MPHASE TECHNOLOGIES INC
Form 10-K/A
April 19, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**
FOR THE YEAR ENDED JUNE 30, 2009

COMMISSION FILE NO. 000-24969

mPHASE TECHNOLOGIES, INC.

(Name of issuer in its charter)

NEW JERSEY	**22-2287503**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
587 CONNECTICUT AVE., NORWALK,	**CT 06854-1711**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(203) 838-2741**

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, $.01 PAR VALUE
(Title of Class)

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

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to the Form 10-K.

As of September 19, 2009 there were approximately 1,103,089,650 shares of common stock, $01 par value, outstanding and the aggregate market price of shares held by non-affiliates was approximately $23,813,528 (Based upon a closing common stock price of $.024 on September 19, 2009 solely for the purpose of calculating the preceding amount, all directors and officers of the registrant are deemed to be affiliates.)

mPHASE TECHNOLOGIES, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED JUNE 30, 2009

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PART I

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements". In some cases, you can identify forward-looking statements by terms such as "may," "intend," "might," "will," "should," "could," "would," "expect," "believe," "estimate," "predict," "potential," or the negative of these terms and similar expressions intended to identify forward-looking statements. These statements reflect the Company's current views with respect to future events and are based on assumptions and subject to risks and uncertainties. The Company discusses many of these risks and uncertainties in greater detail in Part I, Item 1 of this 10-K under the heading "Risk Factors." These risks and uncertainties may cause the Company's actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. You should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent the Company's estimates and assumptions as of the date of this report. The Company is under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

The following discussion should be read in conjunction with mPhase Technologies' financial statements and related notes included elsewhere in this report.

General Description of the Business

mPhase Technologies, Inc., is a publicly-held New Jersey company founded in 1996 with over 19,000 shareholders and approximately 870 million shares of common stock outstanding as of June 30, 2009. The Company's common stock is traded on the Over the Counter Bulletin Board under the ticker symbol XDSL. The Company has offices in Little Falls and Newark, New Jersey as well as Norwalk, Connecticut.

mPhase is a development-stage company specializing in microfluidics, microelectromechanical systems (MEMS) and nanotechnology. The Company develops nanotechnology-enabled products for commercial and military applications. The Company's flagship product is its Smart NanoBattery providing Power On Command . The new well-patented battery technology, based on the phenomenon of electrowetting, offers a unique way to store energy and manage power.. Features of the Smart NanoBattery include: potentially infinite shelf life, environmentally friendly design, fast ramp to power, programmable control, and direct integration with microelectronic devices. The platform technology behind the Smart NanoBattery is a porous nanostructured material used to repel and precisely control the flow of liquids. The material has a *Smart Surface* that can potentially be designed for other innovative products such as self-cleaning applications, water purification/desalination, liquid filtration/separation, and environmental cleanup.

mPhase has been awarded a Phase II Small Business Technology Transfer Program (STTR) grant, part of the Small Business Innovation Research (SBIR) program, from the U.S. Army for continued development of its Smart NanoBattery as a reserve battery for a critical computer memory application.

In a separate effort, mPhase has also developed a mechanically activated reserve battery. As a result of a unique combination of battery and mechanical engineering, such reserve battery also has a potentially infinite shelf-life. The battery is part of the Company's new Emergency Flashlight product line that is currently being designed by and co-branded with Porsche Design Studio a premiere world-class company specializing in high-end accessory products for the luxury automotive manufacturer.

Description of Operations

Microfluidics, MEMS, and Nanotechnology

In February of 2004, mPhase entered the business of developing new products based on materials whose properties and behavior are controlled at the micrometer and nanometer scales. (For reference, a micrometer or micron is equal one millionth (10^{-6}) of a meter and a nanometer is one billionth (10^{-9}) of a meter the scale of atoms and molecules. A human hair is approximately 50 microns in diameter, or 50,000 nanometers thick.)

The Company has expertise and capabilities in microfluidics, microelectromechanical systems (MEMS), and nanotechnology. Microfluidics refers to the behavior, precise control and manipulation of fluids that are geometrically constrained to a small, typically micrometer scale. MEMS is the integration of mechanical elements, sensors, actuators, and electronics on a common silicon substrate through microfabrication technology. Nanotechnology is the creation of functional materials, devices and systems through control of matter (atoms and molecules) on the nanometer length scale (1-100 nanometers), and exploitation of novel phenomena and properties (physical, chemical, biological, mechanical, electrical) at that length scale.

In its Smart NanoBattery, mPhase exploits the physical phenomenon of electrowetting by which a voltage is used to change the wetting properties of a liquid/solid interface at the nanometer scale. Consider water as the liquid. Through electrowetting, mPhase can change a surface from what is referred to as a hydrophobic ("water fearing") state to a hydrophilic ("water loving") state. In the hydrophobic state, the water beads up or is repelled by the surface. In the hydrophillc state, the water spreads out or is absorbed by the surface. The ability to electronically control the wetting characteristics of a surface at the nanometer scale forms the basis of mPhase's nanotechnology operations and intellectual property portfolio.

In the Smart NanoBattery application, mPhase uses electrowetting as a new technique to s activate or literally "turn on" a battery once it is ready to be used for the first time.. At the heart of the Smart NanoBattery is a porous, nanostructured superhydrophic or superlyophobic membrane designed and fabricated by mPhase. The so-called superhydrophobic membrane applies to water and the superlyophobic membrane applies to nonaqueous or organic liquids such as ethanol or mineral oil. The difference between the two membrane types lies in the nanoscale architecture at the surface. By virtue of its superhydrophobic or superlyophobic character, the membrane, although porous, is able to physically separate the liquid electrolyte from the solid electrodes so that the battery remains dormant or inactive, thus providing no voltage, or current until called upon. This electrolyte-electrode separation gives the battery the feature of potentially unlimited shelf life and the benefit of being always ready when needed, which is not necessarily the case for conventional batteries. Electrowetting alters the liquid/membrane interface so that the liquid is now able to flow over the membrane's surface and rapidly move through the pores where it is able to contact the solid electrode materials located on the other side of the membrane.

mPhase uses MEMS, to precisely control the machining of silicon-based materials at the micrometer and nanometer scales. This ability has led to the Company's proprietary membrane design that controls the wetting and movement of liquids on a solid surface. mPhase uses microfluidics to control the flow of liquid electrolyte through the porous membrane and is also the basis for other possible applications such as self-cleaning surfaces, filtration and separation and liquid delivery systems.

mPhase has also developed a manually-activated lithium reserve battery using an innovative industrial and mechanically-engineered design. The battery is activated by a unique triggering mechanism that rapidly releases and distributes the liquid electrolyte inside the battery. The electrolyte immediately contacts the battery's solid electrodes to produce electric power. Unlike conventional batteries that have relatively short shelf lives prior to initial use of the flashlight, the mPhase reserve battery has a shelf life of over 20 years.

History of Nanotechnology Operations

Smart NanoBattery

mPhase Technologies along with Bell Labs, jointly conducted research from February 2004 through April of 2007 that demonstrated control and manipulation of fluids on superhydrophobic and superlyophobic surfaces to create a new type of battery or energy storage device with power management features obtained by controlling the wetting behavior of a liquid electrolyte on a solid surface. The scientific research conducted set the ground work for continued development of the Smart NanoBattery and formed a path to commercialization of the technology for a broad range of market opportunities. During 2005 and 2006, the battery team tested 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 were essential in moving the battery from a zinc-based chemistry to a commercial lithium-based chemistry that can be manufactured on a large scale. The Company began its efforts by entering into a $1.2 million 12 month Development Agreement with the Bell Labs division of Alcatel/Lucent for exploratory research of control and manipulation of fluids on superhydrophobic surfaces to create power cells (batteries) by controlling wetting behavior of an electrolyte on nanostructured electrode surfaces. The goal was to develop a major breakthrough in battery technology creating batteries with longer shelf lives as the result of no direct electrode contact (meaning no power drain prior to activation). The Company extended its development effort twice for an additional 2 year ending in March of 2007 and for two additional periods thereafter through July 31, 2007. During this time, the technical focus shifted from trying to separate the liquid electrolyte from nanostructured electrodes to developing a nanostructured membrane that could physically separate the liquid electrolyte from the solid electrodes.

mPhase also began working with the Rutgers University Energy Storage Research Group (ESRG) in July of 2005 to conduct contract research in advanced battery chemistries involving lithium. This work involved characterizing and testing materials that could be used in the mPhase battery. In July of 2007, the relationship shifted to a collaboration focused on developing a memory backup battery needed by the U.S. Army. The work was funded through a Phase I Small Business Technology Transfer Program (STTR) grant.

Also in July of 2007, mPhase formed a new wholly-owned subsidiary, Always Ready, Inc., to focus on the development of its nanotechnology products. The Company has used this subsidiary as a division of the Company in order to develop increasing brand recognition of its battery products. The Company decided in September of 2007 to transfer its development work out of Bell Labs (Alcatel/Lucent) in order to ace;erate and broaden its nanotechnology product commercialization efforts. Bell Labs had engaged in its battery research and development for the Company for zinc-based batteries and was limited since it did not have facilities capable of handling lithium chemistry. mPhase has continued to work with Rutgers ESRG which has facilities capable of handling lithium based batteries and has also engaged in work with foundries and other companies to supply essential components, fabricate prototypes, and plan manufacturing approaches. These companies currently include Silex, a well-respected silicon foundry in Sweden and Eagle Picher, a well known battery designer and manufacturer that focuses on high-end batteries for military applications located in Joplin, Missouri.

In February of 2008, the Company announced that a prototype of its Smart NanoBattery was successfully deployed in a gun-fired test at the Aberdeen Proving Ground at Maryland. The test was conducted by the U.S. Army Armament Research and Development and Engineering Center (ARDEC) of Picatinny, New Jersey. The battery not only survived the harsh conditions of deployment at a gravitational force in excess of 45,000 g, but was also flawlessly activated in the process.

In March of 2008, mPhase announced that it had been invited to submit a proposal for a Phase II STTR grant based upon the successful work it had performed on the Phase I grant to develop a version of the Smart NnaoBattey referred to as the multi-cell, micro-array reserve battery for a critical U.S. Army memory backup application The Phase II grant in the gross amount of $750,000 (net $500,000) was granted to the Company in the middle of September of 2008. In March of 2008, the Company also announced the successful transfer to a commercial foundry of certain processes critical to the manufacturing of its Smart NanoBattery. This will enable fabrication of the porous membranes for the multi-cell, micro-array reserve battery mentioned above.. The Company successfully manufactured nanostructured membranes at the foundry that are essential to commercial production of the battery. By achieving a series of delayed activations, the shelf-life and continuous run-time of such battery is increased to a period of time in excess of twenty years. In April of 2008, the Company announced that it had successfully activated it first Smart NanoBattery prototype by electrowetting using a hard-wired configuration and a remotely-activated device. Remote activation plays a key role in providing power to wireless sensors systems and RFID tags.

Also, in April of 2008, the Company announced that it had successfully produced its first lithium-based reserve battery with a soft or pouch package and breakable separator (in place of the electrowettable membrane) that relies on mechanical rather electrical activation to provide Power On Command . The Company believes that it is a significant milestone in moving from a low energy density zinc-based battery to a higher energy density lithium-based battery towards proving that this mechanically-activated reserve battery will eventually be economically and commercially viable.

During the fiscal year ended June 30, 2008 the Company has continued to refine and improve prototypes of its manually-activated reserve battery as well as made significant progress in its Smart NanoBattery development in connection with meeting the specifications and requirements of the Phase II grant received from the U.S. Army. Such grant was renewed for a second year by the Army on August 27, 2009

Emergency Flashlight

On December 5, 2008 mPhase Technologies, Inc. signed a contract with Porsche Design Gesellschaft m.b.H., Flugplatzstrasse 29, A,S700 Zell am see. Austrla ["Porsche Design' Studio"], to design a premium version of the AlwaysReady Emergency Flashlight. The flashlight will contain mPhase's proprietary mechanically-activated lithium reserve battery. The battery contains a breakable barrier that separates the solid electrodes from the liquid electrolyte until the battery is manually activated. Unlike traditional batteries, the mPhase battery remains in an inert state with no leakage or self-discharge until activation. The mPhase battery is designed to have an almost infinite shelf life making it ideal for emergency lighting applications. The premium flashlight will be marketed as an accessory for automobile roadside emergency kits.

On January 29, 2009, the Company announced that it has contracted with EaglePicher Technologies to design and manufacture in small quantiites its mechanically-acitvated battery that will be used in the its new Emergency Flashlight. EaglePicher was selected for the project because of their experience in custom and standardized power solutions for the extreme environments of aerospace and military applications as well as medical and commercial applications.

The reserve battery is a manually activated lithium cell designed to provide Power On Command. The battery remains dormant until "turned on" by the user. It will be built to the highest standards with a minimum storage life of 20 years. Once activated, the reserve battery is expected to deliver the electrical performance of a standard primary CR123 battery used in many portable electronic applications today.

EaglePicher Technologies, LLC (EPT), and EaglePicher company, is a world leader in custom and standardized power solutions for the extreme environments of aerospace and military applications as well as medical and commercial applications. The company specializes in design and manufacture of battery cells, battery packaging, battery management systems (BMS), analysis, environmental testing, and energetic devices. Active in battery development and testing since 1922, EPT has the most experience and broadest capability in battery electrochemistry of any battery supplier.

Magnetometer

In March of 2005, the Company entered into a second Development Agreement for 12 months at a cost of $1.2 million with the Bell Labs to develop MEMS-based ultrasensitive magnetic sensor devices, also known as magnetometers, that could be used in military and commercial electronics (*e.g.,* cell phones) for determining location, as well as in portable security and metal detection applications. The agreement was renewed in April of 2006 for another 12 months. Although proven to work in the lab, the magnetometer technology could not be scaled up as quickly and as cost effectively as the battery. The project was suspended in September 2007 so that all technical resources could be allocated to the battery project. The Company is entitled to certain royalties from the Magnetometer if Alcatel/Lucent ultimately generates revenues from the product.

IPTV

Historically, the Company since its inception has focused upon developing innovative solutions for the delivery of Broadcast Television as part of a "triple play" of services that includes voice and high-speed internet for telephone service providers globally. Beginning in fiscal year 2004, the Company began developing Broadcast television delivery solutions through software/middleware designed to enable telephone service providers to deliver video data using internet protocol. The Company's middleware/software is highly scalable, potentially saving telephone service providers significant hardware deployment costs for routers and servers required for the carrier class delivery of broadcast television using internet protocol. Such solution potentially expands the content of available information from the internet into broadcast quality television. The Company's middleware is capable of delivering over copper, fiber, coax or any infrastructure representing a combination of the foregoing that is used by a telecommunications service provider. The Company has not to date been able to derive any significant revenue from our TV+ solution.

Because the roll-out of broadcast television using internet protocol has been a lengthy process for major service providers in the United States, the Company has suspended development of new features for its TV+ solution in order to conserve financial resources pending further development in the U.S. market. All inventory has been written off and all strategic alternatives relative to this business segment including the valuation and sale of assets or licensing of the technology are being evaluated.

Nanotechnology Products

Platform Technology

The surface is an important part of virtually every physical object and often plays an overriding role in many processes, beyond just connectivity and structural support, but more deeply into areas involving chemical and biological interactions. In some instances, the surface provides an easy entry into the chemical or biological systems, in others it protects the internal elements of the object, surrounded by the surfaces.

mPhase's platform technology is the *Smart Surface*. By being able to control the surface properties of materials down to the nanometer scale, new and improved devices can be designed and built that may lead to compelling business opportunities. One type of smart surface of particular interest allows the properties to be changed in response to an external stimulus.

Initially, mPhase's development focused on MEMS devices by manipulating the surface of silicon materials the same material used to make microelectronic materials and devices. Using physical and chemical processes, the surface of the silicon is modified to make solid porous structures known as membranes. This is where microfluidics comes into play. These membranes can be used to selectively control the flw of liquids through the pores or openings at the micrometer length scale.

Surfaces may be characterized as *hydrophilic* or *hydrophobic* depending on whether or not they attract or repel water (or other liquids). A hydrophilic surface can be wet and adsorbs water. A hydrophobic surface, on the other hand, cannot be wet. Hydrophilic and hydrophobic surfaces are abundant in nature and in synthetic materials, both organic and inorganic in chemical composition. A familiar example of a hydrophilic surface is a sponge that readily soaks up water. By contrast, many plant leaves and flower petals are hydrophobic, as are insect parts and bird feathers. Synthetic hydrophobic surfaces include Scotchgard treated fabric, Teflon® coated metal, or Rain-X® coated glass. On a hydrophobic surface, water beads up and can move around without being absorbed by the solid material that it is resting on.

So-called *superhydrophobic* surfaces are also found in nature and can now be replicated in the lab. The lotus leaf and rose petal, for example, exhibit superhydrophobicity. Here water droplets form almost perfect spheres with hardly any contact with the underlying solid surface. This makes the liquid even easier to move and manipulate.

The synthesis of superhydrophobic surfaces has recently been made possible by advances in nanotechnology and mPhase is leading the way to better understand and create materials and devices incorporating these unique surface properties.

As mPhase's research and development efforts evolve, in addition to silicon materials, the ability to control the surface properties of materials can be extended to other substances such as polymers, ceramics, metals and fibers as examples, providing opportunities for our platform technology to be used in a range of potential applications such as energy storage and power management for portable electronics and microelectronics, self-cleaning surfaces, filters for water purification or desalination systems, materials for environmental remediation that separate liquids or solvents, and other situations where the control of the interaction of a solid surface exposed to a liquid is vitally important.

