally suited for large-scale deployments, and in parts of the world that cannot afford the cost of upgrading to cable infrastructure.

NanoTechnology

mPhase has recently entered the business of NanoTechnology which represents the latest scientific area involving the disciplines of molecular engineering, quantum physics and electrochemistry, amongst others to create new advances in products. mPhase is currently focusing primarily upon exploratory research for the development of advanced battery and power cell products and Electro Mechanical Sensor for a new generation of sensors for military applications.

Business Development, Organization, and Acquisition Activities

We were incorporated in New Jersey in 1979 under the name Tecma Laboratory, Inc. In 1987, we changed our name to Tecma Laboratories, Inc. As Tecma Laboratories, Inc., the Company has primarily engaged in the research, development and exploitation of products in the skin care field. On February 17, 1997, we acquired Lightpaths, Inc., a Delaware corporation, which was engaged in the development of telecommunications products incorporating DSL technology, and we changed our name to Lightpaths TP Technologies, Inc.

On January 29, 1997, we formed another wholly-owned subsidiary called TLI Industries, Inc. The shares of TLI were spun off to our stockholders on March 31, 1997 after we transferred the assets and liabilities, including primarily fixed assets, patents and shareholder loans related to the prior business of Tecma Laboratories. As a consequence of these transactions, we became the holding company of our wholly owned subsidiary, Lightpaths, Inc. on February 17, 1997.

On June 2, 1997, we completed a reverse merger with Lightpaths TP Technologies, Inc. and changed our name to mPhase Technologies, Inc.

On June 25, 1998, we acquired Microphase Telecommunications, Inc., a Delaware corporation, by issuing 2,500,000 shares of our common stock. Microphase Telecommunications principal assets were patents and patent applications utilized in the development of our proprietary Traverser technology (as discussed in related footnote 11 of financial statements on P F-35). See also Material Related Party Transactions, contained with Critical Accounts Policies on P 27 and Certain Relationships and Related Transaction P 51.

In March 2000, we entered into a joint venture with Alphastar International, Inc. to form a company called mPhase Television.net, Inc., (mPhaseTV) in which we held a 50% interest. On May 1, 2000, we acquired an additional 6.5% interest in mPhaseTV, and made it one of our consolidated subsidiaries.

On March 14, 2000, we entered into an agreement with BMW Manufacturing Corp., located in South Carolina. Under the agreement, we installed version 1.0 of the Traverser for BMW s telephone transmission network. BMW has agreed that, upon its notice and consent, we will be able to demonstrate to potential customers the functioning system at BMW s facilities. BMW has made two (2) subsequent purchases increasing the size of its deployment to 48 unique units.

Our flagship installation, Hart Telephone, has completed the build and development of its digital headend during fourth quarter of 2001. The completion of their digital headend marks the move from beta to commercial deployment of the Traverser platform. Hart currently has approximately 70 customers receiving about 80 channels of television services.

In May of 2002 mPhase initiated discussions for development of a cost-reduced intelligent network interface (INI) set top box with the Bell Laboratories division of Lucent Technologies, Inc.

Effective December 1, 2002, mPhase entered into a Development Agreement with the Bell Laboratories division of Lucent

Technologies, Inc. for the development of mPhase s broadcast television switch (BTS) as an integrated platform with the Lucent Stinger DSL Access Concentrator.

On December 9, 2002, pursuant to a Statement of Work, Lucent commenced development of the BTS for mPhase.

On December 15, 2003, mPhase engaged Lucent for the cost-reduction of its Traverser INI set top box.

On January 21, 2003, mPhase entered into a Co-Branding Agreement with Lucent under which mPhase s INI set top box will be co-branded with the Lucent Technologies, Inc. name and logo.

On April 4, 2003, mPhase entered into a Systems Integration Agreement with Lucent. Under the terms of the agreement, mPhase has been given the exclusive right to sell worldwide a bundled solution consisting of mPhase BTS and the Lucent Stinger.

In May of 2003, mPhase has announced development of the mPhaseTV+ Platform with Lucent Technologies Bell Labs. This modular product, as described in the Our Solutions section earlier, utilizes the industry-standard Lucent Stinger for transport. Bell Labs has been design contracted to design the mPhase BTS and Traverser CPE to be used in conjunction with the Lucent Stinger. A redesigned cost reduced second generation set top box CPE equipment has been completed. A prototype version of the BTS is also completed and has been successfully tested with 3 customers at Hart telephone in July of 2003. The first version of our TV+ product is scheduled to be completed during the second quarter of fiscal year 2004.

In November of 2003, mPhase announced that it had entered into a $1.0 million Project Development contract with Lucent Technologies Bell Labs division to complete development of Version 1.0 of its TV+ solution by the summer of 2004.

In February of 2004, mPhase announced that it had entered into a $1.2 million Project Development contract with Lucent Technologies Bell Labs division to perform exploratory research and development of micro power source arrays fabricated using nanotextured, superhydrophobic materials.

In September of 2004, mPhase announced that it had entered into a new $1.2 million Project Development contract with Lucent Technologies Bell Labs division to develop Version 3.0 of the TV+ solution centered around a new Video Soft Switch enabling the delivery of broadcast television, high speed internet and voice over an new IP based system with an open standards architecture.

In November of 2004, mPhase announced the selection by Lucent Russia to deploy 1,000 ports of mPhase s TV+ solution to a telecom services company in the far eastern region of Russia that is one of 7 regional mega communications service providers.

In February of 2005 and March of 2005 respectively, mPhase extended its Project Development Agreement with the Bell Labs division of Lucent Technologies Inc. covering its power cell product for an additional 12 months at a cost of $1.2 million and also entered into a new 12 month Project Development Agreement for development of its new MEMS based Magnetometer sensor product. Such contracts are in the process of being extended of an additional 12 months.

Our revenue, historically, has been derived from sales of component telephone equipment parts, the majority of which has come from our sales of POTS Splitter Shelves. In our fiscal years ended June 30, 2004, 2005 and 2006 respectively, we generated $4,641,346, $1,711,085 and $975,482 in revenue, respectively, and losses of $7,797,469, $11,504,944, and $19,233,716, respectively, from the commercial sale of our component products. Our other component products, including Filters and Central Office POTS Filter Shelves, are marketed to other DSL equipment vendors. We do not believe that the sales of our TV+ feature product will be materially impaired by the sale of these component products to these potential competitors.

mPhase is in the process of evaluating a full range of contract manufacturers, including manufacturers outside of the U.S. We believe that there are many qualified manufacturers around the world. mPhase is likely to contract with multiple companies depending on which countries the TV+ product is deployed and depending upon cost-competitiveness.

Our Products & Services

To date mPhase s revenue has been derived almost exclusively from sales of DSL component telephone equipment parts, the majority of which has come from our sales of POTS Splitter Shelves. We received an order for a test of our TV+ solution from a major telecommunications service provider in Ukraine, that subject to an acceptance test expected to be completed in June or July of 2007 may result in the deployment of approximately 6,000 customers by a major telecommunications provider in the Ukraine.mPhase supplies the telecommunications industry with products designed to enable, enhance or support broadband DSL services such as its new VDSL customer premises splitter. The Company is currently focused upon sales of its flagship TV+ middleware solution in connection with deployments by telecommunications service providers globally of IPTV.

History of the IPTV+ Solution

Our IPTV solution has been developed by the Company and various outsourcing institutions and companies over a period in excess of 8 years. Our legacy DVDDS system was developed by Georgia Tech Research Institute which was a proprietary end to end system of software and hardware designed to delivery over copper telephone lines broadcast quality television, high-speed internet and voice. The system consisted of equipment located at central offices of telecommunications service providers, customer premises (a set top box). The system downloaded television content from a head end and compressed such content into native MPEG-2 digital format for transmission over fiber to various central office of a telecommunications service provider. The system enabled the provider to transmit over existing copper telephone lines from the central office to the home broadcast television, voice and high-speed internet. In fiscal year 2003 the Company engaged the Bell Labs division of Lucent Technologies to cost reduce the set top box portion of the DVDDS. The Company together with Bell Labs teamed together to create an industry-standard, high quality and cost effective television over DSL platform known as the mPhaseTV+ solution. Releases 1.0 and 2.1 of this solution consists of three key elements:

1.

The mPhase BTS (broadcast television switch) layer interfacing the video headend and the DSLAM (Digital Subscriber Line Access Multiplexer);

2.

The Lucent s Stinger DSL Access Concentrator, a field-tested central office (CO) piece of equipment which provides DSL connections to individual customers; and

3.

mPhase CPE (Customer Premises Equipment), a highly integrated set top box to deliver video in the home environment from the DSL link.

Together with a digital video headend and the Lucent Stinger, the Versions 1.0 and 2.0 of the TV+ solution provide an ATM (asynchronous transfer mode) based end-to-end solution for customers wanting to provide television and high-speed data services over their existing copper infrastructure. Based on a streamlined, modular architecture, future upgrade, additional features and ancillary services can be implemented without major modifications to the entire system.

