MPHASE TECHNOLOGIES INC
Form S-1
May 05, 2006

As filed with the Securities and Exchange Commission on May 4, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

mPHASE TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

587 Connecticut Avenue

Norwalk, Connecticut 06854-1711

Telephone: (203) 838-2741

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Martin S. Smiley

Chief Financial Officer

mPHASE TECHNOLOGIES, INC.

587 Connecticut Avenue

Norwalk, Connecticut 06854-1711

Telephone: (203) 831-2242

Telecopy: (203) 853-3304

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed maximum offering price per share(1)	Proposed maximum aggregate offering price(1)	Amount of Registration fee
Common Stock,$.01 par value	155,813,314	**$.28**	$ 43,627,728	$ 5,830
Common Stock $.01 par value issuable upon exercise of warrants	154,714,095	**$.28**	$ 43,319,947	$ 5,802
Common Stock $.01 par value issuable upon	44,576,660	$ **.28**	$ 12,481,465	$ 1,672

exercise of options		
	Total	$ 13,304

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, on the basis of the average of the bid and ask prices per share of our common stock, as reported on the OTC Bulletin Board, on April 24, 2006.

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

May 4, 2006

PROSPECTUS

mPHASE TECHNOLOGIES, INC.

Shares of Common Stock

This prospectus relates to the resale of up to 155,438,314 shares of common stock, of which shares are issued and outstanding, up to199,292,093 shares of common stock that may be issued upon the exercise of warrants and options held by the selling stockholders. The selling stockholders listed on pages 55 - 65 may sell the shares from time to time.

Our common stock is listed on the Over-the-Counter Bulletin Board under the symbol "XDSL.OB" The last reported sales price of our common stock on April 19, 2006 was $.30 per share.

THESE SECURITIES ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. PLEASE REFER TO "RISK FACTORS" BEGINNING ON PAGE 8.

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

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

The date of this prospectus is May 4, 2006

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

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

PROSPECTUS SUMMARY

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

From inception (October 2, 1996), through December 31, 2005 the Company had incurred (unaudited) development stage losses and has an accumulated deficit of $138,403,461 and a stockholders' deficit of approximately $1,354,185 respectively. Cumulatively, through June 30, 2005 and December 31, 2005, (unaudited) the Company had negative cash flows from operations of approximately $55.6 million and $61.0 million respectively. The auditors report for the fiscal year ended June 30, 2005 is qualified as to the Company's ability to continue as a going concern. Management estimates the Company needs to raise between $5 million and $10 million during the next 12 months to sustain its current level of operations.

mPHASE TECHNOLOGIES, INC.

mPhase Technologies, Inc. (mPhase, the Company, we or us), a New Jersey corporation, founded in 1996 is a publicly-held company with approximately 15 thousand shareholders and approximately 277 million shares of common stock outstanding as of April 24, 2006. The Company's common stock is traded on the NASDAQ Over the Counter Bulletin Board under the ticker symbol XDSL. We are headquartered in Norwalk, Connecticut with offices in Little Falls, New Jersey and New York, N.Y. mPhase shares common office space and common management with Microphase Corporation, a privately-held company. Microphase sells radio frequency and filtering technologies to the defense and telecommunications industry. Microphase has been in operation for over 50 years and supports mPhase with engineering, administrative and financial resources, as needed.

mPhase is a developer of broadband communications products for the delivery of broadcast quality television, video on demand, high speed internet and voice utilizing internet protocol (IPTV). Specifically, the Company develops middleware/software, set top boxes and systems integration solutions for the delivery of IPTV. Release 3.0 of our TV+ solution is part of a test deployment during the third quarter of fiscal year 2006 to 1,000 customers of a major telecommunications service provider in Russia.. mPhase believes that its IPTV solution is the most cost-effective, standards based, scalable solution with carrier class quality and security available for telecommunications service providers around the world. mPhase believes that telecommunication service providers in countries outside of the United States that do not have extensive fiber to the home infrastructure will find the Company's TV+ solution as an attractive way to retain traditional telephone customers by offering a full package of services. The TV+ solution is designed to enable telecommunication service providers to solve the "last mile" from a central office location to a customer over any existing infrastructure including copper, fiber or coax. Version 3.0 of the TV+ solution is a culmination of years of development of a world-class television delivery solution for telecommunication service providers. The Company also develops and sells DSL products including "intelligent" POTS Splitter DSL loop diagnostic systems and Plain Old Telephone Service (POTS) Splitters necessary to split a telephone signal into a high frequency digital and low digital data component and low frequency analog voice component necessary for a telephone service provider to provide high-speed internet services over copper from its central office to its customer's premises. Since our inception in 1996 we have been a development-stage company. During the past two years, mPhase has transformed itself from a developer of closed end proprietary technology for the delivery of broadcast television over DSL to a Company that has developed a carrier class middleware/software solution for the delivery of IPTV. mPhase s IPTV solution is designed for use by telecommunications service providers over fiber, coax and copper infrastructures or any combination thereof and can operate with any transport mechanism including multicast routers and digital subscriber line access multiplexers of all major vendors.