Smart NanoBattery

Battery technology has changed little in its fundamentals over the past 150 years. As a result, ordinary batteries begin dissipating energy as soon as they are assembled and therefore have limited shelf life. Chemistries are fixed inside the package so the user cannot interact with the contents to program functionality. The size and form of batteries have not kept pace with the miniaturization of electrical components, microprocessors and integrated circuits. As a result, the optimal implementation of an electronic device is not always achieved. Some batteries contain chemicals that are not considered safe or environmentally friendly ("green"). This makes disposal a potential issue.

mPhase is challenging this convention by using their proprietary superhydrophobic porous silicon membrane technology as the basis to build the Smart NanoBattery providing Power On Command .

Superhydrophobicity initially keeps the liquid electrolyte physically separated from the solid electrodes of the battery, thus preventing the chemical reactions from occurring that cause the battery to provide power. This gives the Smart NanoBattery the benefit of potentially infinite shelf life.

A conventional battery loses some capacity while sitting on the shelf in its package or stored in an electronic or electrical device, even before being used for the first time. On the other hand, the Smart NanoBattery is built so that it is inactive and remains that way indefinitely until it is turned on. No power is lost to self-discharge or leakage current prior to activation. When needed, the Smart NanoBattery can be activated on command via the phenomenon of electrowetting. The surface properties of the porous silicon membrane are selectively controlled to shift instantly from a superhydrophobic to hydrophilic state. In other words, electrowetting acts as the triggering mechanism.

mPhase has successfully fabricated and demonstrated its first 3-volt lithium-based Smart NanoBattery, based on a design allowing either manual or remote activation by the user, the feature known as Power on Command .

By incorporating the phenomenon of electrowetting on nanostructured surfaces into a revolutionary way of storing energy, the Smart NanoBattery provides power to portable electronic and microelectronic devices exactly when and where it is needed. It is an alternative and an augmentation to conventional batteries, still converting stored chemical energy into usable electrical energy, but in a way that is potentially more reliable, more versatile, more environmentally friendly, and less expensive than the industry norm.

Applications

mPhase is exploring military and commercial applications of smart surfaces in which the properties can be accurately and precisely controlled down to the nanometer scale. Electrowetting allows the switching from a hydrophobic to hydrophilic state as a result of an electronic stimulus.

The Smart NanoBattery, mPhase's first smart surface product, has a unique architecture that enables a shelf life of decades, remote activation, programmable control, scalable manufacturing, and adaptability to multiple configurations. The value proposition to the end user is to have a source of energy or power that is literally always ready - reliable, convenient, low cost - a battery guaranteed to work at full capacity when and where you need it.

The Smart NanoBattery can conceivably supply power "*on command"* to a wide variety of portable electronic and microelectronic devices used in military, medical, industrial, and consumer applications.

mPhase has already proven that the battery works in lab tests as well as in a significant field test conducted for the U.S. Army as part of a guided munitions project. The relationship with the Army also includes a $850,000 funded project to develop a battery for a mission critical computer memory backup application. The target is a small footprint, 3-volt lithium battery with a minimum shelf life of 20 years and uninterruptible power output during this time period. No other battery technology available today can deliver the long-term performance requirements specified by the U.S. Army for this application.

The Smart NanoBattery can potentially be designed to accommodate a variety of sophisticated portable electronic and microelectronic devices including next-generation cell phones and PDAs, handheld gaming devices, wireless sensor systems, RFID tags, high-tech flashlights and beacons, health alert alarms, and non-implantable and implantable medical devices such as pacemakers.

Initial applications will address the need to supply emergency and backup power to a range of products for defense and security, with future applications in the commercial and consumer arenas.

Other Products

As its first commercial product, mPhase is developing an emergency flashlight using a mechanically-activated lithium reserve battery with a patent-pending breakable separator in place of the electrowettable membrane used in the Company's Smart NanoBattery. The emergency flashlight is envisioned as a compact device that would be activated with a simple push-button switch to provide Power On Command in the event of an emergency. The device would be kept in the glove compartment of a car, on boats, trains or planes, coupled with fire extinguishers, packed with safety, first aid and survival kits.

Business Development, Organization, and Acquisition Activities

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

On January 29, 1997, the Company formed another wholly-owned subsidiary called TLI Industries, Inc. The shares of TLI were spun off to its stockholders on March 31,1997 after the Company 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, the Company became the holding company of its wholly-owned subsidiary, Lightpaths, Inc. on February 17, 1997.

On May 5, 1997, the Company completed a reverse merger with Lightpaths TP Technologies, Inc. and thereafter changed its name to mPhase Technologies, Inc. on June 2, 1997.

On March 26, 1998, the Company entered into a Licensing Agreement with Georgia Tech Research Corporation ("GTRC") in which mPhase became the exclusive licensee of all patents received by GTRC in connection with development of the legacy Traverser DVDDS. GTRC is entitled to receive a royalty equal to 5% of gross sales of the Traverser DVDDS and 30% of any "lump sum payments" received in connection with revenues received by mPhase from the Traverser DVDDS product under the terms of its license, as amended. The Traverser DVDDS has been replaced by the Company's IPTV solution.

On June 25, 1998, mPhase acquired Microphase Telecommunications, Inc., a Delaware corporation, from Microphase Corporation by issuing 2,500,000 shares of its common stock. Microphase Telecommunications' principal assets were patents and patent applications utilized in the development of its proprietary Traverser technology.

In March 2000, mPhase entered into a joint venture with AlphaStar International, Inc. to form an entity called mPhaseTelevision.Net, Inc. in which the Company held a 50% interest. On May 1, 2000, the Company acquired an additional 6.5% interest in mPhaseTelevision.Net, Inc. and made it one of its consolidated subsidiaries.

On March 14, 2000, mPhase entered into an agreement with BMW Manufacturing Corp., located in South Carolina. Under the agreement, the Company installed its legacy Traverser DVDDS product for BMW's telephone transmission network at an automotive manufacturing plant to enable video broadcast of information to its employees. Such system was replaced with a competitor's network during fiscal year 2007.

In December of 2001, Hart Telephone company located in Hartwell, Georgia completed the building and development of its digital headend enabling Hart to test the Company's legacy Traverser DVDDS product with approximately 20 customers receiving about 80 channels of television services utilizing such platform.

In May of 2002, mPhase initiated discussion for development of a cost-reduced set top box (INI) 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 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 Broadcast Television Switch for mPhase. On December 15, 2002, 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 Technologies under which mPhase's INI set top box would be co-branded with the Lucent Technologies name and logo.

On April 4, 2003, mPhase entered into a Systems Integration Agreement with Lucent Technologies. Under the terms of such an agreement mPhase has been given the exclusive rights to sell worldwide as a bundled' solution the Stinger in connection with mPhases's BTS.

Effective September 15, 2003, mPhase entered into a Development Agreement with the Bell Laboratories division of Lucent Technologies, Inc. that has been extended through December of 2005 pursuant to additional Statements of Work under such Development Agreement for development of its IPTV solution.

Effective February 3, 2004, mPhase entered into a Development Agreement with the Bell Laboratories division of Lucent Technologies, Inc. for the development of micro power source arrays fabricated using nanotextured superhydorphobic materials.

On November 28, 2004, mPhase entered into a Software License Agreement with Espial Group, Inc to be used in the set top box of its TV+ solution. Espial Group, Inc. is a leader in system operating software for set top boxes used to receive IPTV.

On January 3, 2005, mPhase entered into a work order with Magpie Telecom Insiders, Inc. pursuant to the terms of a Software Development Agreement dated September 2, 2004 for purposes of adding video on demand to its TV+ solution.

Effective March 5, 2005, mPhase extended its Development Agreement with Bell Labs for an additional 12 months for the development of micro power source power arrays.

Effective March 10, 2005, mPhase entered into a Development Agreement with the Bell Laboratories division of Lucent Technologies Inc. for the development of a new generation of magnetic field sensors using the science of nanotechnology.

In April of 2006, mPhase renewed each of the nanotechnology agreements with Bell Labs dated March 5, 2005 and March 10, 2005, respectively, for an additional 12 months at the cost of $100,000 per month each.

In May of 2006, the Development Agreement with the Bell Labs division of Lucent Technologies, Inc. covering the Company's TV+ solution was not renewed by the Company and Velankani, a software designer headquartered in India, assumed responsibilities for development of the system management software object code and system integration of the Company's TV+ solution. The Company has been working with Velankani for system integration testing since January of 2006.

On June 27, 2006, the Company entered into Amendment No. 4 to a Software License Agreement with Espial Group, Inc. which extended the term of its original development agreement through 2008 for Software development and support of the TV+ software in connection with multiple set top boxes of various vendors.

On September 13, 2006, the Company announced its first test of it IPTV solution with Comstar/Odessa, a major telecommunications service provider in the Ukraine for a trial deployment of our IPTV solution. Upon successful completion of such trial, it is anticipated that a 6,000 subscriber deployment would follow generating the Company's first revenues with respect to its IPTV solution.

As of November 14, 2006, the Company entered into a Common Amendment to its Statement of Work with Velankani Systems Technologies, Inc. rescheduling certain payments due for software integration services for the Company's IPTV solution performed by Velankani for mPhase including a conversion of a portion of the outstanding payable to mPhase common stock at $.17 per share.

On December 13, 2006, the Company entered into a Non-Exclusive Distribution Agreement with Netdialogue, a reseller and service integrator of IPTV middleware for telecommunications service providers located in Russia.

On January 4, 2007, the Company entered into a Cooperative Research and Development Agreement for Novel Reserve Cell Technologies and High Sensitivity Magnetometer Technology with the U.S. Army Armament Research Center located in Picatinny, New Jersey.

On January 23, 2007, the Company entered into a Memorandum of Understanding with Latens Systems Limited under which Latens grants to mPhase a license to use its conditional access software (encoding and encryption for IPTV delivery).

On February 3, 2007, the Company entered into Amendment No. 4 to a Development Agreement effective February 3, 2004, with Lucent Technologies, Inc. extending research and development through April 27, 2007, relating to micro-power source arrays fabricated using nano-textured superhydrophobic materials.

On February 17, 2007, the Company extended a Cooperative Research Agreement through December 31, 2007, originally entered into on July 15, 2005 with Rutgers, The State University of New Jersey governing cooperative research on a Lithium nanostructured reserve battery.

On February 22, 2007, the Company entered into a new Statement of Work with Espial Group, Inc for Integration of its EVO software to the Bitband Server for two set top boxes manufactured by Amino and Tilgin respectively in connection with mPhase's IPTV solution. The Company simultaneously entered into a Payment Agreement with Espial Group, Inc rescheduling certain payments owed by the Company for services performed in connection with software development of its IPTV solution.

On March 28, 2007, the Company entered into a Reseller Agreement with Steeleye Technology, Inc. for software utilized for high use rollover redundancy for IPTV.

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 April 28, 2007, the Company extended its Development Agreement with Lucent Technologies relating to micro-power source arrays fabricated using nano-textured superhydrophobic materials originally entered into in February of 2004 with Amendment #5 through July 31, 2007.

On May 10, 2007, the Company entered into a Consulting Agreement with CT NanoBusiness Alliance to produce a report and assist the Company with respect to its strategy for development and marketing of its nano power cell product.

On May 11, 2007, the Company entered into an Escrow Agreement with Bitband Technologies, Inc. governing certain payments to be made by the Company to Bitband in connection with certain servers provided and services rendered for the Company's IPTV product testing.

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 planed 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 financing of the new company was unsuccessful and its employees were terminated or resigned between October and December of 2007.

On July 6, 2007, the Company announced that it has 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 the Company at a 14% discount to its market value (determined as set forth in detail 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 shares of common stock. Under the terms of the Agreement, the Company is not obligated to draw any minimum amount of money under the Private Equity Credit Line

On July 18, 2007, the Company announced the award of a Phase I US Army Small Business Technology Transfer (STTR) Program Grant. This award is a Phase I six month research effort to develop a 30 plus year shelf life, low power, green battery (coin cell or similar) that will continuously power a static random access memory circuit for a computer device. SRAM is a common type of digital memory chip used in a wide variety of electronic systems for data storage. During the six month research period, the team will characterize the design, conduct capacity and stability measurements of a reserve style power cell based on Lithium chemistry. Long term stability and shelf life is achieved by initially separating the active materials of the power cell during storage, and controlling the activation of the cell until needed to provide power. This research program extends the design of the company's smart battery to support the use of non-water based electrolytes that are commonly used in lithium based batteries. Lithium batteries are favored for powering many different types of electronic devices due to their higher voltage and power requirements that can be supplied by more common alkaline batteries. The Phase I grant, valued at $100,000, will enable the Company to competitively compete for a Phase II award as an avenue used by U.S. government defense agencies to adopt advanced technology for commercialization and use. Rutgers University will support the Company and its newly formed subsidiary AlwaysReady, Inc. during the award period as a subcontractor under the award guidelines.

On August 21, 2007, the Company announced the acquisition of a 10% stock ownership position in Sovereign Tracking Systems LLC, a company located in New Jersey with a patent covering active, real-time, tracking systems that use radio frequency identification tags to secure high-end personnel tracking and monitoring systems. The Company believes that, although such company faces severe financial challenges, such patent could potentially compliment and enhance the Company's smart battery application being developed through AlwaysReady, Inc. a wholly-owned subsidiary.

On September 5, 2007, the Company announced that it had made significant progress, pursuant to the requirements of the STTR grant, in developing a prototype of a lithium manganese dioxide prototype of its SmartBattery product.

On October 19, 2007, the Company announced that in connection with the settlement and dismissal of a civil law suit originally filed on November 16, 2005 by the Securities and Exchange Commission in the Federal District Court in the District of Connecticut, the SEC issued a Cease and Desist Order and certain remedial sanctions against two officers of mPhase Technologies, Inc. (the "Company"). The civil suit was filed against Packport.com, Inc. a Nevada corporation, Microphase Corporation, a Connecticut corporation, a company that provides administrative services to the Company and shares common management with the Company, and others. The two officers of the Company were Mr. Ronald A. Durando, President and Chief Executive Officer and Mr. Gustave T. Dotoli, the Chief Operating Officer. The Civil suit by the SEC named as respondents Mr. Durando, Mr. Dotoli and others in connection with their activities as officers and directors of Packetport.com. The cease and desist order from the SEC found that (1) All parties had violated Section 5 of the Securities Act of 1933, as making unregistered offers or sales of Packetport.com common stock. (2) Mr. Durando and Mr. Dotoli had violated Section 16(a) of the Securities Exchange Act of 1934, as amended, and Rule 16(a) thereunder by failing to timely disclose the acquisition of their holdings on Form 3's and (3) Mr. Durando had violated Section 13(d) of the Securities Exchange Act of 1934, as amended, for failing to disclose the acquisition of more than five percent of the stock of Packetport.com. Under the order Mr. Durando was required to disgorge $150,000 and Mr. Dotoli was required to disgorge $100,000. The Company was not named as a party to the civil suit. More information regarding the detailed terms of the settlement can be found in SEC release No 8858 dated October 18, 2007 promulgated under the Securities Act of 1933 and SEC Release No. 56672 dated October 18,2007 promulgated pursuant to the Securities Exchange Act of 1934. Mr. Durando and Mr. Dotoli have continued to serve as officers and directors of the Company. Mr Durando and Mr. Dotoli together with Microphase corporation and others, without admitting or denying the findings of the SEC, except as to jurisdiction and subject matter, have consented to the entry of the Order Instituting Cease and Desist Proceedings, Making findings and Imposing a Cease and Desist Order and Remedial Sanctions pursuant to Section 8A of the Securities Exchange Act of 1933 and Section 21C of the Securities Exchange Act of 1934.

On October 30, 2007, together with its subsidiary Granita Media, Inc, jointly announced that Comstar/Odessa, a major provider to telecommunications services in the Ukraine, had terminated the trial of the Company's TV+ solution.

On November 2, 2007, the Company announced the retirement of Mr. Necdet F. Egrul at the age of 84 from the Company's Board of Directors.

On February 20, 2008, the Company announced that a prototype of its smart reserve nanobattery was successfully deployed and activated by the resulting g force in a gun-fired test at the Aberdeen Proving Grounds in Maryland. The test was conducted by the U.S. Army Armament Research, Development, and Engineering Center (ARDEC) of Picatinny New Jersey. In this test, the AlwaysReady battery delivered power to the test load inside the standard military anti-tank round (M830A1 or HEAT-High Explosive Anti Tank) and demonstrated extreme resiliency, surviving the harsh environment as well as the high acceleration at a g-Force in excess of 45,000 (One "g" is equal to the pull of gravity at sea level). The gun-fired test was part of a prototype evaluation process that the U.S. Army is conducting as part of its CRADA (Cooperative Research and Development Agreement). The Company's Engineers collaborated with those at Picatinny involved in the development of precision guidance components to successfully package this reserve electrochemical storage system to operate during the gun-firing and flight environment of a very high "g" round. The developmental qualification work, prior to the live test firing, was performed using Picatinny's air gun test facilities by subjecting battery prototypes to various launch accelerations and various design iterations. The test validated the performance of the AlwaysReady battery with a current armament used by the Army. The Company has stated that its goal is to potentially incorporate this battery technology into smart, gun-fired munitions programs being developed by Picatinny.

On May 2, 2008, the Company announced that it had produced its first lithium-based battery that can be manually activated by providing power on command with a significantly longer shelf life prior to initial activation than those found in other batteries. The battery can be activated by command wirelessly from a remote location by a radio frequency signal giving it added mobility for sensor and similar applications.

On September 9, 2008, the Company announced that it had been awarded a Phase II Small Business Technology Transfer Program (STTR) grant, part of the Small Business Innovation Research (SBIR) program, from the U.S. Army for continued development of a reserve Smart NanoBattery for a critical computer memory application.