In 2004 and 2005, it became evident that the market for delivery of broadcast television by telecommunications service requirements required a system that utilized internet protocol (IPTV) that is carrier class and with open standards instead of ATM protocol in order to achieve the lowest cost for delivery of broadcast television to the largest number of customers. In 2006, the Company announced the development of Release 3.0 of its TV+ product that was the first solution developed by the Company that utilized internet protocol to deliver broadcast television, high-speed internet and voice by a telecommunications service provider. This released marked a migration of the Company from the original DVDDS hardware/software end to end proprietary system to an open standards carrier class software/middleware IPTV solution designed to deliver television, voice and high-speed internet over copper, fiber or any other existing infrastructure that a telephone service provider may have. The middleware solution is part of the overall system which consist of head end and various system hardware components and set top box at a customer premises required for the delivery to broadcast television using IP protocol.

As noted above, the Company s current IPTV solution utilizes a communications framework based upon Internet Protocol (IP) instead of Asynchronous Transfer Mode (ATM) that was utilized in earlier releases of the product. ATM is an industry standard for transportation of data based upon a packaging of information into a fixed-size cell format for transportation across networks. Many telecommunications service providers currently deploy equipment that handles this protocol because it can support voice, video, data and multimedia applications simultaneously with a high degree of reliability. IP is another transport protocol that maintains network information and routes packets across networks. IP packets are larger and can hold more data than ATM cells. Historically, there have been concerns that service providers would be unable to provide the same quality of service with IP because it is not optimized for time-sensitive signals such as broadcast television and voice. Nevertheless, there is a greater demand by telecommunication service providers for IP systems for delivery of television, voice and high-speed data because such systems are significantly more cost effective to deploy based upon greater scalability.

Release 6.0 or the IP based TV+ platform is designed for customers planning to support large scale deployments, delivering both high speed data and television services. Such system is designed for maximum flexibility, cost effectiveness, and is highly scaleable for large deployments by telephone service providers. Since most telecommunications providers require an IP rather than ATM mode for deploying digital broadcast television and video on demand, all releases of our IPTV middleware, commencing with release 3.0, have utilized internet protocol.

The Company believes the initial major deployments and any revenues from sales of its flagship IPTV solution are not expected until the third quarter of fiscal year 2006. An upturn of spending in the telephone industry should also increase sales and improve the Company s margins and provide the Company with the opportunity to attain profitability.

DSL Components

Although the Company has repositioned itself mainly as a software/middleware provider of IPTV solutions, mPhase also designs and markets a line of DSL component products that now consists of a new VDSL customer premises splitter designed to facilitate the roll-out of broadband services by telecommunications service providers such as AT&T that are using a combination of fiber to the curb and VDSL over existing copper lines to the home to solve the last mile for delivery of such services.

Research and Development Activities

As of June 30, 2006, we had been billed approximately $13,539,952 for research and development conducted by Georgia Tech Research Institute (GTRC) in connection with the development, over 5 years of the legacy Traverser DVDDS system .On March 26, 1998, we entered into a license agreement with Georgia Tech which owns the Digital Video and Data System technology. GTRC and its affiliates have granted us the exclusive license to use and re-sell Traverser DVDDS worldwide. We are obligated to pay Georgia Tech royalties of up to 5% on future sales of the Traverser The license agreement expires automatically when the patents covering the invention expire.

The Company has paid Lucent Technologies, Inc, through March 31, 2007 a total of $4,819,502 for development of Versions 1.0 through Versions 3.0 its TV+ or IPTV solution which commenced as of September 15, 2002. In May of 2006, mPhase a transferred development of the IPTV middleware form the Bell Labs division of Lucent Technologies Inc to Velankani, as primary systems integrator of the project. The Company is obligated to pay a total of approximately $1 million primarily to Magpie Telecom Insiders, Inc., and Espial, and Velankani Software in remaining payments in order to complete Release 6.0 of the TV+ product.

In February of 2005 mPhase announced that it had entered into a new 12 month extension of its February 2004 $1.2 million Project Development contract with the Bell Labs division of Lucent Technology Inc. for the exploratory research of micro power cell arrays using superhydrophobic nanotextured materials with the first commercial application expected to be a new miniature power cell with a very long shelf life for military and commercial applications. Under the terms of such agreement the Company has paid Lucent $100,000 per month commencing in February of 2005 for a 12 month period for a total of $1.2 million. The Company and Lucent plan to extend such contract for another 12 months on similar terms to continue development of the miniature power cell product. In addition in March of 2005, the Company announced a 12 month agreement with Lucent Technologies, Inc. for development of an electromagnetic sensor or Magnetometer product using the science of Nanotechnology at a cost of $1.2 million payable in 12 installments of $100,000 per month through March of 2006. The Company renewed both contracts in May of 2006 through February and March of 2007 respectively and is currently in negotiations with Bell Labs to extend each of the contracts for an additional 12 months.

Market

Currently, mPhase s target market for its IPTV solution includes telephone companies and telecommunications service providers worldwide. By deploying converged voice, video and data over their existing telephone infrastructure, telecommunications service providers can increase revenue and profitability and retain valuable market share. In most parts of the world, the telephone company is strongly positioned to be first to market with an integrated bundle of communications services. IPTV subscriptions are forecasted to reach around 40 million subscriptions by 2010. This number has increased significantly since 2004 at about 1.3 million.

IPTV can and most likely will become a catalyst of pay TV and broadband growth for key emerging markets such as Russia. In today s competitive telecommunications landscape, the mPhaseTV+ solution for delivery of IP TV has now become a compelling solution for many large international telecommunications service providers to compete effectively in today s marketplace.

We estimate that on average, a typical telecommunications service provider using mPhase s IP TV+ solution can generate significant revenue with a payback on its initial investment in either system within 2-3 years depending on the size and scope of the deployment. Importantly, this relatively short payback period is still applicable in countries where the average cost of a basic cable television package is well below the US average. The economics of mPhase s IPTV+ solution are such that, for example, when charging as little as $10 per month per subscriber for a basic television package, the system operator can expect a full return on investment within a three-year period of time. Furthermore, over 5 years a telecommunications service provider can achieve a significantly higher rate of return on its investment in our IPTV solution than would be possible with deploying voice and data alone. mPhase has developed a detailed and highly customizable return on investment model to assist the telco in assessing its rates of return and profitability based on additional revenue generated by the new services.

mPhase expects to derive the majority of its revenue from the sale of its TV+ solution developed in conjunction with Lucent Technologies, for a number of reasons:

1.

The platform has been designed to achieve maximum cost efficiencies by maximizing scalability using IPTV.

2.

Version 6.0 of the TV+ solution is a market driven IP based solution and is a powerful software/middleware enabling tool providing complete standards-based flexibility for any combination of transport hardware including all major DSLAM s, set top boxes and other features necessary to optimize a solution by a telephone service provider for the delivery of broadcast television, voice and high-speed internet.

mPhase is currently targeting international incumbent telephone companies. The Company expects to derive the majority of its system sales abroad, specifically from telephone service providers in the Ukraine, Russia and Turkey. mPhase believes that foreign markets will adopt its IPTV solution more rapidly than domestic service providers since there is not generally intense competition from cable television. Therefore, the Company has placed much of its initial emphasis on targeting the international market.

Russia the Ukraine and Turkey are markets with minimal pay-TV and broadband penetration levels. These markets offer the possibility that IPTV will be come the main catalyst for broadband adoption. There has been little success in these markets thus far, but we believe we have created a product that will trump the past failures. The demand for IPTV is higher now that it has ever been. The markets mPhase is targeting possess pockets of moderate to high-income households willing and able to purchase advanced digital services, but very few, if any, alternatives exist.

Cable television and digital broadcast satellite (DBS) services are less competitive internationally than in North America. Because of the limited expansion of cable, especially two-way digital cable and satellite networks abroad, access to advanced communications services such as high-speed Internet and digital television in many areas is limited to copper-based delivery methods.

Competition in the worldwide telecommunications market is becoming increasingly aggressive due to changing telecommunications regulation, heightened competitive threats from alternative technologies, such as cable and digital broadcast satellite, and price declines in local and long distance telephony services. Over the past decade, the distinction between local and long distance services has gone extinct. Now operators have introduced all-distance calling for one rate. This is why more and more operators are beginning to look into VoIP and other sources of revenue such as IPTV.

To date, there are several significant deployments of IPTV worldwide including Fastweb in Italy, Imagenio, operated by Telefonica in Spain, Yahoo BB/Softbank in Japan, SuperSun in China in Hong Kong, PCCW in Hong Kong, Free Telecom in France, Yahoo BB in Japan and Media on Demand in the Republic of China operated by Chunghwa Telecom. mPhase believes that the deployment of IPTV worldwide is in the beginning stages but we have begun initial deployments in Russia with Svyazinvest Companies. The market has been slower to develop than many commentators have predicted owing to the technical complexity of the systems software and hardware to deliver feature rich television and video on demand where many international telecommunications operators have varied topologies, existing infrastructure, and complex regulations to comply with in order to successfully deploy such a system. Nevertheless, mPhase believes that telecommunications service providers around the world have the incentive to deploy.

Sales Strategy

IPTV

mPhase will pursue sales opportunities through a variety of channels, including direct sales by the Company s internal sales team, distributors and in conjunction with systems integrators and strategic partners in Turkey, the Ukraine and Russia.

Joint Venture Opportunities

There also exist opportunities for mPhase to capture recurring revenue from the sale and deployment of its IPTV middleware through a joint venture business model. Under this scenario, mPhase would sell its middleware to a joint venture company, of which mPhase retains a minority position. This company would negotiate either a line leasing or revenue share program with the incumbent telephone company and subsequently deploy and operate one of mPhase s IPTV solution. mPhase believes a JV may provide additional opportunities for sales to international telephone carriers that may not have the funds to procure mPhase s IP TV solution, yet recognize the potential business opportunity in deploying our product especially with respect to potential incremental revenues from targeted advertising.

Funding of the equipment and operation of the system would be the responsibility of the JV. Member companies of the JV would include entities interested in controlling television services such as the government and large media groups. For example, mPhase has established a JV in Turkey with Beyaz Holdings a significant provider of Turkish Television content. Although a JV requires greater involvement from mPhase in terms of organizing and coordinating the appropriate parties, the long- term potential benefits to mPhase are great. mPhase would not only secure sales of its TV+ solution, but would benefit from the recurring revenues from a JV engaged in being a broadcast television service provider.

DSL Component Products

mPhase continues to develop its new a line of VDSL component products such as its customer premises splitter. Potential customers for the DSL component products include other DSL equipment manufacturers, re-sellers, network integrators and telecommunications service providers deploying DSL worldwide.

To date, mPhase has deployed over 250,000 POTS Splitter ports. The mPhase DSL component products are sold both by mPhase directly as well as through established distribution agreements. With the migration of telecommunications service providers to VDSL in combination with fiber from ADSL the Company believes that its future revenues from DSL component products will depend upon the rapid development and successful marketing of its new VDSL customer premises splitter. The Company has phased out its legacy ADSL POTS splitter product owing to advancements in DSL technology and VDSL standards and overall market demand. We are continuously in discussions with various original equipment manufacturers of telecommunications equipment to identify opportunities for joint bids for infrastructure deployment with major domestic and international telecommunications service providers. We also continue to market our component products directly.

Intellectual Property, Patents and Licenses

The Company has entered into software development and licensing agreements with Magpie Telecom Insiders, Inc. and Espial with respect to certain software used in connection with its TV+ product. Under such development and licensing Agreement the Company has made aggregate payments of approximately $2 million and $789,000 respectively as of April 18th, 2007. In addition the Company will pay a licensing fee per set top box sold as part of the TV product to Espial of $5.05 per set top box.

We have filed and intend to file United States patent and/or copyright applications relating to some of our proposed products and technologies, either with our collaborators, strategic partners or on our own. There can be no assurance; however, that any of the patents obtained will be adequate to protect our technologies or that we will have sufficient resources to enforce our patents.

Because we may license our technology and products in foreign markets, we may also seek foreign patent protection. With respect to foreign patents, the patent laws of other countries may differ significantly from those of the United States regarding patent protection of our products or technology. In addition, it is possible that competitors in both the United States and foreign countries, many of which have substantially greater resources and have made substantial investments in competing technologies, may have applied for, or may in the future apply for and obtain, patents that will have an adverse impact on our ability to make and sell our products. There can also be no assurance that competitors will not infringe our patents or will not claim that we are infringing on their patents. Defense and prosecution of patent suits, even if successful, are both costly and time consuming. An adverse outcome in the defense of a patent suit could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease our operations.

The Company has filed 7 patents that consist of a combination of (a) patents granted to mPhase from the bell labs division of Lucent Technologies, Inc. and (b) joint patents developed by mPhase and employees of bell labs with respect to the nanotechnology products currently under development. In addition, on June 13, 2007, the Company filed a provisional patent covering its TV+ product.

Regulation

The Federal Communication Commission, or FCC, and various state public utility and service commissions, regulate most of our potential domestic customers. Changes to FCC regulatory policies may affect the accessibility of communications services, and otherwise affect how telecommunications providers conduct their business. These regulations may adversely affect our potential penetration into certain markets. In addition, our business and results of operations may also be adversely affected by the imposition of certain tariffs, duties and other import restrictions on components, which we obtain from non-domestic component suppliers. Changes in current or future laws or regulations, in the U.S. or elsewhere, could materially adversely affect our business.

Competition

mPhase competes with broadband equipment manufacturers including cable and digital broadcast satellite equipment manufacturers, as well as other equipment vendors manufacturing IP TV middleware solutions and set top boxes. The global telco customer base has the ability to adopt other forms of content distribution if it chooses to compete in the multi-channel home entertainment market. However, mPhase believes its IPTV solution is attractive to a broader range of customers of telecommunication service providers. The following sections outline the competitive landscape for mPhase. Cable Television Network Operators:

Cable Television is our indirect competitor. This is mainly because where we are focusing our attention there are no known cable television providers. mPhase believes that the TV+ solution is the most cost effective and robust video delivery technology deployable by our primary target market of international telecommunications service providers. Cable Television providers around the world are seeking to preempt the IPTV value proposition of transforming and personalizing the end-user experience. New services are rapidly being provided to a larger customer base than previously with more emphasis on on-demand capabilities. The cable industry in the United States has invested more than $85 billion in its networks to combine traditional coaxial cable with fiber optic to create hybrid fiber coaxial. This allows operators to transmit digital signals, expand programming capacity and enable interactive services. Cable operators will also move to IP, this is inevitable, but many markets do not have the cable infrastructure needed to deploy such a product.

Direct Broadcast Satellite Services

In the US, direct broadcast satellite (DBS) providers have experienced increased market penetration over the past few years. DBS service is the only alternative television delivery method in rural areas where cable has not been deployed, or antiquated analog cable is predominant. However, in some cases, DBS service does not include local off-air channels and most DBS operators are not able to provide competitively-priced wireless high-speed Internet service. Technology enabling two-way, high-speed Internet access over DBS is relatively new and we expect it will take time to reach broad market acceptance as a cost-effective, reliable data delivery method.

Other IP TV Vendors

mPhase competes with vendors of middleware. and set top boxes. Companies that supply middleware for IPTV include a joint venture of Microsoft and Alcatel, Minerva, Orca Interactive, Siemens, VBrick Systems, and Video Furnance. IP end to end systems competitors include UTStarcom, mxWare and Industria.

Differentiating Factors

mPhase believes that its IPTV product offers the most reliable, scaleable and cost effective solution for delivery of broadcast television programming on a cost-effective basis. Our solution is carrier class with open standards. mPhase s unique systems architecture for its TV+ is a streamlined solution is designed to be the most cost-effective scaleable solution in emerging international markets as well as flexible enough to be upgraded with enhanced features of more robust systems for high end customers.

Headend and Set Top Box Equipment Providers

mPhase does not manufacturer either set top boxes or digital head end gear. All customers interested in deploying an mPhase IPTV+ solution must build a digital headend to receive, digitize and groom the television signals and provide set top boxes to their customers from other vendors. Through extensive lab and field testing, mPhase has established an approved vendor list of several headend providers and has tested its IPTV middleware with set top boxes manufactured by a number of vendors.

Nanotechnology

The science of nanotechnology is very new and evolving. There has been significant venture capital fundings of start up companies during calendar year 2005-2007 focusing upon development of a wide range of potential products and applications. mPhase believes that its power cell and magnetometer products may be the earliest products commercialized using the science of nanotechnology. Nevertheless, the Company does not expect any material revenues from such product for 3 years.

Employees

We presently have approximately twenty three (23) full-time employees and consultants, two (2) of whom are also employed by Microphase Corporation. See the description in the section entitled Certain Relationships and Related Transactions.

Properties

We maintain our corporate headquarters at 587 Connecticut Avenue, Norwalk, Connecticut 06854, under a facilities agreement with Microphase. The agreement with Microphase provides that we lease office space, lab facilities and administrative staff on a month-to-month basis. We also maintain offices in New York, N.Y and Little Falls, New Jersey.

LEGAL PROCEEDINGS

The Company has previously been advised that, following an investigation by the staff of the Securities and Exchange Commission, the staff intends to recommend that the Commission file a civil injunctive action against Packetport, Inc. and its Officers and Directors. Such recommendation relates to alleged civil violations by Packetport and such Officers and Directors of various sections of the Federal Securities Laws. The staff has alleged civil violations of Sections 5 and 17(a) of the Securities Act of 1933 and Sections 10(b) and 13(d) of the Securities Exchanges Act of 1934. As noted in other public filings of mPhase, the CEO and COO of mPhase also serve as Directors and Officers of Packetport. Such persons have advised mPhase that they deny any violation of law on their part and intend to vigorously contest such recommendation.

On November 15, 2005, the Commission filed a Civil Enforcement Action arising out of such investigation in Federal District Court in the District of Connecticut against Packetport.com, Inc, its officers and directors and others. mPhase was not named in such civil action as a party defendant, however both the CEO and COO of the Company were named as defendants. The Commission has alleged that such defendants have violated various sections of the Securities Act of 1933, as amended (the Securities Act), the Securities Exchange Act of 1934, as amended (the Exchange Act), including the anti-fraud provisions of Section 10 and Rule 10b-5 as well as Sections 17 of the Exchange Act and Section 5 of the Securities Act. In addition Microphase Corporation is also named as a defendant in the civil action in connection with its sale of the stock of Packeport.com in early 2000. All defendants to the suit continue to deny any wrongdoing and intend to vigorously defend all allegations contained in such action.