On September 17, 2008 the Company announced that its breakthrough research in microfluidics on understanding how micro- and nanostructured surfaces could be engineered to have properties for repelling water and other types of liquids potentially used in consumer applications to enable self-cleaning surfaces such as shower doors or windows and other materials used in self-cleaning systems.

On September 23, 2008,the Company announced that it had produced compact reserve lithium battery prototypes with a manually activated breakable separator capable of powering a high-intensity emergency flashlight for more than two hours continuously at full brightness. The work was done in conjunction with Eagle Picher a respected battery design and development firm located in Joplin, Missouri. mPhase stated that it is pursuing the concept of using a reserve battery with a breakable separator in a high-intensity emergency flashlight either as the primary power supply or as a reliable source of backup power. Cylindrical and planar battery and flashlight designs are possible. These flashlights may be equipped with either a krypton bulb or light emitting diode (LED), the choice depending on the required brightness and runtime characteristics. A manually activated breakable separator technology has been created that is analogous to that of the AlwaysReady Smart NanoBattery with the patented electrowettable membrane, both of which keep the liquid electrolyte separate from the solid electrodes until the battery is actually needed. This provides a battery with potentially infinite shelf-life that will not lose power while sitting on the shelf or in storage. Whereas the electrowettable membrane is activated by applying a voltage at the interface between the liquid and membrane surface, the breakable separator is manually activated through a well-defined physical force. The result in both cases is that the liquid electrolyte mixes with the solid electrodes thus releasing the stored energy and 3 volts of power when lithium chemistry is employed.

On December 5, 2008 the Company announced that it had signed a contract with Porsche Design Gesellschaft m.b.H., Flugplatzstrasse 29, A,S700 Zell am see. Austria ["Porsche Design' Studio"], to design a premium version of the AlwaysReady Emergency Flashlight. The flashlight will use mPhase's proprietary lithium reserve battery. The battery contains a breakable barrier that separates the solid electrodes from the liquid electrolyte until the battery is manually activated. Unlike traditional batteries, the mPhase battery remains in an inert state with no leakage or self-discharge until activation. The mPhase battery is designed to have an almost infinite shelf life making it ideal for emergency lighting applications. The premium flashlight will be marketed as an accessory for automobile roadside emergency kits.

On January 15, 2009 the Company announced that its SmartNanoBattery being developed pursuant to a Phase II Army Grant for a critical mission computer backup reserve battery may also have wider application for unattended electronic ground sensors that provide mission critical information for military operatives.

On January 29, 2009 the Company announced that it had contracted EaglePicher Technologies to manufacture the reserve battery that will be used in its emergency flashlight. EaglePicher was selected for the project because of their experience in custom and standardized power solutions for the extreme environments of aerospace and military applications as well as medical and commercial applications.

On March 9, 2009,in reaction to the new Economic Stimulus Plan, the Company announced that it will pursue funding opportunities arising from the $2 billion allocated for advanced battery technology. The mPhase/AlwaysReady Smart NanoBattery has the potential to impact new energy efficient vehicle applications. Eligibility for the $2 billion in competitive grants to support manufacturing advanced vehicle batteries and components is to be determined by the Department of Energy, with a final decision made by the Office of Energy Efficiency and Renewable Energy. Under the Economic Stimulus Plan the Department of Energy must provide facility funding awards to manufacturers of advanced battery systems and vehicle batteries produced in the United States, including advanced lithium ion batteries, hybrid electrical systems, component manufacturers, and software designers. The Company believes that a rechargeable version of the Smart NanoBattery can be designed with lithium ion chemistry for a wide range of energy-efficient applications.

On March 17, 2009 the Company announced that, effective March 13, 2009, it entered into a Settlement Agreement with Magpie Telecom Insiders, Inc. ("Magpie") of a lawsuit filed by Magpie against the Company in November 2007 in the Federal District Court for the District of Colorado. Neither party made any admission of liability in connection with the settlement. As a result of the settlement the Company will remove from its liabilities $175,000 in Accounts Payable and cancel 1,926,470 shares of its common stock issued to Magpie and returned under the settlement to the Company. The terms of the settlement otherwise resulted in no material change in circumstances to the Company.

On March 18, 2009, the Company announced that it had received the first working model for the Emergency Flashlight from the Porsche Design Studio in Zell am See, Austria representing a major step forward as the Company prepares for the initial product launch.

On June 23, 2009, the Company announced that it had achieved a major milestone in the development of its Smart NanoBattery Technology. mPhase reported that it has successfully manufactured a six-inch silicon-based wafer containing its key membrane (separator) technology. This separator is responsible for keeping the Smart NanoBattery's chemicals separated until activated. The membrane's unique surface and structure allows for control of a liquid on a nanostructured surface.

On August 5, 2009, the Company announced that it had completed the first functional prototype of its lithium Reserve Battery that will function in the Company's emergency flashlight. The prototype is the first time the mPhase battery technology has come together in a "ready for production" prototype. The mPhase lithium reserve battery stores energy until it is literally "turned on." It is manually activated by a unique triggering mechanism that rapidly releases and distributes the liquid electrolyte inside the battery. The electrolyte immediately contacts the solid electrode materials to produce 3 volts. The reserve battery is designed for backup power and emergency applications. With a shelf life of over 20 years, the mPhase lithium reserve battery will allow the its emergency flashlight to function as a reliable emergency light source in countless situations.

On August 6, 2009, the Company announced that it had completed the first fully functional prototype of its emergency flashlight. A world renowned automobile design firm created a sleek design to accompany the flashlight's unparalleled functionality. The new illuminator features mPhase's first reserve battery that allows for backup power to be always ready through a simple activation method.

On August 27, 2009 the Company announced that its Phase II grant from the United States Army had been renewed for a second year.

Products & Services

Since our inception in 1996, mPhase has been a development stage company focused on the development of intellectual property involving high technology innovative solutions and products with high-growth potential. The Company has served as an incubator for exploratory research and initial development for products that are best characterized as having a high risk/high reward profile since they involve exploratory research to achieve significant scientific breakthroughs from existing products that can have a substantial economic impact and benefit upon successful commercialization.

NanoBattery

The Smart NanoBattery is an outgrowth of the science of nanotechnology that the Company began in February of 2004 with the entering into a Project Development Agreement with the Bell Labs Division of Lucent Technologies, Inc. The Company has historically outsourced its Research and Development of new products to larger companies or institutions with significant scientific resources and experience in exploratory research. mPhase Technologies along with Alcatel/Lucent/Bell Labs, jointly conducted research from February 2004 through April of 2007 that demonstrated control and manipulation of fluids on superhydrophobic surfaces to create power cells, by controlling wetting behavior of electrolyte on nano structured electrode surfaces. This scientific research conducted set the ground work for continued exploration in the development of intelligent nanotechnology power cells (nano-batteries), and formed a path to commercialization of the technology for a broad range of market opportunities. During 2005 and 2006, the battery team tested modifications and enhancements to the internal design of the battery to optimize its power and energy density characteristics, as well as engineering improvements that were essential in moving the battery from a zinc based chemistry to design using lithium based chemistry The Company established a strategic research working relationship with the Energy Storage Research Group (ESRG), a center of excellence in Rutgers University that has lab research facilities capable of handling lithium based battery development.

mPhase's current flagship product is its Smart NanoBattery that has a significant longer shelf life prior to initial activation than that of conventional batteries. The Smart NanoBattery has potentially significant applications for critical mission power sources that must be reliable and available upon command by the electronic device it is powering. Such applications involve, emergency flashlights and beacons, back -up power sources for computers and life support products, as well as significant military applications where critical mission backup power is essential for weapons control computers and electronic warfare equipment used in combat. Other potential military applications include power sources activated by g forces for guided munitions.

The Smart NanoBattery utilizes a proprietary technology developed over a period of 5 years. The battery design, prior to initial activation, has a membrane that separates the electrolyte and electrodes used to generate power. Conventional batteries do not provide for such separation and therefore their power begins to dissipate prior to the first time they are activated causing them to loose capacity. Conventional batteries have significant limits upon how long they can be stored prior to their first activation and in providing a reliable source of power required for critical applications requiring portable power supplies.

Emergency Flashlight

In April of 2008 mPhase successfully produced its first lithium-based breakable separator. This provided the basis of a new reserve battery product that relies on mechanical rather than electrical activation to provide Power on Command. In contrast to the Company's SmartNanoBattery product that is being developed using the science of nanotechnology and relies on an electro wetting membrane, this reserve battery is designed for mechanical rather than electrical activation. Such reserve battery is based upon an innovative mechanical and battery engineering design involving that is activated by puncturing a soft pouch containing electrolyte. Such reserve battery has been especially designed to be used in the Company's new emergency flashlight product. Such reserve battery is being designed for the Company by Eagle Picher, a major U.S. battery designer and the flashlight is being designed for the Company by Porsche Design Studio.

Magnetometer: Further Development Suspended in 2007 (See also description of operations)

In March of 2005, the Company engaged the Bell Labs division of Lucent Technologies, Inc. to develop, using the science of nanotechnology both a low and high sensitivity magnetometer for both military and commercial use.

Magnetometers can be used in a wide range of applications for the detection of magnetic fields in 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 earths background field used to orient compasses) and static magnetic fields due to near- by magnetic objects. In March of 2007, the Company ceased development with Alcatel/Bell Labs of its Magnetometer product in order to conserve financial resources.

TV+ Solution: Further Development Suspended in 2007(See also description of operations)

As mentioned previously, the roll-out of broadcast television using internet protocol has been a lengthy process for major service providers in the United States, the Company has suspended in November of 2007 development of new features for its TV+ solution in order to conserve financial resources pending further development in the U.S. market. All inventories have been written off and all strategic alternatives relative to this business segment, including the sale or licensing of the intellectual property are being evaluated.

Competitive Business Conditions

Battery Segment

The design and functionality of the mPhase/AlwaysReady lithium Smart Nanobattery make it unique to the portable electronics battery market segment.. To the best of our knowledge, there is no existing product that directly competes with the Smart NanoBattery that combines small size with a reserve design. As a reserve battery, the Smart NanoBattery remains dormant until it is activated on command. It does not self-discharge or die prior to its first activation, thereby offering extremely long shelf life prior to use as either as a primary or backup battery in a device. Shelf life is projected to be in excess of twenty years.

There are numerous thin film batteries based on lithium metal, lithium ion and lithium polymer, as well as other chemistries, used in military devices, portable electronics, RFID tags and wireless sensor networks, that are similar in size to the Smart NanoBattery, often referred to as microbatteries. None of these designs are based on reserve battery architectures. Thin film batteries are manufactured by companies including: Cymbet Corporation, Front Edge Technology, Infinite Power Solutions, ITN Energy Systems, Johnson Research and Development Company, KSW Microtec, Lithium Technology Corporation, MPower Solutions, Oak Ridge Micro-Energy, Power Paper, Solicore, VoltaFlex Corporation. Large companies such as Energizer, Ultralife, Varta and Proctor & Gamble are also involved with developing thin film batteries. Thin film battery markets are anticipated to reach 10 billion units, $11 billion dollars by 2012. The market driving forces are those of wide expansion of portable devices in that time frame. With 3.5 billion cell phone users and 67 billion RFID tags per year anticipated in that time frame alone, it is anticipated that the volumes will be in place to create commercial demand for thin film batteries.

Traditional reserve batteries are quite distinct from the mPhase/AlwaysReady Smart NanoBattery in terms of size and activation mechanism. The market for reserve batteries has largely been limited to the military for supplying power to munitions and other mission-critical electronic devices. The traditional reserve battery tends to be larger and certain types are built by hand and contain mechanical parts to activate the battery. The Smart NanoBattery relies on the phenomenon of electrowetting to initiate activation or a mechanical barrier that can be broken, in the case of the breakable barrier design. Traditional reserve batteries for military applications have been supplied by companies such as EaglePicher, Yardney and Storage Battery Systems, Inc.

Flashlight Market

The Company believes that there may be a significant market for a high-end emergency flashlight containing its mechanically activated reserve battery. The need for absolute reliability in many emergency situations includes those of fire, police and other emergency service providers. In addition to providing an emergency light source, when needed, the Flashlight being developed with such lithium reserve battery will have a port capable, in the alternative to providing light, of recharging a cellular telephone produced by Porsche Design Studio as well as those of other major cellular telephone providers. Since the market for new and innovative portable electronic batteries continues to expand, especially in the field of wireless hand-held devices, the Company believes that its emergency flashlight and reserve battery may benefit significantly from such trend.

Outsourcing

Research and Development

The Company practices an outsourcing model whereby it contracts with third party vendors to perform research and development rather than performing the bulk of these functions internally. For current development of its Flashlight and Reserve Battery, the Company has outsourced the majority of the work It also maintains a small core R/D staff of engineers and scientists in the fields critical for the battery development. From February of 2004 through March of 2007 the Company engaged Lucent/Bell Labs to develop, using the science of nanotechnology, micro power cell arrays creating a structure for zinc batteries that separated the chemicals or electrolytes prior to initial activation. This was done by suspending on nano grass or small spoke like pieces of silicon a liquid electrolyte taking advantage of a super hydrophobic effect that occurs as a result of the ability to manipulate materials of a very small size or less that 1/50,000 the size of a human hair. The Company has, as a result of outsourcing, been able to have access to facilities, equipment and research capabilities that the Company would not be able to develop on its own given the financial resources and time that would be required to build or acquire such research capabilities. The Company has also been able to achieve key strategic alliances with the U.S. Army to successfully test, under military combat conditions, its SmartBattery design, leading to further validation of its path to product development under a Cooperative Research and Development Agreement (CRADA). In addition the Company has formed a relationship with Energy Storage Research Group, a center of excellence at Rutgers University, in New Jersey, that has enabled the Company to expand its battery development from a zinc to a lithium battery capable of delivering significantly more power. During the period from March of 2005 to April of 2007, the Company engaged the Bell Labs division of Lucent Technologies, Inc. to develop a magnetometer or electronic sensor also using the science of nanotechnology. Although the Company has, in order to conserve financial resources, currently suspended further development of its magnetometer product line, we believe that the intellectual property developed from the research to date could be resumed to develop viable military and industrial products depending upon future financial resources of the Company and future competitive market conditions.

Prototype Development

As the Company has moved from development to commercialization of its Emergency Flashlight products utilizing its mechanically activated reserve battery, the Company has outsourced the creation of prototypes to Porsche Design Studio in December of 2008 and MKE, a mechanical design company in Austria that works closely with them. The reserve battery prototype development work has been outsourced to Eagle Picher in early 2009. The Company has engaged Microphase Corporation, a related party under contract for project management and testing of its new Emergency Flashlight and the Reserve Battery used in such Flashlight at a cost of $50,000 per month for 6 months beginning April 1, 2009 and ending on September 30, 2009. Such parties are currently negotiating for a renewal of such contract.

Manufacturing

mPhase subcontracts all of the manufacturing of its products to outside sources including related parties such as Microphase Corporation. During the fiscal year ended June 30, 2009, the Company did not have any contract for manufacturing its products with outside sources. From April 1, 2009 through August 31, 2009 we paid $50,000 per month to Microphase for project management services in connection with development of the Company's flashlight with Porsche Design Studio and the concurrent development of its mechanically-activated reserve battery by Eagle Picher. The Company believes that such payments are the same as would be charged by other management services provided by non-affiliated third party providers of such services. By using contract manufacturers, mPhase avoids the substantial capital investments required for internal production.

Patents and Licenses

We have filed and intend to file United States patents, in some cases EU patents 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 for some specific patents. With respect to foreign patents, the patent laws of other countries may differ significantly from those of the United States, as to the patentability 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, which 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 on 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 intellectual property as follows:

Nano Technology, Micro Electrical Mechanical Systems (MEMS) and Battery Portfolio:

The Company has applied for seven (7) patent applications in the area of battery designs, microfludics and MEMS fabrication. In addition, the Company has two (2) joint patent applications with the Bell Labs division of Lucent Technologies, obtained during the development period, and the licensing rights for use of five (5) additional patents from Lucent after the development period.

Other Patents

On July 12, 2005, mPhase announced that it had been granted a U.S. patent that covers a series of techniques for splitting different voice and data signals in DSL access networks that is used in its Broadband Loop Watch product. The Company is not currently pursuing further development and marketing of this product owing to the lack of demand for loop diagnostics systems by telephone service providers.

In July of 2009, the Company filed for 3 new patents covering the unique design features of its manually-activated lithium reserve battery and emergency flashlight products.

We also rely on unpatented proprietary technology, and we can make no assurance that others may not independently develop the same or similar technology to ours or otherwise obtain access to our unpatented technology.

Government Regulation

The Federal Communication Commission, or FCC, and various state public utility and service commissions, regulate most of mPhases potential domestic customers for our TV+ product. Since our further development of our IPTV product and sales efforts have been temporarily suspended, the regulation by the FCC of providers of communications services is currently not of great significance to the Company or its overall financial condition and strategy going forward. To the best of our knowledge, there is no federal or state or local laws to which we are subject that are relevant to our TV+ product as middleware from a regulation and certification standpoint.

Changes in current or future laws or regulations, in the U.S. or elsewhere, could materially adversely affect the Company's business.

Research and Development

mPhase designed the legacy Traverser Digital Video Data Delivery System (DVDDS) product to delivery broadcast television, high-speed internet and voice to customers of telephone service providers. The digital engineering and design was developed primarily on an outsourced basis through Georgia Tech Research Corporation with analog portions of the product developed by Microphase Corporation. As of June 30, 2009, we had been billed a cumulative total of approximately $13,563,000 for research and development conducted by Georgia Tech Research Corporation.

mPhase originally contracted with the Bell Labs division of Lucent Technologies, Inc. in fiscal year 2002 to reduce the cost of its INI set top box used with the Traverse r DVDDS platform. During fiscal year 2003, the Company engaged Lucent to develop an integrated system with the Lucent Stinger DSLAM and mPhase middleware for the delivery of Television, high speed internet and voice on an open standards system to replace the proprietary Traverser product. Releases 1.0 and 2.0 of the TV+ solution were designed by Bell Labs to be ATM systems that operated exclusively with the Lucent Stinger DSLAM to enable a telecommunications service provider to deliver broadcast television, voice and high speed internet over DSL.