In a ruling (3:05 CV 1747 (PCD)), dated March 21, 2007, the Honorable Peter C. Dorsey, Senior U.S. District Court Judge for the United States District Court For The District Of Connecticut, granted a motion by defendants, Ronald A. Durando and Packetport Inc. joined by defendants Gustave T. Dotoli , Microphase Corporation and Packetport.com, Inc. to dismiss under Federal Rule 41(b) of the Federal Rules of Civil Procedure the civil lawsuit filed on November 15, 2005 by the Securities and Exchange Commission against Packetport.com, Inc. et. al for lack of prosecution.

On April 4, 2007, the Securities and Exchange Commission filed a motion with the United States District Court requesting a reconsideration of the motion to dismiss granted by the Court in favor of the defendants.

In a ruling dated May 23, 2007, the Judge Peter C. Dorsey granted the motion for reconsideration filed by the Securities and Exchange Commission and reversed his earlier ruling of March 21, 2007 and reinstated the case on the judicial calendar to proceed to trial.

From time to time we may be involved in various legal proceedings and other matters arising in the normal course of business.

OUR MANAGEMENT

Executive Officers and Directors

Our officers and directors, and their ages, as of March 31, 2007, are as follows:

Name	Age	Position(s)
Necdet F. Ergul	84	Chairman of the Board and Director
Ronald A. Durando	50	President, Chief Executive Officer And Director
Gustave T. Dotoli (2)	71	Chief Operating Officer and Director
Martin S. Smiley	59	Executive Vice President, Chief Financial Officer, General Counsel and Director

Outside Directors

Anthony H. Guerino, Esq. (1)(2)	**59**	**Director**
Abraham Biderman (1)(2)	**59**	**Director**
Victor Lawrence	**60**	**Director**

(1) Member of Audit Committee. (2) Member of Compensation Committee.

The following is biographical information about each of our Officers and Directors.

Necdet F. Ergul has served as our Chairman of the Board since October 1996 with the exception of a three-month period in 2000 when he temporarily resigned. Mr. Ergul also currently serves as the President and Chief Executive Officer of Microphase Corporation, a leading developer of military electronic defense and telecommunications technology, which he founded in 1955. He is also a Director of Janifast Ltd. In addition to his management responsibilities at Microphase, he is active in engineering design and related research and development. Mr. Ergul holds a Masters Degree in Electrical Engineering from the Polytechnic Institute of Brooklyn, New York.

Ronald A. Durando is the founder of mPhase Technologies, Inc. and has served as our President, Chief Executive Officer and a Director since its inception in October 1996. In addition, Mr. Durando has been the Chief Operating Officer of Microphase Corporation since 1994. From 1986 to 1994, he was President and Chief Executive Officer of Nutley Securities, Inc., a registered broker-dealer. He is also Chairman of the Board of Janifast Ltd., a Hong Kong corporation for operational and manufacturing companies in China. Mr. Durando is also President and Chief Executive Officer and Director of PacketPort.com, Inc.

Gustave T. Dotoli has served as our Chief Operating Officer and a Director since our inception in October 1996. In addition, Mr. Dotoli has been the Vice President of Corporate Development of Microphase Corporation since December of 1996. Mr. Dotoli is also a Director and Vice President Corporate Secretary of PacketPort.com, Inc. He formerly was the President and Chief Executive Officer of the following corporations: Imperial Electro-Plating, Inc., World Imports USA, Industrial Chemical Supply, Inc., SISCO Beverage, Inc. and Met Pack, Inc. Mr. Dotoli received a B.S. in Industrial Engineering from Fairleigh Dickinson University in 1959.

Martin Smiley joined us as Executive Vice President, Chief Financial Officer and General Counsel on August 20, 2000. In 2006 he was elected to the Board of Directors of the Company. With over twenty years experience as a corporate finance and securities attorney and as an investment banker, Mr. Smiley serves as mPhase s strategic financial leader. Prior to joining the Company, Mr. Smiley served as a Principal at Morrison & Kibbey, Ltd., a mergers and acquisitions and investment banking firm from 1998 to 2000, and as a Managing Director for CIBC Oppenheimer Securities from 1994 to 1998. He served as a Vice President of Investment Banking at Chase Manhattan Bank from 1989 to 1994, and as a Vice President and Associate General Counsel for Chrysler Capital Corporation from 1984 to 1989. Mr. Smiley graduated with a B.A. in Mathematics from the University of Pennsylvania and earned his law degree from the University of Virginia School of Law.

Anthony H. Guerino has been a member of the Board since February 23, 2000. Since December 1997, Mr. Guerino has been an attorney in private practice in New Jersey. Prior thereto, Mr. Guerino served as a judge of the Newark Municipal Courts for over twenty (20) years, periodically sitting in the Essex County Central Judicial Processing Court at the Essex County Courthouse. Mr. Guerino has been a chairperson for and member of several judicial committees and associations in New Jersey, and has been an instructor for the Seton Hall School of Law s Trial Moot Court Program.

Abraham Biderman has been a member of our board since August 3, 2000. Mr. Biderman is Executive Vice President of Lipper & Company; Executive Vice President, Secretary and Treasurer of The Lipper Funds; and Co-Manager of Lipper Convertibles, L.P. Prior to joining Lipper & Company in 1990, Mr. Biderman was Commissioner of the New York City Department of Housing, Preservation and Development from 1988 to 1989 and Commissioner of the New York City Department of Finance from 1986 to 1987. He was Chairman of the New York City Retirement System from 1986 to 1989. Mr. Biderman was Special Advisor to former Mayor Edward I. Koch from 1985 to 1986 and assistant to former Deputy Mayor Kenneth Lipper from 1983 to 1985. Mr. Biderman is a Director of the Municipal Assistance Corporation for the City of New York. Mr. Biderman graduated from Brooklyn College and is a certified public accountant.

Dr Victor Lawrence is bachelor Chair professor of Electrical Engineering and Associate Dean for Special Programs, in the Charles V Schafer, Jr. School of Engineering, at Steven Institute of Technology. Dr. Victor Lawrence is a member of the National Academy of Engineering and has worked in the information technology and communications field for over thirty years. He is an industry leader in digital communications R&D and services, an entrepreneur, an active member of engineering professional organizations, an author, and a teacher who has extensive international experience. Prior to joining Steven Institute of Technology Dr. Lawrence was Vice President, Advanced Communications Technology, Bell Laboratories, Lucent Technologies. He led the development of technologies that go into the most innovative, reliable, and cost-effective communications networks for the leading telecommunications service providers. He has supported Lucent s businesses with a staff of about 500 leading technologists and a budget of about $100M. Major projects included gigabit, photonic, and wireless networking developments and services. He was responsible for a team of engineers that worked on performance analysis, simulations and development of broadband access and backbone networks for many national and international service providers. All of Lucent s R&D organizations relied on his high-technology support of computer-aided hardware design, physical and thermal design, systems compliance testing and certification, and design for high performance network control, signaling, and management. Earlier, he was Director, Advanced Multimedia Communications at Bell Labs, where he was responsible for systems engineering, exploratory development of multimedia signal processing, transmission, and switching, including speech and audio coding, modems, broadband transmission, ATM switching and protocols, and wireless communication and signal processing. He held a variety of leadership positions in data communications research, digital techniques, and information systems. His application of digital signal processing to data communications in the late 1980s and early 1990s led to many significant advances in high-speed transmission over copper lines (e.g., voice band modems and DSL), which helped create a global industry that leverages the public switched telephone network. Dr. Lawrence played a significant role in the development of every major international voiceband modem standard, making high-speed data communication over international networks possible. The universal availability of high-speed data connectivity stimulated the growth and widespread use of the Internet. He led the development of high-speed modem/fax chip sets that are used in data terminals, computers, and voice terminals for secure communications worldwide. His work on high-speed transceivers for local loop and for premises applications led to the development of a variety of DSL technologies, many of which are deployed today for broadband services. Entrepreneurship Dr. Lawrence spun off several ventures internal and external to Lucent to maximize the impact of technology developed in his organization.

Globespan, whose core team came from Dr. Lawrence s organization and created the silicon for DSL. Globespan later merged with Virata and is now part of Conexant.

Lucent Digital Video, a Lucent internal venture, which developed MPEG-2 video encoders that have been deployed in over 150 television stations and in many broadband networks worldwide. The entire R&D team came from Dr. Lawrence s organization.

elemedia, which developed software for VoIP communications.

Lucent Digital Radio (now Ubiquity), which developed VLSI for encoding/decoding and modulation/demodulation of digital audio broadcast (DAB). This technology is now used for both terrestrial and satellite radio. In addition, he led the systems engineering efforts that designed the architecture for the Sirius Satellite System and developed the Studio Encoder and the ASIC for the receiver system.

Dr. Lawrence is a member of the National Academy of Engineering and a Fellow of both the Institute of Electrical and Electronics Engineers (IEEE) and AT&T Bell Labs. For his scientific achievements, Dr **.** Lawrence has received numerous awards, including the 2004 IEEE Award in International Communication and a 1997 Emmy Award for the HDTV Grand Alliance Standard. He was also the co-recipient of the 1984 J. Harry Karp Best Paper Award and the 1981 Gullemin-Cauer Prize Award.