Release 3.0 of our TV+ system that replaced the ATM protocol that was used in prior releases of the TV+ uses internet protocol and is referred to as out IPTV solution. It was completed during May of 2006 by the Bell Labs division of Alcatel/Lucent Technologies, Inc. under a contract extended in August of 2005. We have not renewed our contract for software development of our TV+ product with Bell Labs. In the aggregate we have paid Bell Labs approximately $4.9 million our TV+ solution.

Since 2006 major vendors of further software development for the TV+ included Velankani Communications (the successor to Bell Labs as systems integrator of the TV+), Magpie Telecom Insiders, Inc, Espial Telecommunications, Inc. As of June 30, 2008 we have been billed a cumulative total of approximately $3.2 million for research and development for our TV+ from these vendors. During the fiscal year ended June 30, 2008 such activity was suspended. The Company is currently in disputes with several of its vendors in connection with its TV+ solution regarding the failure of such vendors of deliver certain aspects of its TV+ software that are not, in the Company's opinion of carrie r class quality.

From March of 2005 through March of 2007, the Company had also engaged Bell Labs in under separate Development Agreements for the development of a new generation of ultra magnetic sensors (magnetometers) using the science of nanotechnology with a total cost of $2.4 million. The Company did not renew such its engagement with Bell Labs upon expiration and did not incur any costs with respect to its magnetometer in fiscal year 2008 since the Company has suspended further development of the product to conserve financial resources.

Our SmartNanoBattery and power cell technology research and development was performed by the Bell Labs division of Alcatel/Lucent from February of 2004 through March o f 2007 at an aggregate cost of $3.8 million. The Company paid Bell Labs $300,000 covering the period from April 27, 2007 through July 30,2007 at which time it determined that in order to develop a lithium battery for higher density energy than zinc, it required facilities capable of handling lithium battery research that Bell Labs does not have. The Company has engaged a number of small foundries during fiscal year ended June 30, 2008 for commercialization of its SmartNanoBattery at a cost of approximately $150,000. In fiscal year ended June 30, 2009 the Company engaged Eagle Picher at a cost of $75,000 to design and engineer a prototype of its manually-activated lithium reserve battery and Posche Design studio at a cost of $79,123 for design of its emergency flashlight product. In addition, the Company has secured a Co-Branding Agreement with Porsche Design Studio for its emergency flashlight product. During the fiscal year ended June 30, 2009, the Company engaged Silex, a silicon foundry in Sweden, at a cost of $21,200 for further development of its SmartNanoBattery.

Employees

mPhase and its subsidiary companies presently have a total of 9 full-time employees and consultants, two of whom are also employed by Microphase Corporation. See the description in the section entitled Certain Relationships and Related Transactions.

RISK FACTORS

RISKS RELATED TO FINANCIAL ASPECTS OF OUR BUSINESS

The Company has been forced to curtail development of all products except its SmartBattery and Emergency Flashlight in order to conserve financial resources

The Company has currently been forced to focus exclusively on commercialization of only one of its products thereby eliminating product diversification. The Company's lack of financial resources to simultaneously develop multiple products increases its overall risk profile as a development-stage company.

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

The market price of our common stock closed at $7.88 on July 26, 2000 and closed at $.028 on August 14, 2009. During such period the number of shares outstanding of the Company increased from approximately 30 million shares to 900 million shares. Such increase was the result of periodic private placements by the Company in order to finance company operations. Stocks in micro cap companies having stock values below $1.00 per share 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 may not be able to raise sufficient capital to meet bring our SmartNanoBattery and Emergency Flashlight and other applications of our technology to market.

We may not be able to obtain the amount of additional capital needed until the Company has established a significant and predictable sales and revenues from our technology. We have been successful in the past as a micro-cap development stage company in raising capital; however recent trends in the capital markets are likely to pose significant challenges for the Company. Factors affecting the availability of capital include:

1. The price, volatility and trading volume of our common stock.
2. Future financial results including sales and revenues generated from operations.
3. The market's view of the business sector of nanotechnology reserve batteries and emergency flashlights.
4. The perception in the capital markets of our ability to execute our business plan.

We have reported net operating losses for each of our fiscal years from our inception in 1996 through the fiscal year ended June 30, 2009 and may not be able to operate profitability in the future.

We have had net losses of approximately $188 million since our inception in 1996 including approximately $15.5 million and $3.9 million for the fiscal year ended June 30, 2009 and June 30, 2008, 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 million in additional cash in the next 12 months through further equity private placements and existing convertible debt arrangements to continue operations. As of June 30, 2009 we have negative working capital of approximately $3.9 million and a stockholders deficit of $5.0 million. Cumulative negative cash flow from operations since inception has amounted to approximately $82.3 million

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. Janifast Ltd shut down its operations in March of 2009 owing to its financial condition and is currently being liquidated. 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.

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

The reports of the Company's outside auditors, Rosenberg, Rich, Baker, Berman & Company and its prior auditors Arthur Andersen & Co. with respect to its latest audited 10K for each of the fiscal years commencing in the fiscal year ended June 30, 2001 through the current fiscal year ended June 30, 2009, 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 needed capital necessary to continue our operations.

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

As of June 30, 2009 outstanding convertible debt plus accrued interest is equal to $3,437,750 all of which has the right to convert into additional shares of our common stock at discounts of up to 25% of mPhase's then current stock price computed on a formula basis that may adversely affect the future price of our common stock. As of June 30, 2009 we have warrants and options convertible into 286,376,646 shares of our common stock at $.05 per share or less that, upon exercise may result in significant future 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 to shareholders at depressed prices resulting in further dilution to our shareholders.

RISK FACTORS 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 flagship product including our SmartBattery and our Reserve Flashlight products.

We have derived no material revenues from our SmartBattery from inception of development in February 2004 through June 30, 2009 or the Emergency Flashlight and we have been forced to discontinue further product development and marketing of both our TV+ and Magnetometer products owing to limited financial resources.

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 have made significant investments in the Company in the form of equity periodic purchases of common stock and bridge loans and been granted stock and stock options that are intended to represent a key component of their compensation. Such grants may not provide the intended incentives to such officers if our stock price declines or experiences significant volatility.

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

We believe that our intellectual property with respect to our SmartNanoBattery and our proprietary rights with respect to the Company's permeable membrane design consisting of both micro and nano scale silicon features, that are coated with a monolayer chemistry used to repel liquids is critical to our future success. We have four patents pending with respect to our SmartNanoBattery product and 3 partents pending with respect to our Emergency Flashlight and the reserve battery it utilizes in order to protect our product, however no patents have yet been granted. Our pending patent applications may never be granted for various reasons, including the existence of conflicting patents or defects in our applications. Even if a U.S. patent is ultimately granted there are significant risks regarding enforcement of patents in international markets. There are many patents being filed as the science of nanotechnology develops and the Company has limited financial resources compared to large, well established companies, in order to bring patent litigation based upon claims of patent infringement.

RISKS RELATED TO OUR TARGETED MAKETS

The sale of new high technology products often has a long lead-time and a multiplicity of risks.

Commercialization of new technology products often have very long lead time since it is not possible to predict when major companies will license such technology for sale to their customers. The Science of Nanotechnology and Microfluidics used to develop our SmartNanoBattery is in its very early stages and acceptance and demand for such products can often be a long evolutionary process. In the case of the Company's IPTV solution the roll-out of delivery of broadcast television by telephone service providers using internet protocol has taken 10 years to develop and is still moving slowly which has resulted in the Company currently delaying any further development of such product to conserve financial resources.

The science of nanotechnology is at a very early stage as a discipline and is subject to great uncertainty and swift changes in technology.

Micro fluid dynamics and the manipulation of materials of nano size and dimensions is a very new science and the creation of new products is dependent upon new and different properties of such materials created that will result in many uncertain applications and rapid change. The evolution of nanotechnology as a new science adds greater uncertainty to new applications and new and improved product introductions is unpredictable.

We may not be able to create new products from our intellectual property using microfluidics that will be acceptable in water purification, oil separation from water and other environment markets.

The market for "green" products and solutions is characterized by: Changing regulatory standards; New and improved product introductions and Changing customer demands;

Large companies such as Exxon with great resources that are currently focusing significant monies for new solutions.

Our future success will depend upon our ability to achieve compelling technology innovations that are economic and practical to produce in large quantities. Success in 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.

The commercialization of many applications of our technologies will depend on our ability to establish strategic relationships with commercial partners.

We are seeking commercial partners with established lines of business and greater financial resources than our own. Such partners may not place the priority that we do on joint projects because the success or failure of such projects is not as material to other existing well developed lines of business.

Our SmartBattery and our potential applications of our technology are components of end products and therefore the products are tied to the success of such products

The compelling need for critical mission batteries and other applications of our nanotechnology will depend upon both military and commercial needs going forward and the demand for our products as components. Thus are SmartBattery and other applications of our technology success will depend upon the continuing need for the end user products over which will depend upon market demand.

ITEM 2. PROPERTIES

Our corporate headquarters is located at 587 Connecticut Avenue, Norwalk, CT 06854-1711. The Company leases this office space from Microphase Corporation under a facilities agreement with Microphase that provides that mPhase lease office space, lab facilities and administrative staff on a month-to-month basis for $3,000 month. The Company also maintains an office in Little Falls and Newark, New Jersey with monthly rent of $2,244 per month.

ITEM 3. LEGAL PROCEEDINGS

On November 9, 2007, Magpie Telecom Insiders, Inc ("Magpie") filed a lawsuit in the Federal District Court in the State of Colorado alleging a breach of contract by mPhase in connection with a Statement of Work dated July 10, 2006 in connection with software supplied by Magpie for mPhase's TV+ solution. The claim alleged the failure of mPhase to make payments amounting to $679,969 under the contract. mPhase asserted a number of affirmative defenses to the claim including deficiencies in the software delivered by Magpie and failure to deliver support services by Magpie. mPhase counterclaimed against Magpie asserting that the software delivered was not of "carrier class" standards required in the telecommunications industry and that Magpie sold or attempted to sell mPhase common stock received in connection with a modification of the payments due under the Statement of Work in violation of Rule 10b-5 and the Federal Securities Laws. Effective March 13, 2009, the Company, entered into a Settlement Agreement with Magpie. Neither party made any admission of liability in connection with the settlement. As a result of the settlement, the Company removed $175,000 in Accounts Payable and cancelled 1,926,470 shares of its common stock issued to Magpie and returned under the settlement to the Company. The terms of the settlement otherwise resulted in no material change in circumstances to the Company.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(A) MARKET PRICES OF COMMON STOCK The primary market for mPhase's common stock is the NASDAQ OTC Bulletin Board, where it trades under the symbol "XDSL." The Company became publicly traded through a merger with Lightpaths TP Technologies, formerly known as Tecma Laboratories, Inc. pursuant to an agreement dated February 17, 1997. The following table sets forth the high and low closing prices for the shares for the periods indicated as provided by the NASDAQ's OTCBB System. The quotations shown reflect inter-dealer prices, without retail mark-up, markdown, or commission and may not represent actual transactions. These figures have been adjusted to reflect a 1 for 10 reverse stock split on March 1, 1997.

YEAR/QUARTER	HIGH	LOW
Fiscal year ended June 30, 2004		
First Quarter	$ .42	$ .29
Second Quarter	.61	.29
Third Quarter	.69	.38
Fourth Quarter	.46	.29
Fiscal year ended June 30, 2005		
First Quarter	$ .31	$ .21
Second Quarter	.35	.23
Third Quarter	.60	.30
Fourth Quarter	.41	.25
Fiscal year ended June 30, 2006		
First Quarter	$ .29	$ .21
Second Quarter	.32	.15
Third Quarter	.45	.19
Fourth Quarter	.34	.18
Fiscal year ended June 30, 2007		
First Quarter	$ .21	$ .16
Second Quarter	.20	.15
Third Quarter	.24	.15
Fourth Quarter	.19	.09
Fiscal year ended June 30, 2008		
First Quarter	$ .13	$ .07
Second Quarter	.09	.05
Third Quarter	.14	.05
Fourth Quarter	.13	.07
Fiscal year ended June 30, 2009		
First Quarter	$ .08	$ .03
Second Quarter	.05	.01
Third Quarter	.04	.01
Fourth Quarter	.05	.01

(B) HOLDERS

As of June 30, 2009, mPhase had approximately 870 million shares of common stock outstanding and approximately 19,000 stockholders of record and 1,378,723,287 million shares of common stock reserved for issuance upon the conversion of warrants, options and convertible debentures respectively. In addition the Company has reserved 195,654,000 shares for conversion of officer notes. Such notes may only be converted if the Board of Directors then determines that such shares are not needed for general corporate financing or other purposes. As of June 30, 2008, we had approximately 440 million shares of common stock outstanding and approximately 19,000 shareholders

(C) DIVIDENDS

mPhase has never declared or paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. The Company currently intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be based upon mPhase's 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 relevant.

Issuances of Unregistered Securities

The following securities were issued by us within the past three years and were not registered under the Securities Act of 1933, as amended (the "Act"). Each of the transactions is claimed to be exempt from registration under the Act.

In September 2001, certain of our officers and directors purchased an aggregate of 2,000,000 shares of common stock for an aggregate investment of $1,000,000. These issuances included 1,000,000 shares to Mr. L. Barton, a director at that time, for an investment of $500,000; 400,000 shares to Mr. Ronald A. Durando, the Company's president and a director, for an investment of $200,000; 400,000 shares to Mr. Gustave Dotoli, the Company's vice-president and a director, for an investment of $200,000; and; 200,000 shares to Mr. Martin S. Smiley, the Company's vice-president, for an investment of $100,000; and were exempt pursuant to Section 4(2) and/or Rule 506 of Regulation D of the Act.

In December 2001 and January 2002, we issued 6,797,643 shares of common stock and a like amount of warrants at an exercise price of $.30 per share for a term of five (5) years pursuant to Rule 506 of Regulation D of the Act for approximately $2,000,000 in cash. This issuance was exempt pursuant to Section 4(2) and/or Rule 506 of Regulation D of the Act.

During the year ended June 30, 2002 the Company issued 7,492,996 shares of its common stock, and 5,953,490 warrants to related parties and strategic vendors, in connection with the conversion of $2,738,658 of accounts payable and accrued expenses, of which 6,150,000 shares of common stock and 3,400,000 warrants were issued in settlement of $1,460,000 of accounts payable to related parties as follows:

a.) During December 2001, the Company converted $660,000 of liabilities due to Microphase and $360,000 of liabilities due to Janifast into 2,200,000 and 1,200,000, respectively, shares of the Company's common stock and a like amount of warrants to purchase one share each of the Company's common stock at an exercise price of $.30 pursuant to debt conversion agreements pursuant to Section 3(a)(9) of the Act and 320,000 shares of common stock plus warrants to purchase another 320,000 shares of common stock at $.30 for a term of 5 years, respectively, were issued to strategic vendors pursuant to Section 3(a)(9) of the Act.

b.) During the quarter ended March 31,2002 the Company converted $96,000 of liabilities due to Strategic Vendors into 320,000 shares of the Company's common stock and a like amount of warrants to purchase one share each of the Company's common stock at an exercise price of $.30 pursuant to debt conversion agreements pursuant to Section 3(a)(9) of the Act.

c.) Effective March 31, 2002, the Company converted $420,872 of liabilities due to Piper Rudnick LLP, outside legal counsel to mPhase pursuant to Section 3(a)(9) of the Act into a warrant to purchase up to a total of $1,683,490 shares of the Company's common stock which pursuant to EITF 96 18, has an approximate value of $.30 per share and a warrant to purchase 550,000 shares of the Company's common stock at an exercise price of $.30 per share pursuant to the terms of payment agreement. In addition, Piper agreed to accept a Promissory note for $420,872 of current payables at an interest rate of 8% with payments of $5,000 per month commencing June 1, 2002 and continuing through December 1, 2003, with a final payment of principal plus accrued interest due at maturity on December 31, 2003. Additionally, 1,022,996 shares of common stock were issued to strategic vendors, the value of which was based upon the price of the Company's common stock on the effective date of settlement with each strategic vendor, to settle $761,786 of liabilities pursuant to Section 3(a)(9) of the Act. The conversion of $1,182,658 of such liabilities which, together with gains from cash settlements of $27,960 resulted in an aggregate gain on extinguishments of $142,236.

d.) Effective for June 30 2002, the Company converted $360,000 of liabilities due to Microphase and $80,000 of liabilities due to Janifast into 2,250,000 and 500,000 shares of the Company's common stock, respectively, pursuant to debt conversion agreements pursuant to Section 3(a)(9) of the Act.

From August 2001 to June 2002, we issued an aggregate of 2,976,068 shares of common stock to consultants for an aggregate of $1,202,997. We also issued an aggregate of 2,675,000 warrants to consultants for an aggregate of $1,040,000. Each transaction was pursuant to Section 4(2) of the Act.

During the year ended June 30, 2003, we issued 4,296,680 shares of Common Stock at $.30 per share plus 5 year warrants to purchase 4,296,680 shares of Common Stock at $.30 per share in a Private Placement pursuant to Rule 506 of Regulation D of the Act, generating net proceeds to the company of approximately $1,164,000.

During the year ended June 30, 2003, the Company issued 426,000 shares of its common stock valued at $112,245 and 1,690,000 warrants, valued at $203,150 based upon the fair market value of the Company's common stock on the date of the grant using the Black-Scholes option pricing model. The Company recorded these charges, totaling $318,395 to operations for the year ended June 30, 2003. Each transaction was pursuant to Section 4(2) of the Act.

During the fiscal year ended June 30, 2003, the Company converted certain payables and accrued expenses with officers, related parties and strategic vendors pursuant to Section 4(2) and to Section 3(a)(9) of the Act aggregating approximately $1.9 million into 5,923,333 restricted shares of the Company's common stock and 5 year warrants to purchase an additional 3,706,800 restricted shares of the Company's common stock. Of these, 5,533,333 shares of common stock and 3,491,800 warrants were issued in settlement of $1,748,756 of debt to related parties as follows:

a.) The conversion of $620,000 and $360,000 of liabilities due to Microphase corporation, and Janifast Ltd into 3,033,000 shares and 1,500,000 shares of stock, respectively. The value attributable to the shares was based upon the market price of the Company's common stock on the measurement date, such date was determined pursuant to EITF00-1, as to when all the contingent terms of the conversion agreements were met, in which no gain or loss was recognized on the conversion of $980,000 of debt, and;

b.) Also included in such conversions during the year ended June, 30 2003, were transactions whereby the Company converted $525,967 of liabilities; $269,362 due to the Company's president, $211,605 due to the vice president and $45,000 due to the a sales manager who is also concurrently employed by Microphase, for unpaid management compensation and sales commissions due from mPhase into warrants to purchase up to a total of 2,656,500 shares of the Company's common stock. The aggregate value of such warrants was estimated using the Black-Scholes options pricing model, pursuant to EITF 96-18, having an approximate value of $.21 per share, or $538,173. The Company recorded a settlement expense of approximately $12,206 with respect to the Company's president and vice president.

c.) Strategic vendors converted $117,486 of payables into 340,000 shares of the Company's common stock on the measurement date the value of which was based upon the price of the Company's common stock on the effective date of settlement with each party. This resulted in a gain of $37,383, which, when combined with all conversions and the gains from cash settlements of $36,049 for the fiscal year 2003, resulted in a net gain on extinguishments in the statements of operations of $61,226 for the year ended June 30, 2003.

In August of 2003, the Company issued 333,334 shares of its common stock together with a like amount of warrants in a private placement pursuant to Rule 506 of Regulation D of the Act, generating net proceeds of $100,000 which was collected during the three month period ended on September 30, 2003.

During the six months ending December 31, 2003, the Company granted 924,667 shares of its common stock and warrants to purchase 249,667 shares of its common stock to consultants for services performed, valued at $307,243, and charged to operations during the period. Each transaction was pursuant to Section 4(2) of the Act.

During the three months ended December 31, 2003, the Company issued 500,000 shares of its common stock pursuant to warrants previously issued to purchase said shares pursuant to Rule 506 of Regulation D of the Act for an aggregate of $150,000 in cash.

In December of 2003, the Company issued to five accredited investors 2,300,000shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of $.35 per share, in a private placement pursuant to Rule 506 of Regulation D of the Act generating net proceeds of $805,000, $175,000 of which was collected in January, 2004. An advisor of the Company was issued 100,000 shares for assisting in this transaction.

In January of 2004, the Company issued to twenty-three accredited investors 7,160,720 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of $.35 per share, in a private placement pursuant to Rule 506 of Regulation D of the Act generating net proceeds of $2,506,250, all of which was collected in January, 2004.

In March and April of 2004, the Company issued to six accredited investors 1,811,429 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of $.35 per share, in a private placement pursuant to Rule 506 of Regulation D of the Act generating net proceeds of $634,000, all of which was collected in March and April, 2004. Two advisors of the company were issued 128,826 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of $.35 per share for assisting in this transaction.

In June of 2004, the Company issued to three accredited investors 3,844,000 shares of its common stock together with two warrants each to purchase a like amount of stock at $.35 and $.50 respectively at a price of $.25 per unit. Such warrants are exercisable for a period of 5 years and are callable at $.10 per $100,000 of the value of the shares in which such warrants may be converted if the common stock of the company trades for 20 consecutive days above (i) $.50 per share in the case of the $.35 warrant and (ii) $.75 per share in the case of the $.50 warrant.

During the year ended June 30, 2004, the Company issued 17,446,441 shares of its common stock valued at $6,419,545 and 900,000 warrants, valued at $300,901 based upon the fair market value of the Company's common stock on the date of the grant using the Black-Scholes option pricing model. The Company recorded these charges, totaling $130,450 to operations for the year ended June 30, 2004. Each transaction was pursuant to Section 4(2) of the Act.

During the fiscal year ended June 30, 2004, the Company converted certain payables and accrued expenses with GTRC, a strategic vendor, pursuant to Section 4(2) and to Section 3(a)(9) of the Act aggregating approximately $1.8 million into 5 year cashless warrants to purchase an additional 5,039,200 restricted shares of the Company's common stock valued at $.35 per share plus a $100,000 term promissory note. The Company is in arrears with respect to the first payment on the note and is currently renegotiating the amount of the note and payment schedule since the note includes past and future royalty payments with respect to the Company's patents covering its Traverser DVDDS, some of which the Company may relinquish going forward.

A July private placement of 622,000 shares, each with two separate 5 year warrants were sold for $ 155,000, each warrant specifying the right to purchase one additional share at $.25 and $.50, respectively. A September private placement of 1,050,000 shares, each with two separate 5 year warrants was sold for $ 247,400, each warrant specifying the right to purchase one additional share at $.25 and $.35, respectively. A total of 3,344,000 shares have been reserved to provide for conversion in connection with these warrants.

During the three months ending December 31, 2004, the Company granted 134,500 shares of its common stock to consultants for services performed valued at $26,900. Additionally, the Company issued 2,817,954 shares of its common stock pursuant to the exercise of previously outstanding warrants, generating net proceeds intended to be used for general corporate purpose of $563,590. During the quarter ended December 31 of 2004, the Company issued equity units consisting of 10,717,500 shares of its common stock together with a like amount of warrants, with an exercise price of $.25, in a private placement generating net proceeds intended to be used for working capital and general corporate purposes, of 2,116,600 of which $2,066,600 was collected through December 31, 2004 and $50,000 was collected in January of 2005. A consultant who assisted the Company with this transaction also received 100,000 shares of the Company's common stock.

During January of 2005, the Company issued an additional 3,750,000 shares of equity units as part of the private placement begun in the second quarter of fiscal year 2005, generating additional proceeds of $750,000. Additionally, 1,000,000 shares of common stock plus a 5 year warrant for a like amount of shares at $.25 per share were issued to Janifast Ltd. upon conversion of $200,000 of accounts payable. In addition 424,875 shares of common stock plus a 5 year warrant for a like amount of shares at $.25 per share were issued to Martin Smiley, CFO and General Counsel of the Company in connection with his conversion of a $75,000 promissory note plus accrued interest of $9,975. In addition 65,000 shares of common stock and a 5 year warrant for a like amount of stock at $.25 per share were issued to Mr. Durando, President and CEO of the Company for conversion of $13,000 of accrued interest on various promissory notes issued by the Company and also received 1,395,400 shares of common stock of the Company in connection with the exercise of a warrant at $.01 per share previously awarded for unpaid compensation. A reduction in principal of $13,954 of a $75,000 promissory note to Mr. Durando was made for payment of the exercise price of $.01 per share under the warrant. Mr. Gustave T. Dotoli, Chief Operating Officer of the Company also was issued 375,000 shares of common stock of the Company in connection with the exercise of a portion of a warrant at $.01 per share. Payment for such exercise was made in exchange for cancellation of $3,750 of accrued interest on a $75,000 promissory note. Finally Mr. Souzzo, a consultant, received 100,000 shares of common stock plus a 5 year warrant for a like amount of stock at $.25 per share in exchange for cancellation of $20,000 of accounts payable.

The December 31, 2004 an outstanding subscriptions receivable balance of $50,000 was fully collected in January of 2005. Additionally, the December 2004 private placement was closed out in January of 2005 with the placement of 3,600,000 equity units at $.20 per unit consisting of one share of common stock plus 5 year warrants for a like amount of shares with a strike price of $.25 per share generating net proceeds of $720,000 to the Company.

A January Private Placement realized net proceeds of $357,250 upon issuance of 1,793,750 shares of Common Stock at $.20 per share plus 5 year warrants to purchase 1,793,750 shares of Common Stock at $.25 per share. A later Private Placement realized net proceeds of $1,351,000 upon issuance of 4,920,000 shares of Common Stock plus 5 year warrants to purchase 4,920,000 shares of Common Stock at $.25 per share.

In January of 2005 there were stock option awards issued to two consultants for services performed. The company granted 250,000 options to a consultant for professional services, these options provide for the right of stock purchase at an exercise price of $.25; these options have a five year life and expire in January of 2010. A second award issued a like number of options to another service provider under similar terms, except that the options associated with this second award offer a call feature, available to the company, for redemption of such options at a call price of $.45 at any time during their five year life. In aggregate, 400,000 options were issued in connection with these awards and will result in a charge to General and Administrative non-cash expense in the amount of 133,990 in the third quarter of fiscal 2005. The valuation of this charge was made on the basis of the fair market value of the Company's common stock on the date of grant using the Black-Scholes option premium model.

In February of 2005, GTARC tendered 5,069,242 of cashless warrants which they held in connection with a previous debt settlement in exchange for 4,949,684 of the company's shares of common stock, the balance of the 119,558 warrants were effectively cancelled as a result of certain warrant exercise exchange provisions adjusting the exchange rate based on specified stock pricing experience as per the original debt settlement agreement.

A March Private Placement resulted in the realization of net proceeds of $1,217,000 upon issuance of 4,396,667 shares of Common Stock at $.30 per share plus 5 year warrants to purchase 4,396,667 shares of Common Stock at $.30 per share.

On February 17 of 2005, the Company granted 2,600,000 warrants and 400,000 options to consultants for services performed valued at $1,328,600 and $204,400, respectively. The warrants and options provide the right to purchase a share of mPhase common stock at an exercise price $.45 and $.30 per share, respectively, over their 5 year life expiring in February of 2010. These warrant and option awards were valued on the basis of the fair market value of the Company's common stock on the date of grant using the Black-Scholes option premium model and the value of the award will be expensed to General and Administrative non-cash expenses in the third quarter of fiscal 2005.

On January 15, 2005, Martin Smiley converted a $100,000 convertible note payable by the Company in exchange for 400,000 shares of common stock and a like number of warrants that were price at $.25 per unit. General and Administrative non-cash expense in the amount of $131,750 was recognized in the third quarter of fiscal year 2005 consistent with the market price of the stock of $.31 on the date of the award.

Also in January of 2005, Martin Smiley was awarded additional compensation of 425,000 shares of common stock. This award resulted in a charge to General and Administrative non-cash expense in the amount of $ 131,750 in the third quarter of fiscal 2005, representing expense recognition consistent with the market price of that stock of $.31 on the date of that award.

In January of 2005 there were stock option awards issued to two consultants for services performed. The company granted 250,000 options to a consultant for professional services, these options provide for the right of stock purchase at an exercise price of $.25; these options have a five year life and expire in January of 2010. A second award issued a like number of options to another service provider under similar terms, except that the options associated with this second award offer a call feature, available to the company, for redemption of such options at a call price of $.45 at any time during their five year life. In aggregate, 400,000 options were issued in connection with these awards and will result in a charge to General and Administrative non-cash expense in the amount of $ 133,990 in the third quarter of fiscal 2005. The valuation of this charge was made on the basis of the fair market value of the Company's common stock on the date of grant using the Black-Scholes option premium model assumptions of a 145% volatility or beta factor and a 2.6% interest rate factor.

In February of 2005, GTARC tendered 5,069,242 of cashless warrants which they held in connection with a previous debt settlement in exchange for 4,949,684 of the company's shares of common stock, the balance of the 119,558 warrants were effectively cancelled as a result of certain warrant exercise exchange provisions adjusting the exchange rate based on specified stock pricing experience as per the original debt settlement agreement.

A March Private Placement resulted in the realization of net proceeds of $1,217,000 upon issuance of 4,396,667 shares of Common Stock at $.30 per share plus 5 year warrants to purchase 4,396,667 shares of Common Stock at $.30 per share.

On February 17 of 2005, the Company granted 2,600,000 warrants and 400,000 options to consultants for services performed valued at $1,328,600 and $204,400, respectively. The warrants and options provide the right to purchase a share of mPhase common stock at an exercise price $.45 and $.30 per share, respectively, over their 5 year life expiring in February of 2010. These warrant and option awards were valued on the basis of the fair market value of the Company's common stock on the date of grant using the Black-Scholes option premium model and the value of the award will be expensed to General and Administrative non-cash expenses in the third quarter of fiscal 2005.

On January 15, 2005, the company converted a $ 100,000 convertible note payable to Martin Smiley in exchange for 400,000 shares and a like number of warrants that were price at $.25 per unit or $100,000 in aggregate. Also in January of 2005, Martin Smiley was awarded additional compensation of 425,000 shares of common stock. This award will result in a charge to General and Administrative non-cash expense in the amount of $ 131,750 in the third quarter of fiscal 2005, representing expense recognition consistent with the market price of that stock of $.31 on the date of that award.

In late February and early March of 2005, the Company converted approximately $173,898 in accounts payable due various vendors into 535,296 shares of common stock aggregating $183,310 in full settlement of those obligations and pursuant to Section 3(a)(9) of the Act.

During May 2005, the Company adjusted the exercise price of $.45 per share of an investor's 5 year warrant to purchase 714,296 shares of common stock. The warrant was originally issued in January 2005, to $.225 in July of 2005. In July of 2005 such investor exercised a portion of such warrant, as adjusted, to purchase 200,000 shares of the Company's common stock generating $45,000 of net proceeds to the Company.

During the Fiscal Year Ending June 30, 2006 the following transactions impacted stockholders equity.

On July 20, 2005, at the Company's annual meeting of Shareholders, the Shareholders ratified an amendment to its Certificate of Incorporation to increase the number of authorized shares of common stock from 250,000,000 to 500,000,000 shares.

Private Placements:

During the first fiscal quarter, the Company issued 4,648,625 unregistered shares together with 5 year warrants to purchase 4,648,625 shares at $.25 per share in a private placement pursuant to Rule 506 of Regulation D of the Securities Act of 1933 generating $920,000 of gross proceeds. Also during the quarter, the Company issued 9,877,000 shares of its common stock together with 5 year warrants to purchase a like amount of shares at $.20 per share in two private placement pursuant to Rule 506 of Regulation D of the Securities Act of 1933 generating $2,167,400 of gross proceeds.

During the second fiscal quarter the Company issued 1,702,900 shares together with of 5 year warrants to purchase 1,702,900 shares of the Company's common stock to accredited investors at $.20 per share in a private placement generating pursuant to Rule 506 of Regulation D of the Securities Act of 1933 generating $340,580 of gross proceeds Also during the quarter, the Company issued 11,477,785 shares together with of 5 year warrants to purchase 11,477,785 shares of the Company's common stock to accredited investors at $.18 per share in a private placement pursuant to Rule 506 of Regulation D of the Securities Act of 1933 generating $2,238,973 of gross proceeds.

During the third fiscal quarter, the Company issued 29,861,772 shares together with of 5 year warrants to purchase 29,861,772 shares of the Company's common stock to accredited investors at $.18 per share in a private placement generating pursuant to Rule 506 of Regulation D of the Securities Act of 1933 generating $5,065,265 of gross proceeds.

In addition, the Company issues approximately 2,426,698 shares as finders fees as part of the private placements during the year. (See also comments regarding 12,792,117 shares explained under Reparations below)

Warrants Exercised:

During the first fiscal quarter the Company issued 225,000 shares of common stock pursuant to the exercise of warrants issued prior to the 3 month period generating net cash proceeds of $45,000.

During the second fiscal quarter, the Company issued 1,714,286 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of $294,857.

During the third fiscal quarter, the Company issued 12,530,834 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of $2,525,867.

During the fourth fiscal quarter the Company issued 1,250,000 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of $250,000 to the Company.

Options and Stock Based Compensation

At various points during the fiscal year ended June 30, 2007, the Company issued stock options to employees and officers for the right to purchase 23,595,000 shares. Pursuant to the adoption of FAS 123(R), the Company recognized an expense in the amount of $3,837,423, all of which has been included in general and administrative expense. The fair value of options granted in 2007 were 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 108.5%, based on a risk-free interest rate of 4.4% and expected option life of 3 years.

During the fiscal year the Company issued to key employees and consultants common stock shares in the aggregate amount of 11,500,000 for services rendered. The value of such shares was determined based on the fair market value of the Company's stock on the date that such transaction was authorized. Accordingly, the Company recorded a charge to earnings in the aggregate amount of $2,439,000.

Debt Conversions

During the second fiscal quarter the Company converted $369,000 and $171,000 of liabilities due to Microphase Corporation, and Janifast Ltd into 2,050,000 shares and 950,000 shares of stock and warrants, respectively. In addition the Company converted $50,000 of liabilities due to a strategic vendor into 331,864 shares of stock plus warrants of 277,778. The value attributable to the shares was based upon the market price of the Company's common stock on the measurement date.

Reparations

At various times during the second and third fiscal quarters, the Company issued shares of its common stock together with a like amount of warrants as reparation to affect revised pricing on previous private offerings. This additional consideration was afforded to stockholders who participated in the private placement of equity units and invested a minimum of 30% of their original investment. Each unit consisted of one share of stock and a warrant to purchase an equal amount of shares at $.18 per share. As additional consideration, each investor received the amount of shares that were required to bring the average cost of the total investment down to $.18 per share (range of original investment $.25 - $.35). A total of 29,848,271 of such shares were issued as reparation under such a program and the Company recorded a charge to earnings (Other Expense) in the amount of $5,530,504. In addition, shares in the amount of 12,792,117 were issued and charged to "Additional Paid In Capital" as an appropriate incentive for the additional cash investment.