He served as the Chairman, IEEE Awards Board in 1994-1995, was Editor-In-Chief, IEEE Transactions on Communications from 1987 to 1991, and a member of the Board of Governors of the IEEE Communications Society from 1990 to 1992. He was also Special Rapporteur on Coding (1982-1984) and on Transmission Impairments (1984) for CCITT (now ITU).Dr. Lawrence has been a key proponent of R&D globalization and is championing the effort to bring fiber optic connectivity to Africa. Over the past several years at Bell Labs, he managed a worldwide R&D organization, with branches in Beijing and Shanghai in China and in Hilversum and Twente in the Netherlands, as well as four states in the US. Before joining Bell Labs in 1974, he taught at Kumasi University of Science and Technology in Ghana, and was employed as a research engineer at the General Electric Company in the UK. Dr. Lawrence is the co-author of five books *: Introduction to Digital Filters, Tutorials on Modem Communications, Intelligent Broadband Multimedia Networks, Design and Engineering of Intelligent Communications Systems, and The Art of Scientific Innovation.* He holds over 20 U.S. and international patents and has over 45 papers in referenced journals and conference proceedings, covering digital signal processing and data communications. Dr. Lawrence has taught Signal Processing and Data Networking courses at the University of Pennsylvania, Rutgers University, Princeton University, Columbia University, and Fairleigh Dickinson University, and delivered the Chancellor s Distinguished Lecture Series at the University of California at Berkeley in 1986. He has also taught Technology Management and Technology Incubation courses at Bell Labs to new engineers.

Since 1996, Dr. Lawrence has taught a short-course each year at the US Industrial College of the Armed Forces.

From 1997-2001, Dr. Lawrence and his staff supported Senator First and the US Sub-Committee on Science and Technology.

Dr. Lawrence received his undergraduate, masters, and doctorate degrees from the University of London in the United Kingdom.

Board Committees

Our Board of Directors has an audit committee and a compensation committee. The audit committee approves of our independent accountants and determines the appropriateness of their fees, reviews the scope and results of the audit plans of the independent accountants, oversees the scope and adequacy of our internal accounting control and record-keeping systems and confers independently with the independent accountants. The audit committee consists of Messrs. Biderman, and Guerino. Consistent with NASD regulations, an audit charter was developed and adopted by the Board and the audit committee on August 2, 2000.

The compensation committee makes recommendations to our Board of Directors regarding our stock incentive plans and all matters of compensation. The compensation committee consists of three (3) Directors, Messrs. Biderman, Dotoli and Guerino.

Director Compensation

For their attendance of Board and Committee meetings, we compensate the Directors in cash as well as in the form of stock options granted under our Stock Incentive Plan, which grants are included in the table Security Ownership of Certain Beneficial Owners and Management and the notes thereto.

Compensation of Directors

During fiscal year 2006 mPhase compensated each of the inside directors with Options to purchase 25,000 shares of common stock at a price of $.25 per share for services both as officers and directors. The outside directors were each compensated with 25,000 of Options to purchase common stock at a price of $.25. The Messrs Durando, Dotoli and Guerino were each paid a $7,500 cash stipend. No such payment was made during fiscal year 2005.

Executive Compensation

The following table sets forth, for the fiscal year ended June 30, 2006 and the two previous fiscal years, the compensation paid by us to, as well as any other compensation paid to or earned by, our Chief Executive Officer, and our four most highly compensated executive officers, other than the Chief Executive Officer, whose compensation during the fiscal year ended June 30, 2006 was greater than $100,000 for services rendered to us in all capacities during such year.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		RESTRICTED STOCK AWARDS	SECURITIES UNDERLYING OPTIONS
	YEAR	SALARY	BONUS		
Ronald A. Durando	2006	$393,600	$250,000	6,000,000	9,775,000
(Chief Executive Officer and President)	2005	$305,000	-	-	2,500,000
	2004	$285,000	-	-	1,500,000
Gustave Dotoli	2006	$282,000	$75,000	2,500,000	4,875,000
(Chief Operating Officer)	2005	$215,000	-	-	1,500,000
	2004	$225,000	-		750,000
Martin Smiley	2006	$175,000	-	1,577,206	1,300,000
(Executive Vice President	2005	$125,000	-	425,000	
Chief Financial Officer and General Counsel)	2004	$103,958	-	-	

STOCK OPTIONS

The following table contains information regarding options granted in the fiscal year ended June 30, 2006 to the executive officers named in the summary compensation table above. For the fiscal year ended June 30, 2006, mPhase granted options and compensatory warrants to acquire up to an aggregate of 23,595,000 shares to employees and directors.

Name	Number of Options Granted	Exercise Price per Share	Market Price on Grant dates	Expiration Dates	Potential Realizable Value of Assumed Annual Return		
					0%	5%	10%
Ronald Durando	4,000,000	0.18	0.18	2/23/2011	40,000	$249,974	$503,988
	4,000,000	0.21	0.21	2/23/2011		$129,974	$383,988
	1,000,000	0.25	0.25	3/28/2011		$0	$55,997
	775,000	0.21	0.21	6/14/2011		$25,182	$74,398
Gustave Dotoli	1,800,000	0.18	0.18	2/23/2011	18,000	$112,488	$226,794
	1,800,000	0.21	0.21	2/23/2011		$58,488	$172,794
	750,000	0.25	0.25	3/25/2011		$0	$41,998
	525,000	0.21	0.21	6/14/2011		$17,059	$50,398
Martin Smiley	550,000	0.18	0.18	2/23/2011	5,500	$34,371	$69,298
	500,000	0.21	0.21	2/23/2011		$16,247	$47,998
	250,000	0.21	0.21	6/14/2011		$0	$13,999

The following table sets forth information with respect to the number and value of outstanding options held by executive officers named in the summary compensation table above at June 30, 2006. During the fiscal year ended

June 30, 2006, no options were exercised. The value realized is the difference between the closing price on the date of exercise and the exercise price. The value of unexercised in-the-money options is based upon the difference between the closing price of mPhase s common stock on June 30, 2006, and the exercise price of the options.

Fiscal Year-End Option Values

Name			Value of unexercised In-The-Money Options	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Ronald Durando	14,200,000	-	$40,000	-
			-	
Gustave Dotoli	6,925,000	-	18,000	-
			-	
Martin Smiley	1,440,000	-	5,500	-

Employment Agreements

All employment agreements with our current management have expired and are in the process of being renegotiated subject to approval of the Board of Directors of the Company.

Long-Term Stock Incentive Plan

We have a Long-Term Stock Incentive Plan, under which we have reserved for issuance 15,000,000 shares of common stock. Our shareholders approved our 2001 Stock Incentive Plan at our annual meeting of shareholders on May 30, 2001. The plan provides for grants of incentive stock options and nonqualified stock options to our key employees and consultants and those key employees and consultants of our subsidiaries.

With respect to our current plan, the compensation committee of the Board of Directors administers and interprets our current plan. The exercise price of common stock underlying an option may be greater, less than or equal to fair market value. However, the exercise price of an incentive stock option must be equal to or greater than the fair market value of a share of common stock on the date such incentive stock option is granted. The maximum term of an option is five years from the date of grant. In the event of a dissolution, liquidation or change in control transaction, we may require option holders to either exercise their options within 30 days or surrender such options (or unexercised portion thereof).

Upon stockholder approval, the Board of Directors merged our prior Long-Term Stock Incentive Plan into the 2001 Plan.

The purpose of the 2001 Plan is to promote our long-term growth and profitability by providing key people with incentives to improve stockholder value and contribute to our growth and financial success and by enabling us to attract, retain and reward the best available people.

The maximum number of shares of common stock that we may issue with respect to awards under the 2001 Plan is 20,000,000 shares, in addition to the shares previously authorized for issuance under our Company plan, but which are not issued before our current plan is merged into the 2001 Plan.

The maximum number of shares of common stock subject to awards of any combination that may be granted under the 2001 Plan during any fiscal year to any one individual is limited to 2,500,000 subject to the exceptions made by the Board of Directors. These limits will be adjusted to reflect any stock dividends, split-ups and reverse stock split, unless the Board determines otherwise. If any award, or portion of an award, under the 2001 Plan expires or terminates unexercised, becomes unexercisable or is forfeited or otherwise terminated, surrendered or canceled as to any shares, or if any shares of common stock are surrendered to us in connection with any award (whether or not such surrendered shares were acquired pursuant to any award), or if any shares are withheld by us, the shares subject to such award and the surrendered or withheld shares will thereafter be available for further awards under the 2001 Plan. Those shares that are surrendered to or withheld by us, or that are forfeited after issuance, however, will not be available for incentive stock options.

The 2001 Plan is administered by our Board of Directors or by a committee or committees as the Board of Directors may appoint from time to time. The administrator has full power and authority to take all actions necessary to carry out the purpose and intent of the 2001 Plan, including, but not limited to, the authority to: (i) determine who is eligible for awards, and the time or times at which such awards will be granted; (ii) determine the types of awards to be granted; (iii) determine the number of shares covered by or used for reference purposes for each award; (iv) impose such terms, limitations, restrictions and conditions upon any such award as the administrator deems appropriate; (v) modify, amend, extend or renew outstanding awards, or accept the surrender of outstanding awards and substitute new awards (provided however, that, except as noted below, any modification that would materially adversely affect any outstanding award may not be made without the consent of the holder); (vi) accelerate or otherwise change the time in which an award may be exercised or becomes payable and to waive or accelerate the lapse, in whole or in part, of any restriction or condition with respect to such award, including, but not limited to, any restriction or condition with respect to the vesting or exercisability of an award following termination of any grantee s employment or consulting relationship; and (vii) establish objectives and conditions, if any, for earning awards and determining whether awards will be paid after the end of a performance period.

In the event of changes in our common stock by reason of any stock dividend, split-up, recapitalization, merger, consolidation, business combination or exchange of shares and the like, the administrator may make adjustments to the number and kind of shares reserved for issuance or with respect to which awards may be granted under the 2001 Plan, in the aggregate or per individual per year, and to the number, kind and price of shares covered by outstanding award.

Without the consent of holders of awards, the administrator in its discretion is authorized to make adjustments in the terms and conditions of, and the criteria included in, awards in recognition of unusual or nonrecurring events affecting us, or our financial statements or those of any of our affiliates, or of changes in applicable laws, regulations, or accounting principles, whenever the administrator determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2001 Plan.

Participation in the 2001 Plan will be open to all of our employees, officers, directors and other individuals providing bona fide services to us or any of our affiliates, as the administrator may select from time to time. All two (2) non-employee directors and approximately nineteen (19) employees will be eligible to participate in the 2001 Plan.

The 2001 Plan allows for the grant of stock options, stock appreciation rights, stock awards, phantom stock awards and performance awards. The administrator may grant these awards separately or in tandem with other awards. The administrator will also determine the prices, expiration dates and other material conditions governing the exercise of the awards. We, or any of our affiliates, may make or guarantee loans to assist grantees in exercising awards and satisfying any withholding tax obligations arising from awards.

Because participation and the types of awards available for grant under the 2001 Plan are subject to the discretion of the administrator, the benefits or amounts that any participant or groups of participants may receive if the 2001 Plan is approved are not currently determinable. For this purpose, the benefits or amounts that participants may receive if the 2001 Plan is approved do not include awards granted under the Prior Plan that are amended and restated to become awards covering the same number of shares under the terms of the 2001 Plan. These amended and restated awards are not contingent on stockholder approval since the Prior Plan was previously approved by the stockholders.

Our Board of Directors may terminate, amend or modify all or any provision of the 2001 Plan at any time.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee are Messrs. Dotoli, Mr. Biderman and Guerino. Mr. Dotoli is our Chief Operating Officer. Neither Messrs Guerino nor Biderman is not one of our officers or employees. None of our directors or executive officers served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of such committee, the entire board of directors) of another entity during fiscal 2004 that has a director or executive officer serving on our Board of Directors except that Mr. Dotoli is also a member of the Board of Directors of PacketPort.com, Inc., a company in which Mr. Durando serves as Chief Executive Officer. Mr. Ergul is a controlling shareholder and Director of Microphase corporation (which provides certain administrative services to mPhase) and Mr. Dotoli and Mr. Durando are Officers of Microphase., Mr. Dotoli, together with Mr. Durando and Mr. Ergul, are controlling shareholders, officers and directors of Janifast Ltd. Janifast Ltd. has produced components for the TV+ product and is expected to produce a material amount of DSL components for us in the future.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of June 30, 2006 certain information regarding the beneficial ownership of our shares:

1. by each person who is known by us to be the beneficial owner of more than five percent (5%) of its outstanding common stock;

2. each of our directors;

3. by each executive officer named in the Summary Compensation Table; and, by all of our directors and executive officers as a

group.

Name and Address of Beneficial Owner(1)	Number of Shares of Common Stock Beneficially Owned	Percentage Ownership of Common Stock(2)
Necdet F. Ergul(4)	5,050,750	1.8%
Ronald A. Durando(3)	25,264,849	8.8%
Gustave T. Dotoli	13,330,267	4.7%
Abraham Biderman	1,527,733	0.5%
Anthony Guerino	777,500	0.3%
Martin Smiley	8,598,198	3.0%
Microphase Corporation	24,832,241	8.4%
Janifast	18,127,778	6.2%
All executive Officers Directors, and beneficial owners	97,509,316	33.7%

	Warrants	Options	Total
Necdet F. Ergul	200,000	2,448,750	2,648,750
Ronald A. Durando	581,667	14,200,000	14,781,667
Gustave Dotoli	1,138,067	6,925,000	8,063,067
Martin Smiley	2,545,569	1,440,000	3,985,569
Abraham Biderman	35,000	982,500	1,017,500
Anthony Guerino	35,000	742,500	777,500
Microphase Corporation	8,772,222	0	8,772,222
Janifast Ltd.	3,150,000	0	3,150,000

(1) Unless otherwise indicated, the address of each beneficial owner is 587 Connecticut Avenue, Norwalk, Connecticut 06854-1711.

(2) Unless otherwise indicated, mPhase believes that all persons named in the table have sole voting and investment power with respect to all shares of the Company shares beneficially owned by them. The percentage for each beneficial owner listed above is based on 278,235,984 shares outstanding on June 30, 2006, and, with respect to each person holding options or warrants to purchase shares that are exercisable within 60 days after June 30, 2006, the number of options and warrants are deemed to be outstanding and beneficially owned by the person for the purpose of computing such person s percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. The number of shares indicated in the table include the following number of shares issuable upon the exercise of warrants or options:

(3) Includes 1,396,148 shares held by Durando Investment LLC, Shares held by Janifast which Mr. Durando controls are stated separately.

(4) Includes 277,000 shares owned by Berrin Snyder, his daughter and 275,000 owned by Eda Peterson, his daughter. Shares held by Microphase which Mr. Ergul controls are stated separately.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Material Related Party Transactions

The Company has material related party transactions. The Company incurs costs for engineering, design and production of prototypes and certain administrative functions from Microphase Corporation and the purchase of finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited. The Company has incurred costs for obtaining transmission rights. This enabled the Company to obtain re-transmission accreditation to proprietary television content that the Company plans to provide with its flagship product, the TV+ within its incorporated joint venture mPhase Television.Net, in which the Company owns a 56.5% interest.

Mr. Durando, the President and CEO of mPhase, owns a controlling interest and is a director and COB of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Dotoli is also a shareholder of Janifast Limited. Mr. Ergul, the chairman of the board of mPhase, owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited. Microphase, Janifast, are significant shareholders of mPhase.

Management believes the amounts charged to the Company by Microphase, Janifast, mPhase Television.Net and Hart Telephone are commensurate to amounts that would be incurred if outside parties were used. The Company believes

Microphase, and Janifast Limited has the ability to fulfill their obligations to the Company without further support from the Company.

Transactions with Officers, Directors and their Affiliates

Directors that are significant shareholders of Janifast Limited include Messrs Ronald A. Durando, Gustave T. Dotoli, and Necdet F. Ergul.

During the 12 month period ended June 30, 2006 Eagle Advisers, an investment banking firm founded by Mr. Abraham Biderman, a member of the Board of Directors of the Company, earned fees and reimbursement expenses of approximately $782,568 in connection with services in regard to private placements of the Company s common stock and warrants and raised a total of $5,820,652 net of such fees for the Company.

During the 12 month period ended June 30, 2005 Eagle Advisers, earned fees and reimbursement expenses of approximately $633,000 in connection with services in connection with private placements of the Company s common stock and warrants and raised a total of $6,117,000 net of such fees for the Company.

Additionally at June 30, 2004, Mr. Durando was owed $300,000 and Mr. Smiley was owed $100,000 by the Company as evidenced by a non-interest bearing promissory note that was repaid in July 2004. As of June 30, 2004 a total of $55,000 in the aggregate was due to Mr. Durando and Mr. Dotoli for unpaid compensation.

Mr. Durando s June 30, 2004 note payable balance of $300,000 was repaid by the Company during fiscal year 2005. During the first and second quarters of fiscal year 2005, Mr. Durando made additional bridge loans to the Company evidenced by various 12% demand notes in the aggregate of $525,000. Mr. Durando was repaid a total of $450,000 of such loans in January of 2005. In addition, Mr. Durando converted $13,954 of the principal amount of a $75,000 promissory note leaving unpaid principal of $61,046 outstanding. Mr. Durando converted $13,000 of accrued and unpaid interest on various promissory notes of the Company into 65,000 shares of common stock and a 5 year warrant to purchase a like amount of common stock at $.25 per share.

During the twelve month period ended June 30, 2005 Mr. Dotoli and Mr. Smiley, the COO, and CFO and General Counsel of the Company respectively, each lent the Company $75,000. Mr. Dotoli was repaid, the principal amount of such loan, in cash in January, 2005 and Mr. Smiley converted his $75,000 loan into 375,000 shares of common stock of the Company plus a 5 year warrant to purchase a like amount of shares at $.25 per share. In addition, Mr. Smiley converted $9,975 of accrued interest into 49,875 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share. Finally Mr. Smiley received 25,000 additional shares of common stock as a market adjustment to his equity investment of $25,000 on August 30, 2004. Mr. Dotoli cancelled $3,750 of accrued and unpaid interest from August 15, 2004 through January 15, 2004 into 375,000 shares of common stock pursuant to the terms of a portion of a warrant that was exercised at $.01 per share previously given by the Company to Mr. Dotoli in exchange for and cancellation of unpaid compensation. On January 15, 2004, Mr. Smiley was awarded 425,000 shares of common stock as additional compensation.

During the six months ending December 31, 2004, accounts payable in the amount of $250,000 owed by mPhase to Microphase Corporation was cancelled in exchange for the 1,250,000 shares of common stock and a 5 year warrant to purchase a like amount of shares at $.25.In addition for such period, Janifast Ltd. cancelled $200,000 of accounts payable owed by mPhase in exchange for 1,000,000 shares of common stock and a 5 year warrant to purchase a like amount of shares at $.25 per share.