During the Fiscal Year Ending June 30, 2007 the following transactions impacted stockholders 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 $1,777,503; included in this amount is an estimate of finder's fees to be paid of $209,000.

During the quarter ended June 30, 2007, the Company issued 19,582,038 shares of its common stock. Private placements generating net proceeds of $2,476,000; included in this amount is an estimate of finder's fees to be paid of $41,000

Warrants Exercised:

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 $1,669,667 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.

Options and Stock Based Compensation

During the twelve months ended June 30, 2007, the Company authorized the issuance of 10,455,000 in options and warrants of 2,821,113 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 $1,321,853, 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 ranging between 80% -95%, based on a risk-free interest rate of 4.8% and expected option life of 5 years.

During the twelve months ended June 30, 2007, the Board of Directors authorized the issuance of 18,172,983 shares of common stock, with an aggregate value of $2,668,615 as compensation to consultants and employees. The stock value ranged in price from $.12 to $.20 per share, the fair value on the date of the awards.

Debt Conversions

During the twelve months ended June 30, 2007, the Company converted accounts payable of $991,709 into 6,073,728 shares of common stock.

Reparations

During the twelve month period ended June 30, 2007, the Company became obligated to issue 22,664,580 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 of $1,874,020.

During the Fiscal Year Ending June 30, 2008 the following transactions impacted stockholders equity

Private Placements

During the quarter ended September 30, 2007, the Company issued 500,000 shares of its common stock in private placements generating net proceeds of $50,000

During the quarter ended December 31, 2007, the Company issued 850,000 shares of its common stock in private placements generating net proceeds of $48,000

During the quarter ended June 30, 2008, the Company issued 23,250,000 shares of its common stock in private placements generating net proceeds of $1,162,500.

Exercise of Warrants

During the quarter ended June 30, 2008, 11,111,112 warrants to purchase common stock were exercised and additional warrants of 11,111,112 issued. Such transaction generated net proceeds of $650,000.

Other Equity Transactions

During the year ended, June 30, 2008, the Company issued 500,000 shares of stock, 110,000 of options and approximately 13.5 million warrants to purchase common stock valued at $346,985 to individuals and investors. In addition, it issued approximately 5.2 million shares of common stock valued at $230,927 to reflect re-pricing agreements, 1,109,200 shares were issued to pay for finders fees valued at $100,000 and issued 5,250,000 shares of common stock valued at $165,000 in connection with debt financing arrangement (see convertible debt below) The fair value of shares issued was estimated as of the date of grant using the Black-Scholes pricing model, based on the following weighted average assumptions: annual expected return of 0%, annual volatility of ranging between 70 -79 %, based on a risk-free interest rate of 2.25% and expected option life of 5 years

Investment in Granita Media inc

An investment of $514,000 was received by Granita Media, Inc, a subsidiary formed July 1, 2007, to operate its IPTV business. Since the company remains the controlling shareholder in Granita Media and such results are consolidated, this investment is included in Additional Paid In Capital.

Convertible Debt Short Term

In September, 2007, the Company received proceeds of $154,000 of convertible debt bearing interest at an annual rate of 15% and due September 1, 2008. Such debt may be converted into the Company's common shares at a price equal to a 20% discount from the 20 day average bid and ask price. Such election is at the option of the Company on September 1, 2008. In March 2008, $100,000 of such debt was converted into 2,727,264 shares of common stock.

Long Term Convertible Debentures / Note Receivable / Debt Discount

During Fiscal Year ended June 30, 2008 the Company entered into three separate convertible debt arrangements with independent investors. These transactions are intended to provide liquidity and capital to the Company and are summarized below.

Arrangement #1

In December, 2007, the Company received proceeds of $500,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) A Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to $6,000,000 of funds; 2) A Convertible Debenture in the amount of $1.5 million, with an interest rate of 7 ¼% and a maturity date of December 11, 2010 and 3) A Secured Note Receivable in the amount of $1.0 million, with an interest rate of 8 ¼ % and a maturity date of February 1, 2011 due from the same parties who are the holders of the Convertible Debentures

Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by the lesser of $.35 per share or 80% of the 3 lowest Volume Weighted Average Prices during a 20 day trading period. At the time of the transaction (December 11, 2007) the derivative value of this security was calculated to be $1,678,471. On June 30, 2008, given the decrease in the stock price, this value had decreased to $322,636 creating a non-cash credit to earnings over the year of $1,355,835 In addition, the transaction resulted in a note discount of $1.5 million which is being amortized as expense over the life of the loan.

During the fourth quarter of FYE 2008, $135,000 of such debt was converted into 2,177,723 shares of common stock and the Company received a $50,000 payment under the provisions of the related Note Receivable. Subsequently, through September 18, 2008, an additional $560,000 was converted into 14,792,000 shares and the Company received additional payments of $700,000 of its Note Receivable. The Note Receivable is secured by all the assets of Golden Gate.

Arrangement #2

In February 2008, the Company entered into a Convertible Debenture transaction which involved the receipt of $500,000 cash, a note payable of $550,000 and the issuance of 3,250,000 shares of stock valued at $260,000. The relative fair value of the shares was $105,000 as of June 30, 2008. The terms of the debenture provide for a 7.5% interest rate, a due date of February 2012 and allow similar conversion privileges equal to 75% of the average of the three lowest prices over a 20 day period. The derivative value of such security was estimated to be $581,428 on the date of issuance. On June 30, 2008, this value had decreased to $142,593 creating a non cash credit to earnings of $438,835. The cost of the shares issued and related debt discount is being amortized to expense over the life of the debenture. In the event of default under the note payable the holder is entitled to certain compensatory fees.

Arrangement #3

In April, 2008, the Company received proceeds of $300,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) A Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to $1,300,000 of funds; 2) Two Convertible Debentures totaling $1,450,000, with a one time interest factor of 12% and a maturity date of March 25, 2011 and 3) A Secured Note Receivable in the amount of $1.0 million, with a one time interest factor of 13.2 % and maturity dates of March 25, 2012 due from the same parties who are the holders of the Convertible Debentures.

Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75%- 80% of the 3 lowest Volume Weighted Average Prices during a 20 day trading period. At the time of the transaction the derivative value of this security was calculated to be $2,493,212. On June 30, 2008, given the decrease in the stock price, this value had decreased to, $284,922 creating a non-cash credit to earnings over the year of $2,208,290. In addition, the transaction resulted in a note discount which is being amortized as expense over the life of the loan. Draws under the Note Receivable are not anticipated until October 2008 and is collateralized by $1 million of Blue Chip Stocks. In total 2 million shares were issued in connection with the convertible debenture with a relative fair value of $160,000 included in debt discount.

During the Fiscal Year Ending June 30, 2009 the following transactions impacted stockholders equity

Private Placements

During the quarter ended September 30, 2008, the Company issued 4,000,000 shares of its common stock at $.05 per share in private placements generating net proceeds of $180,000. Related to this transaction was the issuance of 3,862,000 shares as reparations shares to effect re-pricing at a cost estimated to be $216,689.

No Private Placements occurred in the quarter ending December 31, 2008.

During the quarter ended March 31, 2009, the Company issued 35,000,000 shares of its common stock at $.01 per share in private placements generating net proceeds of $315,000. Related to these transactions was the issuance of 7,660,000 shares as reparations shares to effect re-pricing, costing an estimated $99,483.

During the quarter ended June 30, 2009, the Company issued 33,333,333 shares of its common stock at $.0075 per share in private placements generating gross proceeds of $225,000. Related to these transactions was the issuance of 2,000,000 shares as reparations shares to effect re-pricing, costing an estimated $64,000 and finder's fees of $25,000.

Also during the quarter ended June 30, 2009, the Company issued 20,775,000 shares in settlement of $169,875 or prior promissory notes payable plus accrued interest and incurred a beneficial conversion of $114,500.

Stock Based Compensation

During the three months ended September 30, 2008, the Company issued 5 year options to purchase 104,675,000 shares of common stock at $.05 per share. The value of such options was estimated to be $4,071,348 using the Black Scholes method, a volatility of 78% and an interest free rate of 1.5%. In addition, 61,750,000 shares of common stock valued at $3,525,615 were issued to employees and consultants. (See note 3).

No such transactions occurred in the quarters ending December 31, 2008 nor March 31, 2009

During the quarter ended June 30, 2009, the Company granted 3 officers of the Company the right to convert an aggregate of $1,465,992 of loans and accrued and unpaid compensation and accrued interest into common stock of the Company at a price of $.0075 per share.

Conversion of debt securities

During the fiscal year ended June 30, 2009, $3,303,333 of debt was converted into 278,346,019 shares of common stock. Included in this amount is $112,500 of notes payable to a related party which were sold to an investor for $112,500 cash and subsequently converted into 15,000,000 shares of the Company's common stock valued at .0075 cents per share. Additionally $57,375 of prior notes plus accrued interest outstanding were settled by the issuance of 5,775,000 shares of common stock. All other debt converted involved long term convertible debentures which are discussed below.

Long Term Convertible Debentures / Note Receivable / Debt Discount and related Interest

From December of 2007 through August of 2009, the Company has entered into six separate convertible debt arrangements with independent investors.

General

The economic substance of convertible debt arrangements entered into beginning December 2007 was to provide the Company with needed liquidity to supplement the private equity markets.

The form of the transaction may involve the following:

The receipt of cash

The issuance of a note payable from mPhase.

The issuance of a note receivable due to mPhase

A Securities Purchase Agreement

The note payable contains conversion features which permit the holder to convert debt into equity. Such debt is eligible to be converted into the Company's common stock immediately, thus requiring the recording of the entire liability upfront. Finally, to encourage conversion, a discount from market value was offered.

The aggregate amount of notes payable exceeded the amount of cash received. As "Consideration" for this difference the Company took back a secured Note Receivable. Security is generally liquid investments of the investor.

The note receivable provides a commitment to fund mPhase. The notes are secured and collateralized and carry terms which are different from the related note payable and no right of offset exist.

Derivative Value and Debt Discount

It was determined that the value of the note payable to the holder (investor) was primarily due to the favorable conversion features of the note. In accordance with SFAS 133, the conversion feature requires the bifurcation of the embedded derivative from the host document and separate reporting of the embedded conversion feature at fair value determined by a Black-Scholes calculation. The value of the agreement includes the conversion feature and the variable amount of shares that may be converted at any particular point in time. As such and under GAAP, our Balance Sheet reflects the value of the embedded conversion feature as Derivative Value and the corresponding contra account to Notes Payable called Debt Discount.

At the end of every quarter the fair value of Derivative Securities is reviewed and adjustments made accordingly. The volatility of the stock price, the amount and variable number of shares involved and the low price of our stock has caused this value to fluctuate significantly. In addition, the debt discount is adjusted for any conversions and amortized over the remaining life of the loan.

A summary of our arrangements are as follows:

Arrangement #1 (Golden Gate Investors)

In December, 2007, the Company received proceeds of $500,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) A Securities Purchase Agreement, dated as of December 11, 2007, which may under certain circumstances permitted the Company to draw up to $6.0 of funds; 2) A Convertible Debenture in the amount of $1.5 million, with an interest rate of 7 ¼% and a maturity date of December 11, 2010 and 3) A Secured Note Receivable in the amount of $1.0 million, with an interest rate of 8 ¼% and a maturity date of February 1, 2011 due from the same parties who are the holders of the Convertible Debentures. -

Conversion of the outstanding debenture into common shares is at the option of the holder. The number of shares into which this debenture was converted is equal to the dollar amount of the debenture divided by the lesser of $.35 per share or 80% of the 3 lowest Volume Weighted Average Prices during the 20 day trading period prior to conversion. At the time of the transaction (December 11, 2007) the derivative value of the conversion feature was calculated to be $1,678,471. On June 30, 2008, given the decrease in the Company's stock price, this value had decreased to $322,636. As of June 30, 2009 all of the related debt had been converted and no derivative value balance remained. This has resulted in an increase in earnings for the year of $322,636. In addition, the transaction resulted in a note discount of $1.5 million which has been amortized as expense. During the year ended June 30, 2009, amortization of debt discount amounted to $1,122,649. In March of 2009, by mutual consent of the parties, the Securities Purchase Agreement was terminated. Total draws under this facility were $1.5 million.

During the fiscal year ended June 30, 2009, $1,365,000 of such debt was converted into 74,368,943 shares of common stock and the Company received a total of $950,000 under the provisions of the related Note Receivable.

Arrangement #2 (St.George Investments, LLC)

In February 2008, the Company entered into a Convertible Debenture transaction which involved the receipt of $500,000 cash, a note payable of $550,000 and the issuance of 3,250,000 shares of stock. The relative fair value of the shares was $105,000. The terms of the debenture provide for a 7.5% interest rate, a due date of February 2012 and conversion privileges equal to 75% of the lowest trading price over the 20 day period prior to conversion. The derivative value of the embedded conversion feature was estimated to be $581,428 on the date of issuance. On June 30, 2008, the derivative value was $142,593 and on June 30, 2009 such value was $0 since the entire debt has been converted. The cost of the shares issued and related debt discount is being amortized to expense over the life of the debenture. In the event of default under the note payable the holder is entitled to certain compensatory fees. During the period ended June 30, 2009, amortization of debt discount amounted to $502,083.

During the fiscal year ended June 30, 2009, $614,209 of such debt plus accrued interest was converted into 60,536,582 shares of common stock.

Arrangement #3 (JMJ Financial, Inc.)

In April, 2008, the Company received proceeds of $300,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) A Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to $1,000,000 of funds; 2) Two Convertible Debentures totaling $1,450,000, with a one time interest factor of 12% ($132,000) and a maturity date of March 25, 2011 and 3) A Secured Note Receivable in the amount of $1.0 million, with a one time interest factor of 13.2 % and maturity dates of March 25, 2012 due from the same parties who are the holders of the Convertible Debentures.

Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which the debentures can be converted is equal to the dollar amount of the debenture divided by 75% of the 3 lowest Volume Weighted Average Prices during the 20 day trading period prior to conversion. An amendment of December 31, 2008 allowed one conversion of $200,000 of principal to be converted into common stock at the rate of 70% of lowest trading price during the 20 day period prior to conversion and reduced the conversion price from 80% to 75% for future conversions.

During the fiscal year ended June 30, 2009, $964,250 of such debt and accrued interest was converted into 100,951,309 shares of common stock.

At the time of the transaction the embedded conversion feature of this security was calculated to be $2,493,212. On June 30, 2008, this value had decreased to $284,922. On June 30, 2009, such value had increased to $444,552, creating a non-cash expense for the twelve month period of $159,630. In addition, the transaction resulted in a note discount which is being amortized as expense over the life of the loan. During the twelve month period ended June 30, 2009, amortization of debt discount amounted to $1,007,097.

Payments received under the Note Receivable for the fiscal year ended June 30, 2009, have totaled $650,000. The Note Receivable is collateralized by $1 million of Blue Chip Stocks.

Arrangement #~~3A~~4 (JMJ Financial, Inc.)

On December 31, 2008, the Company entered into a second agreement with JMJ Financial. This transaction involves; 1) A Convertible Debenture in the amount of $1.1 million, plus a one time interest factor of 12% ($132,000) and a maturity date of December 31, 2011 and 2) A Secured Note Receivable in the amount of $1.0 million, plus a one time interest factor of 13.2 % ($132,000) and maturity date of December 31, 2012 due from the same parties who are the holders of the Convertible Debentures. No cash was exchanged relative to this agreement.

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Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest trading price during the 20 day trading period prior to conversion. At the commitment date the embedded conversion feature of such security was $586,667 and the debt discount valued at $586,667. As of June 30, 2009, the value of embedded conversion feature has increased to $855,920 creating a charge to earnings of $269,254 while the debt discount has been amortized by $97,778.

During the fiscal year ended 2009 no cash was exchanged nor was any debt converted relative to this agreement (see Subsequent Events). The FMV addition to this debt as of fiscal year end 2009 was $307,899.

Arrangement #45 (LaJolla Cove Investors, Inc.)

On Sept 11, 2008, the Company received proceeds of $200,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) A Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to $2,000,000 of funds; 2) A Convertible Debenture totaling $2,000,000, with an interest rate of 7 1/4% and a maturity date of September 30, 2011 and 3) A Secured Note Receivable in the amount of $1,800,000, with an interest rate of 8 1/4% and maturity dates of September 30, 2011 due from the same parties who are the holders of the Convertible Debentures. In addition, the holder of the debenture is related to the holder in Arrangement #1.

Conversion of outstanding debentures into common shares is similar to the terms of Arrangement #1. At the time of the transaction (September 11, 2008) the embedded conversion feature of this security was calculated to be $859,756. On June 30, 2009, this value had increased to $1,080,343, creating a non-cash expense to earnings for the twelve month month period of $220,587. In addition, the transaction resulted in a note discount which is being amortized as expense over the life of the loan. During the twelve month period ended June 30, 2009, amortization of debt discount amounted to $285,320.

During the twelve months ended June 30, 2009 the holder converted $19,000 of principal into 27,214,285 shares of common stock (See also Subsequent Events).

5. GRANITA MEDIA

Effective July 1, 2007, the Company formed Granita Media, Inc. to separate its IPTV business and facilitate the raising of capital. Pursuant to an arrangement with 4 employees of mPhase, such employees were terminated from mPhase as of July 1, 2007 and became employees of Granita Media, Inc and invested solely in the common stock of Granita Media, Inc. Under the arrangement, each of the 4 employees was required to invest $125,000 in exchange for an aggregate 2% equity interest in Granitia Media, Inc with mPhase continuing to own 98% of the Company. The 4 employees contributed a total of $339,000 of the total $500,000 equity investment required from them and raised from third party investors another $175,000 for a total of $514,000. Granita Media has 19,000,000 shares of common stock outstanding of which 18,000,000 was owned by mPhase Technology and 1,000,000 is being held for issuance to the 4 employees and the third party investors pending an agreement among such persons of the allocation of such shares.