In late February and early March of 2005, the various vendors converted approximately $173,898 in accounts payable due from the Company into 535,296 shares of Common stock aggregating $183,310 in full settlement of those obligations.

Mr. Ronald A. Durando converted $13,000 of accrued and unpaid interest on various demand notes issued by the Company for loans by Mr. Durando during the six month period ended December 31, 2004 into 65,000 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share. In addition Mr. Durando converted $13,954 of principal of a $75,000 promissory note into the exercise, in full, of a warrant to purchase 1,395,400 shares of common stock at $.01 previously granted to Mr. Durando in exchange for cancellation of unpaid compensation.

In June of 2005, Mr. Smiley converted the his 12% $100,000 note converted plus accrued interest thereon to 520,000 shares of common stock of mPhase at the rate of $.20 cents per share plus a 5 year warrant for an additional 520,000 shares of common stock at $.25 per share.

In addition a demand note payable to Martin Smiley, CFO and General Counsel of mPhase, in the amount of $75,000 was converted into 375,000 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share and Mr. Smiley extended from July 25, 2004 to July 25, 2005 a $100,000 promissory note carrying 12% interest. In addition Mr. Smiley converted accrued and unpaid interest on his various promissory notes of $ 9,975 through December 31, 2004 into 49,875 shares of common stock plus a 5 year warrant to purchase a like amount of common stock at $.25 per share. Mr. Smiley s remaining $100,000 note is convertible into Common Stock of mPhase at the rate of $.25 cents per share through July 25, 2009. Upon conversion, the note holder will be granted warrants to purchase an equivalent amount of mPhase Common Stock at $.25 cents per share for a period of five years from the date of conversion plus a 5 year warrant for a like amount of shares at $.25 per share. Mr. Ronald A. Durando converted $13,000 of accrued and unpaid interest on various demand notes issued by the Company for loans by Mr. Durando during the six month period ended December 31, 2004 into 65,000 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share. In addition Mr. Durando converted $13,954 of principal of a $75,000 promissory note into the exercise, in full, of a warrant to purchase 1,395,400 shares of common stock at $.01 previously granted to Mr. Durando in exchange for cancellation of unpaid compensation. Finally, Mr. Gustave Dotoli, Chief Operating Officer of the Company converted $ 3,750 of accrued and unpaid interest on a $75,000 promissory note into 375,000 shares of common stock at $.01 pursuant to a portion of a warrant previously granted to Mr. Dotoli for unpaid compensation.

During fiscal year end June 30, 2006, Mr. Edward Suozzo, a consultant of the Company, converted $50,000 of accounts payable owed by the Company into 331,864 shares of common stock plus a 5 year warrant to purchase 277,778 shares of common stock at $.18 per share. During fiscal year end June 30, 2005, Mr. Suozzo converted $20,000 of accounts payable owed by the Company into 100,000 shares of common stock plus a 5 year warrant to purchase 100,000 shares of common stock at $.25 per share.

During fiscal year end June 30, 2006, Microphase Corporation and Janifast Corp, both related parties respectively converted $369,000 and $171,000 of accounts payable owed by the Company into 2,050,000 and 950,000 shares of common stock plus a 5 year warrant to purchase 2,050,000 and 950,000 shares of common stock at $.18 per share.

During the three months ending September 30, 2004, a note payable in the amount of $180,000 to Microphase Corporation, Such note was extended by Microphase from July 25, 2004 and now matures on July 25, 2005. Additionally, a note payable to Martin Smiley, CFO and General Counsel of mPhase, in the amount of $100,000 was extended from July 25, 2004 to July 25, 2005. Both liabilities carry an interest rate of 12% payable quarterly in arrears and were extended effective June 30, 2004. Each note is convertible into Common Stock of mPhase at the rate of $.25 cents per share plus a 5 year warrant for a like amount of common stock at $.25 per share through July 25, 2005 and a second 5 year warrant at $.50 per share convertible into a like amount of shares.

On August 30, 2004, the Company paid $100,000 to Piper&Rudnick, LLP, its outside counsel, in connection with the renegotiation of a Payment Agreement effective June 30, 2004. Under the terms of the renegotiated Payment Agreement, the Company agreed to payments of $25,000 each on December 1, 2004, March 1, 2005, June 1, 2005 and September 1, 2005 and a payment of $50,000 on December 1, 2006 plus $25,000 payments on March 1, 2006, June 1, 2006, September 1, 2006 and a final payment of $75,000 payment on December 1, 2007. In addition, Piper&Rudnick LLP agreed to convert $150,000 of such payable into a 5 year cashless warrant to purchase the Company s common stock at $.25 per share.

On August 30, 2004 the Company issued two demand promissory notes each in the principal amount of $75,000 at 12% interest in consideration of loans of $75,000 to the Company from each of Mr. Dotoli, its COO and Mr. Smiley, its CFO and General Counsel. In addition on September 30, 2004, the Company issued a demand promissory note to Microphase Corporation, a related party, for a loan of $175,000 to the Company with a 12% interest rate. Finally, the Company issued demand promissory notes with an interest rate of 12% to Mr. Ronald Durando, CEO of the Company for loans made to the Company dated August 30, 2004, as well as demand promissory notes to Mr. Durando, its CEO, for loans to the Company of $200,000 on August 30, 2004, $75,000 on September 28, 2004 and $175,000 on September 30, 2004 respectively.

Necdet F. Ergul, Ronald A. Durando and Gustave T. Dotoli, our Chairman, Chief Executive Officer and Chief Operating Officer, respectively, are executive officers and shareholders of Microphase and Ronald Durando and Gustave T. Dotoli are president and vice- president of PacketPort.com., respectively.

On November 26, 1999, Mr. Durando acquired, via a 100% ownership of PacketPort, Inc., a controlling interest in Linkon Corporation, now known as PacketPort.com, Inc. On November 26, 1999, PacketPort, Inc., a company owned 100% by Mr. Durando, acquired controlling interest in Linkon Corp., which subsequently changed its name to PacketPort.com, Inc. In connection with this transaction, Mr. Durando transferred 350,000 shares of our common stock to PacketPort, Inc.

Transactions with Microphase Corporation

mPhase s President and Chairman of the Board of the Company are also employees of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase, whereby it will use office space as well as the administrative services of Microphase, including the use of accounting personnel. This agreement for fiscal year 2006 required mPhase to pay Micophase $10,000 per month. Microphase also charges fees for specific projects on a project-by-project basis. During the year ended June 30, 2006 and for the period of time from mPhase s inception (October 2, 1996) to June 30, 2006, $531,820 and $8,670,776, respectively, have been charged to expense or inventory under these Agreements and is included in operating expenses in the accompanying consolidated statements of operations. Management believes that amounts charged to the Company by Microphase are commensurate to amounts that would be incurred if outside third parties were used.

The Company is obligated to pay a 3% royalty to Microphase on revenues from its proprietary Traverser Digital Video and Data Delivery System and DSL component products.

Transactions with Janifast

Janifast Ltd., a Hong Kong corporation manufacturer, which has produced components for our prototype Traverser_ DVDDS product, and may produce such components for us in the future. Necdet F. Ergul, Ronald A. Durando and Gustave T. Dotoli are controlling shareholders of Janifast Ltd. with an aggregate ownership interest of greater than 75% of Janifast Ltd. Mr. Durando is Chairman of the Board of Directors and Mr. Ergul is a Director of Janifast.

Transactions with Other Related Parties

In March 2000, mPhase acquired a 50% interest in mPhaseTelevision.Net (formerly Telco Television Network, Inc.), an incorporated joint venture. This percentage was increased to approximately 57% in fiscal year 2001. Alpha Star International, Inc currently owns the remaining joint venture interest.

Transactions with Strategic Vendors

Effective June 30, 2004, the Company was $473,787 in arrears with respect to a Promissory Note issued to Piper Rudnick LLP plus other legal fees of $118,773.36. It should be noted that Piper & Rudnick received such Promissory Note plus two warrants received in March of 2002 in exchange for cancellation of certain payables. Such warrants have conversion rights into our common stock for a total of 2,233,490 shares that have been registered under a recently effective Form S-1 Registration Statement, and are cashless. On September 3, 2003, the Company paid $10,000 in cash to Piper in exchange for reducing the total payable to $550,000 plus the issuance of additional cashless warrant for $150,000 worth of the Company s common stock valued at $.25 per share. The remaining $300,000 payable has the following future payment schedule :

1. Payments of $25,000 each on December 1, 2004, March 1, 2005, June 1, 2005, September 1, 2005, March 1, 2006, June 1, 2006 and September 1, 2006.

2. A payment of $50,000 on December 1, 2005

3. A payment of $75,000 due on December 1, 2006

Related Party Indemnification

On July 24, 2006, the Board of Directors of mPhase Technologies, Inc. with Messrs. Durando and Dotoli abstaining voted 5-0 to approve the payment of up to $225,000 of legal expenses incurred in the aggregate for Messrs. Durando and Dotoli in connection with the Civil Law suit brought by the Securities and Exchange Commission No. 19465 filed November 15, 2005 against Packetport.com et al. which included Messrs Durando and Dotoli as officers of Packetport .com. The Board based its approval upon (a) the denial of any wrong doing by Messrs. Durando and Dotoli, (b) the key strategic role played by Messrs. Durando and Dotoli as CEO and COO respectively of mPhase and (c) the current product ingredient with the IPTV solution or voice over IP has part of the triple play of services that are part of mPhase s TV+ solution. As of March 31,2007, the Company has paid a total of $864,571 in legal fees , from inception in April of 2002 of the Packetport litigation. For the period commencing April 1, 2007 through the date hereof the Company has incurred and additional $172,641 in legal fees in connection with the Packetport litigation. The foregoing legal fees were approved and ratified by the Board of Directors by a 4-0 vote on May 14, 2007 with Messrs. Durando and Dotoli not voting.

Effective June 30, 2001 the Company converted $2,420,039 of liabilities due to directors and related parties into 4,840,077 shares of the Company s common stock pursuant to debt conversion agreements. During the fiscal year ended June 30, 2002 certain strategic vendors and related parties converted approximately $2.7 million of accounts payable and accrued expenses into 7,492,996 shares of the Company s common stock and 5,953,490 warrants. During the twelve months ending June 30, 2003, certain strategic vendors and related parties converted approximately $1.9 million of accounts payable and accrued expenses into 5,923,333 shares of the Company s common stock and warrants to purchase 3,706,800 shares of common stock of mPhase. Such vendors include Microphase Corporation, Janifast, Ltd., and Strategic Vendors including Piper Rudnick LLP, mPhase s outside counsel. Conversions with related parties only consisted of the following during fiscal years ended June 30, 2004, June 30, 2005 and June 30, 2006 respectively and for the six month period ended March 31, 2007.

	For the Years Ended June 30,			For the Nine Months Ended March 31, (Unaudited)	
Equity Conversions of Debt and Other Financial Instruments with Related Parties	2004	2005	2006	2006	2007
Janifast					
Number of shares	0	1,000,000	950,000	2,050,000	837,769
Number of warrants	0	1,000,000	950,000	2,050,000	0
Amount converted to equity	$0	$200,000	$171,000	$369,000	$108,000
Microphase Corporation					
Number of shares	0	1,250,000	2,050,000	950,000	0
Number of warrants	0	1,250,000	2,050,000	950,000	0
0Amount converted to equity	$0	$250,000	$369,000	$171,000	0

Officers					
Number of shares	0	1,009,875		0	0
Number of warrants	0	1,009,875		0	0
Amount converted to equity	$0	$201,975		$0	0
Strategic Vendors					
Number of shares					
Number of warrants	1,100,467	0	331,864	0	4,786,293
Amount converted to equity	5,069,242	0	277,778	0	0
	$1,963,202	$0	$50,000	$0	$801,294
Total Conversions					
Number of shares	1,100,467	3,259,875	3,331,864	3,000,000	5,617,062
Number of warrants	5,069,242	3,259,875	3,277,778	3,000,000	0
Amount converted to equity	$1,963,202	$651,975	$590,000	$540,061	$909,194

SELLING STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of shares of common stock by the selling stockholders as of the date of this prospectus, and the number of shares of common stock covered by this prospectus. Except as otherwise noted below, none of the selling stockholders has held any position or office, or has had any other material relationship with us or any of our affiliates within the past three years.

The number of shares of common stock that may be actually purchased by certain selling stockholders under the warrants and the number of shares of common stock that may be actually sold by each selling stockholder will be determined by such selling stockholder. Because certain selling stockholder may purchase all, some or none of the shares of common stock which can be purchased under the warrants and each selling stockholder may sell all, some or none of the shares of common stock which each holds, and because the offering contemplated by this prospectus is not currently being underwritten, no estimate can be given as to the number of shares of common stock that will be held by the selling stockholders upon termination of the offering. The information set forth in the following table regarding the beneficial ownership after resale of shares is based on the basis that each selling stockholder will purchase the maximum number of shares of common stock provided for by the warrants owned by the selling stockholder and each selling stockholder will sell all of the shares of common stock owned by that selling stockholder and covered by this prospectus.

Selling Shareholders List

Names	Common Stock	Options	Warrants	Total Beneficial Shares
Abikhzer, Chaim	280,000			280,000
Abikhzer, Elieyhau	93,333			93,333
Abikhzer, Moshe	466,667			466,667
Abikhzer, Naftoli	280,000			280,000
Abikhzer, Simon	300,000			300,000
Abraham Abikhzer Trust 2002	280,000			280,000
Abraham Zirsha Rausman Trust 2002	186,667			186,667
Ace Foundation	2,538,889			2,538,889
ADMK LLC	75,000			75,000
Alexander Hasenfeld, Inc.	333,653			333,653
Aspiotes, Nicholas & Aspiotes, Nancy	2,863,898			2,863,898
Ateres Mochoel Inc	121,871			121,871
Audiostocks, Inc	38,000			38,000
Barry Rausman Trust 2002	186,667			186,667

Baum, Mark L.	59,500			59,500
Beth Mayer Associates	3,350,000	100,000		3,450,000
Biderman, Abraham	1,835,898	1,087,500	35,000	2,958,398
Bolletteri, Angela	20,000	212,500		232,500
Br Charitable Trust	1,500,000			1,500,000
Calhoun, Wesley R. & Calhoun, Brenda	25,000			25,000
Camealjon Family LTD Partnership	-		70,000	70,000
Capasso, Stephen	-	142,500		142,500
Chabad, Colel	1,007,691			1,007,691
Chaim, Reb Ephraim & Miriam Rachel Klein	300,000			300,000
Chaim, Sholom & Babad, Sarah R.	-	100,000		100,000
Cheng, Tommy	1,600,000	1,281,250		2,881,250

Clemensen, Timothy	-		100,000	100,000
CMS Capital	2,500,001			2,500,001
Congregation Acheinu Bnei Yisroel	50,000			50,000
Congregation Irgun Shirurai Torah	884,615		410,000	1,294,615
Congregation of New Square	266,667			266,667
Congregation of Sharei Chaim	578,916			578,916
Congregation Usher Madanei	102,778			102,778
Cusick, Michael F.	350,000			350,000
Devlin, Michael	125,000			125,000
Donnelly, Harriet	59,375			59,375
Dotoli, Gustave	6,793,033	7,650,000	1,138,067	15,581,100
Double U Master Fund L.P.	16,946,154			16,946,154
Durando Investment LLC	420,000			420,000
Durando, Ronald	14,597,017	15,375,000	581,667	30,553,684
Ergul, Necdet	2,850,000	2,748,750	200,000	5,798,750
F&N Associates	660,803			660,803
Farber, David	2,327,444			2,327,444
Friedman, Steven	75,000			75,000
Gasparini, Peter	97,000	122,500		219,500
Gavrity, Camille	-		20,000	20,000
Gemilas Chesed Ach Tov	372,797			372,797
Gluck, David	12,000			12,000
Gluck, Leah	120,000			120,000
Goittesman, Bella	38,888			38,888
Goldenberg, Leon	250,000			250,000
Gronner, Sam	46,875	50,000		96,875

Guardino, Torry	-	77,500		77,500
Guerino, Anthony	-	787,500	35,000	822,500
Hannen, Charles	25,000			25,000

Hannen, Scott K. Dr. / Hannen, Aneesa	25,000			25,000
Hasenfeld Stein	150,000			150,000
Hasenfeld Stein, Inc. Pension Trust	1,533,669			1,533,669
Highgate Equities, LLC.	200,000			200,000
HSI Partnership	2,345,279			2,345,279
Hsu, Eddie	6,916,667			6,916,667
Iber International, Ltd.	4,937,632			4,937,632
Isaacs, Yisroel	300,000			300,000
Janifast Ltd.	8,227,778		1,950,000	10,177,778
Kahn, Paul	-	135,000		135,000
Kelly, Eugene L.	25,000			25,000
Kentucky National Insurance Company	533,928			533,928
Klein, Mervyn	175,000	200,000	933,334	1,308,334
Lalapet, Suren	-	50,000		50,000
Langa, Alex	-	200,000		200,000
LaSalle, Danielle	-	75,000		75,000
Lawrence, Victor	-	100,000		100,000
Lebed Biz, LLC	1,000,000			1,000,000
Lebed, Jonathan	400,000	175,000		575,000
Leibovich, Izzy	-	75,000		75,000
Leung, Luis	8,000			8,000
Leval Trading	1,270,745			1,270,745
Levin, Channa	50,000			50,000
Levitanski, Moshe	123,624	25,000		148,624
Levitanski, Rivkah	1,266,667			1,266,667
Liba Miriam Rausman Trust 2002	186,667			186,667

Lifshitz, David	25,000		25,000
Lifton, Victor	-	400,000	400,000

Magpie Telecom	2,441,176			2,441,176
Mark Value Partners LLC	400,000			400,000
Mary Park Properties	2,913,703			2,913,703
McCarthy, Timothy	1,688,056			1,688,056
Menboku	59,500			59,500
Merit Investments	41,667			41,667
Microphase Corporation	16,060,019		6,572,222	22,632,241
Mohs, Lawrence	1,365,000	400,000		1,765,000
Morgan, Philip	35,000			35,000
Mosdos Ohr Hatorah	100,000			100,000
Moshel, Avorhom	513,334	200,000	700,001	1,413,335