Under the terms of the arrangement between mPhase and the 4 employees, such employees were authorized to sell up to 7.99% of additional equity in the Company for a total of not less than $2,000,000 of additional capital by December 31, 2007. As noted above, the employees raised a total of $175,000 of outside capital only and pursuant to the arrangement, such employees either resigned or were terminated by mPhase together with several lower level employees of Granita. A dispute has arisen between Granita Media and one of the former employees with respect to a sum of approximately $176,000 included in short term loans. It is the Company's position that such sums were voluntarily advanced to fund operating expenses after July 1, 2007. Since the 4 employee / officers of Granita Media were required to cover operating expenses of Granita Media after July 1, 2007 through equity investments either directly or from third parties, the Company has taken the position that such amount nor any related interest and fees are not owed to the employee. In addition, the Company has substantial rights of offset for unpaid rent with respect to the portion of its Little Falls office occupied by Granita Media after July 1, 2007.

During the FYE June 30, 2009, Granita Media Inc did not conduct any operations and management is considering all alternatives including the possible sale of the IPTV business.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and notes included in this annual report. The statement of operations data from October 2, 1996 (date of inception) to June 30, 1997 and for the year ended June 30, 1998, and the balance sheet data as of June 30, 1997 and 1998, are derived from financial statements that have been audited by Schuhalter, Coughlin & Suozzo, LLC, independent auditors, and are included in this document. The statement of operations data for the years ended June 30, 1999, 2000, and 2001 and the balance sheet data as of June 30, 1999, 2000, and 2001 are derived from financial statements that have been audited by Arthur Andersen LLP., independent auditors. The statement of operations data for each year ended June 30, 2002 through June 30, 2009 and the balance sheet data as of June 30, 2002 through June 30, 2009 are derived from financial statements that have been audited by Rosenberg Rich Baker Berman & Company, independent auditors, and are included in this document.

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

	2005	2006	2007	2008	2009	Cumulative from inception October 2, 1996 to June 30, 2009
Total revenues	$ 1,711	$ 975	$ 154	$ 113	$ 187	$ 22,749
Cost of sales	1,446	974	90	1	0	$ 16,425
Research and development	5,127	8,035	6,393	988	1,256	$ 60,216
General and administrative	6,580	11,121	8,684	4,032	9,554	$ 119,026
Depreciation and amortization	63	79	94	145	34	$ 3,304
Operating loss	(11,505)	(19,234)	(15,107)	(5,053)	(10,657)	$ (176,222)
Other income (expense), net	382	(5,182)	(1,726)	1,311	(3,552)	$ (11,576)
Interest income (expense)	(111)	(35)	(18)	(215)	(1,321)	$ (187,798)
Net loss	$ (11,234)	$ (24,451)	$ (16,851)	$ (3,957)	$ (15,530)	
Basic and diluted net loss per share	$ (0.10)	$ (0.12)	$ (0.05)	$ (0.01)	$ (0.03)	
Shares used in basic and diluted net loss per share	108,657,578	199,610,372	310,395,562	405,032,339	592,455,950	

BALANCE SHEET DATA
in $000's

	2005	2006	2007	2008	2009
Cash and cash equivalents	$ 351	$ 1,360	$ 23	$ 16	$ 100
Working capital (deficit)	$ (1,674)	$ (1,093)	$ (3,088)	$ (3,853)	$ (3,991)
Total assets	$ 2,232	$ 2,182	$ 1,808	$ 2,351	$ 3,489
Long-term obligations, net of current portion	$ 315	$ 0	$ 0	$ 1,161	$ 4,433
Total stockholders' (deficit)	$ (1,618)	$ (606)	$ (2,754)	$ (2,805)	$ (5,234)

Selected Quarterly Financial Information

The statement of operations data as of the quarterly periods indicated below are derived from unaudited financial statements reviewed by Rosenberg, Rich, Baker, Berman & Company, and include all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements.

FISCAL 2009 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three Months Ended			
	September 30,	December 31	March 31,	June 30,
	(in thousands, except share amounts)			
Total revenues	6	45	44	92
Costs and Expenses:				
Cost of sales	-	-	-	-
Research and development	388	216	265	386
General and administrative	6,239	499	430	2,387
Depreciation and amortization	13	13	4	4
Operating loss	(6,634)	(683)	(655)	(2,685)
Interest expense, Net	(39)	(61)	(74)	(3,378)
Other Income (expense)	(78)	(1,845)	73	529
Net Loss	(6,751)	(2,589)	(656)	(5,534)
Basic and diluted net (loss) gain per share	(0.01)	(0.01)	-	(0.01)
Shares used in basic and diluted net loss per share	452,895,360	452,895,360	671,278,600	786,484,581

FISCAL 2008 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three Months Ended			
	September 30,	December 31	March 31,	June 30,
	(in thousands, except share amounts)			
Total revenues	$ 35	$ 61	$ 1	$ 16
Costs and Expenses:				
Cost of sales	0	1	0	0
Research and development	560	285	277	(134)
General and administrative	1,497	985	576	974
Depreciation and amortization	34	81	21	9
Operating loss	(2056)	(1291)	(873)	(833)
Interest expense, Net	(12)	(38)	(145)	$ (20)
Other Income (expense)	(718)	1436	(2487)	3,080
Net Loss	$ (2,786)	$ 107	$ (3,505)	$ 2,227
Basic and diluted net (loss) gain per share	$ (0.01)	$ 0.00	$ (0.01)	$ 0.00
Shares used in basic and diluted net loss per share	389,791,154	392,557,583	397,367,531	418,881,266
Includes certain reclassification from previous reported amounts				

FISCAL 2007 QUARTERLY STATEMENT OF OPERATIONS DATA:	Three months ended September 30	December 31	March 31	June 30
	(in thousands, except share amounts)			
Total revenues	$ 106	$ 15	$ 15	$ 18
Costs and Expenses:				
Cost of sales	85		3	2
Research and development	1,990	1,723	1,251	1,429
General and administrative	1,962	1,405	1,645	3,672
Depreciation and amortization	22	22	23	28
Operating loss	(3,954)	(3,136)	(2,906)	(5,111)
Interest expense, Net	(4)	(8)	1	(7)
Other Income (expense)	(695)	(359)	(672)	
Net Loss	$ (3,958)	$ (3,839)	$ (3,264)	$ (5,791)
Basic and diluted net loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)
Shares used in basic and diluted net loss per share	282,306,237	300,483,022	327,195,047	363,823,271

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
Cost of Sales	337	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	20	20	17	22
Operating loss	(2,929)	(4,038)	(7,107)	(5,160)
Interest expense, Net	(14)	(6)	(5)	(10)
OTHER income (EXPENSE) NET	(12)	(4,270)	(498)	(402)
Net loss	$ (2,955)	$ (8,314)	$ (7,610)	$ (5,572)
Basic and diluted net loss per share	$ (.02)	$ (.04)	$ (.03)	$ (.03
Shares used in basic and diluted net loss per share(1)	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	$ 296	$ 564	$ 672
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	2,639	1,032
Depreciation and amortization	1	127	62	1
Operating loss	(1,762)	(3,203)	(4,249)	(2,291)
Interest expense, Net	(29)	(66)	(37)	21
Other Income (Expense) Net	(41)		(59)	482
Net loss	$ (1,832)	$ (3,269)	$ (4,345)	$ (1,788)
Basic and diluted net loss per share	$ (.02)	$ (.04)	$ (.04)	$ (.01)
Shares used in basic and diluted net loss per share(1)	89,719,962	93,388,984	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) Net	23		(152)	278
Net Loss	$ (865)	$ (1,701)	$ (2,334)	$ (2,859)
Basic and diluted net loss per share	$ (.01)	$ (.02)	$ (.03)	$ (.03)
Shares used in basic and diluted net loss per share(1)	71,725,318	72,814,272	81,564,405	84,885,017

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS AND PLAN OF OPERATIONS

The following is management's discussion and analysis of certain significant factors, which have affected mPhase's financial position and should be read in conjunction with the accompanying financial statements, financial data and the related notes.

RESULTS OF OPERATIONS

OVERVIEW

mPhase Technologies, Inc. (OTC BB: XDSL.OB) is a development company specializing in microfluidics, microelectromechanical systems (MEMS) and nano- technology. Through its wholly owned subsidiary AlwaysReady, Inc., mPhase is focused on commercializing its first nanotechnology-enabled product for military and commercial applications - The Smart NanoBattery providing Power On CommandTM. Our new well-patented battery technology, based on the phenomenon of electrowetting, offers a unique way to store energy and manage power that will revolutionize the battery industry. Features of the Smart NanoBattery include: potentially infinite shelf life, environmentally friendly design, fast ramp to power, programmable control, and direct integration with microelectronic devices.

The platform technology behind the Smart NanoBattery is a porous nanostructured material used to repel and precisely control the flow of liquids. The material has a Smart Surface that can potentially be designed for self- cleaning applications, water purification/desalination, liquid filtration/separation, and drug delivery. mPhase has been awarded a Phase II Small Business Technology Transfer Program (STTR) grant, part of the Small Business Innovation Research (SBIR) program, from the U.S. Army for continued development of a reserve Smart Nano- Battery for a critical computer memory application. mPhase Technologies, Inc. was founded in 1996 and is headquartered in Little Falls, New Jersey, with additional offices in Norwalk, Connecticut, and New York City.

mPhase Technologies, Inc., is an inventive and innovative development company specializing in microfluidics, micro- electromechanical systems (MEMS) and nanotechnology.A public company trading under the stock symbol OTC BB: XDSL, mPhase was founded in 1996 and is headquartered in Little Falls, New Jersey, with additional offices in Norwalk, Connecticut, and New York City.In 2004, mPhase Technologies collaborated with the renowned Bell Laboratories to develop a new technology called the Smart NanoBattery that has the potential to revolutionize the battery industry. This well-patented technology is based on a phenomenon known as electrowetting that provides a unique way to activate the battery to gain access to energy stored and manage power. The platform technology behind the Smart NanoBattery is a porous nanostructured component that repels and precisely controls the flow of certain liquid.

mPhase's Smart NanoBattery technology has been incorporated in leading-edge research and development projects supported by various groups within the U.S. Army for mission critical static random access memory (SRAM) backup and guided munitions applications. mPhase also sees opportunities beyond batteries given the versatility of its enabling platform technology.

m Phase received a Small Business Technology Transfer (STTR) Program Phase I grant last year for $100,000 from the U.S. Army and in September 2008 was awarded a prestigious $750,000 (net $500,000) Phase II STTR grant to continue battery development work for the SRAM project. The company has also been working with the U.S. Army as part of a Cooperative Research and Development Agreement (CRADA).

Recently, through its wholly-owned subsidiary, mPhase has focused on development of a lithium Smart NanoBattery. Working closely with Rutgers University, mPhase introduced the first version of the lithium Smart NanoBattery designed for portable electronics and microelectronic applications.

One version of the lithium battery based on a breakable separator is being developed for an emergency flashlight application. mPhase collaborates with other companies and organizations and is actively seeking partners interested in using the Smart NanoBattery or its platform technology for power systems and other applications.

Controlling Surface Properties

The surface is an important part of virtually every physical object and often plays an overriding role in many processes, beyond just connectivity and structural support, but more deeply into areas involving chemical and biological interactions. In some instances, the surface provides an easy entry into the chemical or biological systems, in others it protects the internal elements of the object, surrounded by the surfaces.

Microscopic Changes, World-Changing Innovation mPhase's platform technology is the *Smart Surface*. By being able to control the surface properties of materials down to the nanometer scale, new and improved devices can be designed and built that may lead to compelling business opportunities. One type of smart surface of particular interest allows the properties to be changed in response to an external stimulus.

Initially, mPhase's development focused on MEMS devices by manipulating the surface of silicon materials the same material used to make microelectronic materials and devices. Using physical and chemical processes, the surface of the silicon is modified to make solid porous structures known as membranes. This is where microfluidics comes into play. These membranes can be used to selectively control the flow of liquids through the pores or openings at the micrometer length scale.

Surfaces may be characterized as *hydrophilic* or *hydrophobic* depending on whether or not they attract or repel water (or other liquids). A hydrophilic surface can be wet and adsorbs water. A hydrophobic surface, on the other hand, cannot be wet. Hydrophilic and hydrophobic surfaces are abundant in nature and in synthetic materials, both organic and inorganic in chemical composition.

Platform Technology

A familiar example of a hydrophilic surface is a sponge that readily soaks up water. By contrast, many plant leaves and flower petals are hydrophobic, as are insect parts and bird feathers. Synthetic hydrophobic surfaces include ScotchgardTM treated fabric, Teflon® coated metal, or Rain-X® coated glass. On a hydrophobic surface, water beads up and can move around without being absorbed by the solid material that it is resting on.

Engineering Inspired by Nature

But there is more. So-called *superhydrophobic* surfaces are also found in nature and can now be replicated in the lab. The lotus leaf and rose petal, for example, exhibit superhydrophobicity. Here water droplets form almost perfect spheres with hardly any contact with the underlying solid surface. This makes the liquid even easier to move and manipulate.

The synthesis of superhydrophobic surfaces has recently been made possible by advances in nanotechnology and mPhase is leading the way to better understand and create materials and devices incorporating these unique surface properties.

Enormous Application Possibilities

As mPhase's research and development efforts evolve, in addition to silicon materials, the ability to control the surface properties of materials can be extended to other substances such as polymers, ceramics, metals and fibers as examples, providing opportunities for our platform technology to be used in a range of potential applications such as energy storage and power management for portable electronics and microelectronics, self-cleaning surfaces, filters for water purification or desalination systems, materials for environmental remediation that separate liquids or solvents, and other situations where the control of the interaction of a solid surface exposed to a liquid is vitally important.

Building a Better Battery

Battery technology has changed little in its fundamentals over the past 150 years. As a result, ordinary batteries begin dissipating energy as soon as they are assembled and therefore have limited shelf life. Chemistries are fixed inside the package so the user cannot interact with the contents to program functionality. The size and form of batteries have not kept pace with the miniaturization of electrical components, microprocessors and integrated circuits. As a result, the optimal implementation of an electronic device is not always achieved. Some batteries contain chemicals that are not considered safe or environmentally friendly ("green"). This makes disposal a potential issue.

mPhase is challenging this convention by using their proprietary superhydrophobic porous silicon membrane technology as the basis to build the Smart NanoBattery providing Power On CommandTM.

Infinite Shelf Life & Improved Power Management

Superhydrophobicity initially keeps the liquid electrolyte physically separated from the solid electrodes of the battery, thus preventing the chemical reactions from occurring that cause the battery to provide power. This gives the Smart NanoBattery the benefit of potentially infinite shelf life.

A conventional battery loses some capacity while sitting on the shelf in its package or stored in an electronic or electrical device, even before being used for the first time. On the other hand, the Smart NanoBattery is built so that it is inactive and remains that way indefinitely until it is turned on. No power is lost to self-discharge or leakage current prior to activation. When needed, the Smart NanoBattery can be activated on command via the phenomenon of electrowetting. The surface properties of the porous silicon membrane are selectively controlled to shift instantly from a superhydrophobic to hydrophilic state. In other words, electrowetting acts as the triggering mechanism.

By incorporating the phenomenon of electrowetting on nanostructured surfaces into a revolutionary way of storing energy, the Smart NanoBattery provides power to portable electronic and microelectronic devices exactly when and where it is needed. It is an alternative and an augmentation to conventional batteries, still converting stored chemical energy into usable electrical energy, but in a way that is potentially more reliable, more versatile, more environmentally friendly, and less expensive than the industry norm.

New Products developed during Fiscal Year 2009

mPhase has successfully fabricated and demonstrated its first 3-volt lithium-based based upon a mechanical and industrial engineering design allowing manual instead of electrical activation by the user, a feature known as Power on CommandTM. The battery will be used as a reserve battery in the Company's new emergency flashlight being developed by and Co-Branded with Porsche Design Studio that designs high-end accessory products for the Porsche automobile company. By separation of the electrolyte in a proprietary pouch that is triggered by a patent-pending designed trigger mechanism, the battery also has a shelf life far longer than conventional batteries. The Company has completed a prototype design and is anticipating commercial production and distribution of its emergency flashlight during the third quarter of fiscal year 2010.

Delivering Guaranteed Power on Command

mPhase is exploring military and commercial applications of smart surfaces in which the properties can be accurately and precisely controlled down to the nanometer scale. Electrowetting allows the switching from a hydrophobic to hydrophilic state as a result of an electronic stimulus.

The Smart NanoBattery, mPhase's first smart surface product, has a unique architecture that enables a shelf life of decades, remote activation, programmable control, scalable manufacturing, and adaptability to multiple configurations. The value proposition to the end user is to have a source of energy or power that is literally always ready - reliable, convenient, low cost - a battery guaranteed to work at full capacity when and where needed

The Smart NanoBattery can conceivably supply power "*on command"* to a wide variety of portable electronic and microelectronic devices used in military, medical, industrial, and consumer applications.

mPhase has already proven that the battery works in lab tests as well as in a significant field test conducted for the U.S. Army as part of a guided munitions project. The relationship with the Army also includes a $850,000 funded project to develop a battery for a mission critical computer memory backup application. The target is a small footprint, 3-volt lithium battery with a minimum shelf life of 20 years and uninterruptible power output during this time period. No other battery technology available today can deliver the long-term performance requirements specified by the U.S. Army for this application.

The Smart NanoBattery can potentially be designed to accommodate a variety of sophisticated portable electronic and microelectronic devices including next- generation cell phones and PDAs, handheld gaming devices, wireless sensor systems, RFID tags, high-tech flashlights and beacons, health alert alarms, and non- implantable and implantable medical devices such as pacemakers.

Initial applications will address the need to supply emergency and backup power to a range of products for defense and security, with future applications in the commercial and consumer arenas.

As its first commercial product, mPhase is developing an emergency flashlight using a simplified version of the Smart NanoBattery with a patent-pending breakable separator in place of the electrowettable membrane. The emergency flashlight is envisioned as a compact device that would be activated with a simple push-button switch to provide Power On CommandTM in the event of an emergency. The device would be ideal for storing in the glove compartment of a car, on boats, trains or planes, coupled with fire extinguishers, or packed with safety, first aid and survival kits.

Electrowetting is the physical phenomenon by which a voltage is used to change the wetting properties of a liquid/solid interface. An example of this is a water droplet on a hydrophobic (water repelling) surface. A water droplet will minimize its contact with such a surface. In its battery application, mPhase uses electrowetting as a new technique to activate a battery once it is ready for first time use.

TWELVE MONTHS ENDED JUNE 30, 2009 VS. JUNE 30, 2008

Revenues. Total revenues for the year ended June 30, 2009 increased from $112,928 in 2008 to $186,579 in 2009. The Revenue for the FYE was derived from the testing of the Company's nanotechnology battery

Cost of sales. Cost of sales decreased $949 for the year ended June 30, 2009. In addition, grants and fees received in connection with our Nanotechnology power cell have relatively low associated cost of sales.

Research and Development. Research and development expenses were $1,255,665 for the year ended June 30, 2009 as compared to $988,091 in the year ended June 30, 2008, an increase of $267,574. During the year, as a result of the refocus of efforts exclusively into the nanotechnology battery research cost dropped significantly.

General and Administrative Expenses. Selling, general and administrative expenses were $9,554,190 for the year ended June 30, 2009 up from $4,031,618 for the comparable period in 2008, an increase of $5,522,572. During fiscal year ended June 30, 2009, the Company incurred non-cash charges amounting to $7,596,963 for stock based compensation awarded to officers, employees and consultants. During fiscal year ended June 30, 2008, such charges amounted to $185,874 ;an increase of $7,411,089 in fiscal year ended June 30, 2009. This was partially offset by the reduction of salaries of employees in September of 2008 resulting in lower payroll of approximately $229,963 as compared to $600,000 for fiscal year ended June 30, 2008. Expenses were reduced across the board, including a reduction in legal expense of $99,980, marketing related expenses of $30,770 and rent expense of $102,049.

Other Income and Expense

. The current FYE 2009 reflects non cash charges of $380,172 for reparations, and net settlement income of $141,266. During the prior FYE 2008, reparation expense amounted to $392,038 and settlement income was $200,890.In addition, during FYE 2009, the Company realized a non-cash net losses of approximately of $3,199,854 compared to $1,838,748 in FYE 2008 resulting from the issuance and the changes in value relative to convertible debt. Included is a gain resulting from the change in derivative value of $184,292 offset in part by amortization of debt discount, stock issuance cost and other charges amounting to $3,014,927. This compares to a gain resulting from the change in derivative value $3,837,960 offset in part by amortization of debt discount, stock issuance cost and other charges amounting to $1,899,212 as well as a non cash interest charge of $100,000 for FYE 2008.

Net loss

. mPhase recorded a net loss of $15,529,677 for the year ended June 30, 2009 as compared to a loss of $3,956,721 million for the same period ended June 30, 2008. This represents a loss per common share of ($.03) in 2009 as compared to $(.01) in 2008, based upon weighted average common shares outstanding of 592,455,950 and 405,032,339 during the periods ending June 30, 2009 and June 30, 2008 respectively.

TWELVE MONTHS ENDED JUNE 30, 2008 VS. JUNE 30, 2007

Revenues. Total revenues for the year ended June 30, 2008 decreased from $153,504 to $112,928. The decrease was primarily attributable the phasing out of Company's IPTV products. Revenue for the FYE was derived from the testing the Company's nanotechnology battery

Cost of sales**.** Cost of sales was declined by approximately $89,000 for the year ended June 30, 2008. The decrease results from the shift in strategy related to the IPTV segment and the sale of component parts (POTS Splitters etc) to an IPTV solution system based product such as (Comstar/Odessa). In addition, advisory fees received in connection with our Nanotechnology power cell have no associated cost of sale.

Research and Development. Research and development expenses were $988,091 for the year ended June 30, 2008 as compared to $6,393,215 in the year ended June 30, 2007, a decrease of $5,405,124. During the year, as a result of the refocus of efforts exclusively into the nanotechnology battery research cost dropped significantly. The phasing out of research efforts relative to IPTV and the magnetometer reduced cost by approximately $3.1 million and $1.2 million, respectively. In addition, included in 2008 results, is the reversal of a $400,000 accrual recorded in June of 2007, after a reassessment of our strategy related to the Magnetometer and the lack of a contractual obligation.

General and Administrative Expenses. Selling, general and administrative expenses were $4,031,618 for the year ended June 30, 2008 down from $8,684,053 for the comparable period in 2007, a decrease of $4,652,435. During fiscal year ended June 30, 2008, the company incurred non-cash charges amounting to $185,874 for stock based compensation awarded to officers, employees and consultants. During fiscal year ended June 30, 2007, such charges amounted to $3,363,218 a decrease of $3,016,233. In addition, the number of employees decreased by 15 resulting in lower payroll of approximately $600,000 and reduced level of expenses across the board including: legal $400,000, marketing related $250,000 and travel $320,000.

Other Income and Expense. The current FYE 2008 reflects non cash charges of $392,038 for reparations, $505,910 charges related to the impairment of Granita Inventory and net settlement income of $200,890 During the prior FYE 2007, reparation expense amounted to $1,874,020 and settlement income was $336,009.In addition, during FYE 2008, the Company realized a non-cash net gains of approximately $1,838,748 resulting from the issuance and the changes in value relative to convertible debt. Included is a gain resulting from the change in derivative value of $3,837,960 offset in part by amortization of debt discount, stock issuance cost and other charges amounting to $1,899,212 as well as a non cash interest charge of $100,000

Net loss. mPhase recorded a net loss of $3.956,721 million for the year ended June 30, 2008 as compared to a loss of $16.9 million for the same period ended June 30, 2007. This represents a loss per common share of ($.01) in 2008 as compared to $(.05) in 2007, based upon weighted average common shares outstanding of 405,032,339 and 310,395,562 during the periods ending June 30, 2008 and June 30, 2007 respectively.

CURRENT PLAN OF OPERATIONS

The Company is currently finalizing the design and development of its first generation emergency flashlight product containing its manually-activated reserve battery. The Company expects that limited commercial production and distribution for sale of such flashlight will occur not later than the third quarter of fiscal year 2010.

Expanded Market Potential for Proprietary Membrane Technology -

The core membrane technology used to enable the Smart NanoBattery's propriety membrane design can potentially be used to develop other non-power source applications and products. The Company's market potential for using the membrane design of this patent pending core technology broadens the application areas outside the portable power energy field.

The Company's permeable membrane design consisting of both micro and nano scale silicon features, that are coated with a monolayer chemistry used to repel liquids. The membrane works using microfluidics principle that permits the dynamic control of surfaces when interacting with liquids, and as a result, the membrane can be tuned to filter out certain types of materials. In the reserve battery application, the properties of the membrane are used to create a super hydrophobic that prevents the batteries electrolyte from coming into contact with the dry electrodes of the battery until activation. In a similar way, the membrane can be designed so that it can control the passing of liquids through the pores of the membrane, acting as a filter, allowing and restricting materials to pass through the membrane. This ability opens up the potential to use the membrane's design in new configurations for applications that require controlled filtering of materials used in the health, environmental, food services as well as other industries.

RESEARCH AND DEVELOPMENT

mPhase throughout its history has outsourced its research and development activity with respect to all of its product lines. The Company engaged the Bell Labs division of Lucent Technologies in February of 2004 to development a power cell using the science of nanotechnology. The Company terminated its development efforts with Lucent Bell Labs in fiscal years 2008 with respect to micro power cell products using the science of nanotechnology since the facilities at Bell Labs were only able to provide development of zinc based batteries. The Company has determined that in order to develop a commercially viable product that higher energy lithium based batteries are required and has established a research relationship with Rutgers University that has facilities capable of handling development of lithium batteries.

From March of 2005 through March of 2007, the Company pursuant to the terms of a Project Development Agreement engaged Bell Labs to development a magnetometer or electronic sensor products using the science of nanotechnology. Such Project Development Agreement was not renewed by the Company in order to conserve financial resources. No further development has occurred on the magnetometer, however, the Company, believes that the intellectual property created may have significant value in the future depending upon further scientific progress in the field and market developments.

Since inception, but prior to the end fiscal year 2006, the Company incurred $13.5 million for research and development conducted by Georgia Tech Research Corporation in connection with its legacy Traverser DVDDS technology that was a proprietary end to end solution of hardware and software enabling telecommunications service providers to delivery broadcast television, high-speed internet and voice over copper telephone lines In fiscal year 2003 the Company began the transition of its product to development of a carriers standard open platform using middleware platform and transferred its research and development from Georgia Tech Research Corporation to the Bell Labs division of Lucent Technologies Inc. In May of 2007, the Company decided not to renew its Project Development Agreement for its TV+ solution with Bell Labs and chose a number of new software vendors to finalize its IPTV solution. The Company incurred research and development expenses with Lucent for fiscal years ended June 30, 2007 and 2006 of $2.3 million and $4.4 million. It should be noted that all such expenditures during with Lucent/Bell Labs in FYE 2007, have been in connection with Nanotechnology.

During the year ended June 30, 2008, the Company incurred research and development expenses of $188,000 related to the development IPTV solutions compared to $4.1 million for the same period ended June 30, 2007. In addition the Company incurred research and development expenses for the fiscal year June 30, 2008 of $800,000 for its nanotechnology products as compared to $2.3 million for fiscal year ended June 30, 2007.

The amount of research and development costs the Company has expended from its inception through June 30, 2009 is $60,216,173. During the fiscal year ended June 30, 2009, the Company incurred research and development expenses of $1,225,655 all of which was in connection with its nanotechnology, manually activated battery and emergency flashlight products.

STRATEGIC ALLIANCES IMPLEMENTED

The Company and Lucent share jointly in certain intellectual property developed with respect to nanotechnology products. The Company has established a working relationship with Rutgers University for development and testing of Lithium based batteries. In addition, the Company has a co-branding agreement with Porsche Design Studio for its emergency flashlight product.

CRITICAL ACCOUNTING POLICIES

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."

STOCK-BASED COMPENSATION

On July 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. Effective, July 1,2005, the Company adopted FAS 123R using the "modified prospective" method, and has recorded as an expense the fair value of all stock based grants to employees after such date The Company has not restated its operating results for any prior fiscal year end or quarter.

REPARATION EXPENSE

As an incentive for additional equity contributions, the Company will from time to time, adjust the cost of past private purchases of common stock through the issuance of additional shares in such magnitude as to reduce an investor's cost to an average price that more closely approximates current market value. The market value of additional shares issued without cash investment is charged to Reparation Expense, which is included in Other Expenses.

MATERIAL RELATED PARTY TRANSACTIONS

The Company records 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. In March of 2009, Janifast Ltd ceased operations and began a process of liquidation owing to its financial condition as well as the global financial crisis that began in September of 2008.

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 Traverser within its incorporated joint venture mPhase Television.Net, in which the Company owns a 56.5% interest.

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

Mr. Abraham Biderman is a Managing Director of Eagle Advisers, Inc., a firm that performs investment banking services for the Company and was employed until September 30, 2003 by our former investment banking firm Lipper & Company.

Mr. Durando, the President and CEO of mPhase, owns a controlling interest and is a director of Janifast Limited. Mr. Durando is Chief Operating Officer and Mr. Dotoli is an officer of Microphase Corporation. Mr. Ergul, who was the chairman of the board of mPhase until November 2007, owns a controlling interest and is a director of Microphase Corporation and Janifast Ltd. Microphase, Janifast and Hart Telephone have converted significant liabilities to equity in fiscal years June 30, 2001, 2002 and in the current fiscal year.

The following summarizes compensation to related parties for the fiscal year ended June 30, 2006:

	Durando	Dotoli	Ergul	Biderman	Smiley	Guerino	Janifast	Microphase	TOTAL RELATED
Consulting/Salary	$ 643,600	$ 357,000		$ 39,000	$ 175,000				$ 1,214,600
Directors Stipend	$ 7,500	$ 7,500				$ 7,500			$ 22,500
Rent				$ 36,000				$ 204,444	$ 240,444
Cost of Sales/Royalty							$ 770,441	$ 32,014	$ 802,455
Loan Interest								$ 10,800	$ 10,800
R&D								$ 197,639	$ 197,639
SG&A								$ 86,923	$ 86,923

Estimated Value of Stock Issued	$ 1,260,000	$ 525,000	$ 210,000	$ 105,000	$ 331,213						$ 2,431,213
Estimated Value of Options Issued	$ 1,596,200	$ 836,400	$ 273,740	$ 85,890	$ 213,850	$ 56,990					$ 3,063,070
Reparations Shares							$ 834,633	$ 728,434			$ 1,563,067
Totals	**$ 3,507,300**	**$ 1,725,900**	**$ 483,740**	**$ 265,890**	**$ 720,063**	**$ 64,490**	**$ 1,605,074**	**$ 1,260,254**			**$ 9,632,711**

The Following Summaries Compensation to Related Parties for the Fiscal Year Ended June 30, 2007

	Durando	Dotoli	Ergul	Biderman	Smiley	Guerino	Lawrence	Janifast	Microphase	TOTAL RELATED
Consulting / Salary	$ 393,600	$ 282,000			$ 200,000					$ 875,600
Directors Stipend and Interest	$ 7,500	$ 7,538	$ 3,750	$ 3,750	$ 8,550	$ 3,750	$ 3,750			$ 38,588
Rent									$ 60,000	$ 60,000
R&D									$ 236,492	$ 236,492
Finders Fees (including common shares)				$ 520,000						$ 520,000
Cost of Sales and SG&A								$ 110,912	$ 36,342	$ 147,254
Reparations and Stock Based Compensation	$ 1,044,000	$ 555,000	$ 201,000	$ 16,800	$ 306,250	$ 14,700		$ 138,462		$ 2,276,212
Totals	**$ 1,445,100**	**$ 844,538**	**$ 204,750**	**$ 540,550**	**$ 514,800**	**$ 18,450**	**$ 3,750**	**$ 249,374**	**$ 332,834**	**$ 4,154,146**
PacketPort.com legal expense										**$ 611,807**
Total expense to related parties										**$ 4,765,953**

The Following Summaries Compensation to Related Parties for the Fiscal Year Ended June 30, 2008

	Durando	Dotoli	Biderman	Smiley	Microphase	TOTAL RELATED
Consulting / Salary	$ 393,600	$ 282,000		$ 200,000		$ 875,600
Interest	$ 19,490	$ 4,156		$ 18,752		$ 42,398
Rent					$ 60,000	$ 60,000
R&D					$ 28,151	$ 28,151
Finders Fees			$ 188,472		$ 188,472	
Cost of Sales and SG&A					$ 30,089	$ 30,089
Totals	**$ 413,090**	**$ 286,156**	**$ 188,472**	**$ 218,752**	**$ 118,240**	**$ 1,224,710**

Summary of compensation to related parties for the Fiscal Year Ended June 30, 2009

	Durando	Dotoli	Smiley	Biderman	Microphase	Total
Consulting / Salary	$275,718	$229,000	$182,292			$687,010
Interest	$61,473	$62,514	$21,048			$145,035
Rent					$36,000	$36,000
G&A					$16,773	$16,773
R&D					$150,000	$150,000
Finders Fees				$80,000		$80,000
Stock based compensation (shares issued)*	$1,541,700	$913,600	$571,000	$228,400		$3,254,700
Stock based compensation (options issued)**	$1,944,912	$1,166,947	$700,168	$77,796		$3,889,823
Total compensation	$3,823,803	$2,372,061	$1,474,508	$386,196	$202,773	$8,259,341
Common stock issued*	27,000,000	16,000,000	10,000,000	4,000,000		57,000,000
Options issued (5years @ 5 cents)**	50,000,000	30,000,000	18,000,000	2,000,000		100,000,000

Amounts due to Officers
For the year ended June 30, 2009

	RON DURANDO	GUS DOTOLI	MARTIN SMILEY	TOTAL
NOTES PAYABLE OFFICERS				
BALANCE 6/30/07	$ 85,000	$ 75,000	$ 161,000	$ 321,000
July 2007 Advances (Payments)	$ (30,000)	$ (75,000)		$ (105,000)
August 2007 Advances (Payments)	$ 35,000	$ 75,100	$ 35,000	$ 145,100
Sept 2007 Advances (Payments)	$ 110,000			$ 110,000
Assumption of Note Payable- Sovereign	$ 110,000			$ 110,000
Oct 2007 Advances (Payments)	$ 25,000	$ 25,000	$ 25,000	$ 75,000
Nov 2007 Advances (Payments)	$ 76,000	$ 36,000	$ 11,000	$ 123,000
Dec 2007 Advances (Payments)	$ 25,000	$ 0	$ 0	$ 25,000
Transferred to Deferred Comp	$ (148,000)	$ (123,500)		$ (271,500)
Jan 2008 Advances (Payments)	$ 2,000	$ 32,000		$ 34,000
Feb 2008 Advances (Payments)	$ 0	$ 55,000	$ 72,038	$ 127,038
Mar 2008 Advances (Payments)	$ (180,000)	$ (47,500)	$ (40,000)	$ (267,500