In February of 2004, the Company entered into the field of nanotechnology research and development of micro power cell batteries of various voltages. The purpose of this initiative is consistent with the Company s strategy of establishing a product portfolio of cutting edge, innovative high technology products for new and emerging areas of high growth. The initial goal is to develop batteries for military applications having significantly longer shelf life prior to activation, instant on capabilities due to their extremely small internal size, and power management capabilities to significantly extend their duty cycle periods than are currently available in the market. The Company believes that such development is consistent with its strategy of being a pioneer in areas of high growth technology and potentially diversifies its mix of products. On March 11, 2005 the Company announced that it had expanded its nanotechnology research and efforts to develop extremely sensitive uncooled magnetic sensors, commonly known as a magnetometer, as a new product line.

For the 3 month period ended December 31, 2005 (unaudited) and fiscal year ended June 30, 2005, the Company had sales of $168,208 and $1,711,085 respectively and losses of ($8,436,518) and ($11,234,324) respectively. For the comparable periods ended December 31, 2004 and June 30, 2004 in the prior fiscal year the Company had sales of $295,524 and $4,641,346 respectively and losses of ($3,305,930) and

($7,758,586).

THE OFFERING

Common stock offered: Up to 155,438,314 shares of common stock, of which shares are issued and outstanding and up to 199,292,093 shares may be issued upon exercise of warrants and options held by the selling stockholders.

Common Stock to be outstanding after this offering: Approximately 277 million shares of common stock. This does not include an aggregate of approximately 204,330,185 shares that are reserved for issuance pursuant to outstanding employee stock options, non-employee stock options and warrants.

Use of proceeds: We will not receive any proceeds from the sale and issuance of the common stock included in this offering. However, we will receive approximately $57 million upon the exercise of all of the warrants and options by the selling stockholders.

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

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

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

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

FORWARD-LOOKING STATEMENTS

In addition to the other information contained in this prospectus, investors should carefully consider the risk factors disclosed in this prospectus, including those beginning on page 7, in evaluating an investment in our common stock. This prospectus includes "forward-looking statements". All statements other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may", "will", "expects", "plans", "anticipates", "estimates", "potential", or "continue" or the negative thereof or other comparable terminology.

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

SUMMARY FINANCIAL DATA

The summary 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 consolidated financial statements and notes included in this prospectus. The statements of operations data from October 2, 1996 (date of inception) to June 30, 1998 are derived from financial statements that have been audited by (i) Schuhalter, Coughlin & Suozzo, PC, independent auditors from inception to June 30, 1998, and (ii) by Arthur Andersen for the years ended 1999, 2000 and 2001 included in this prospectus. The statement of operations data for the year ended June 30, 2002, June 30, 2003, June 30, 2004 and June 30, 2005 are derived from the financial statements that have been audited by Rosenberg, Rich, Baker, Berman & Company in this prospectus.

	Year Ended June 30, (in thousands except per share data)					
STATEMENT OF OPERATIONS DATA:	2001	2002	2003	2004	2005	**Cumulative from inception October 2, 1996 to June 30, 2005**
Total revenues	$ 10,524	$ 2,582	$ 1,582	$ 4,641	$ 1,711	$ 21,320
Costs and Expenses:						
Cost of sales	5,805	2,415	1,493	4,270	1,446	15,359
Research and development	10,780	3,820	3,538	3,928	5,127	43,544
General and administrative	17,322	7,039	2,684	4,118	6,394	83,641
Depreciation and amortization	660	670	515	123	63	2,953
Operating loss	(24,043)	(11,361)	(6,649)	(7,798)	(11,319)	(124,177)
Other income (expense), net	-	142	50	150	196	(2,717)
Interest income (expense)	43	(26)	(51)	(111)	(111)	(115)
Net loss	$ (24,000)	$ (11,245)	$ (6,650)	$ (7,759)	$ (11,234)	$ (127,009)
Basic and diluted net loss per share *	$ (.72)	$ (.23)	$ (.10)	$ (.10)	$ (.10)	
Shares used in basic and diluted net loss per share *	33,436,641	49,617,280	65,217,088	77,677,120	108,657,578	

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

	Year ended June 30 (in thousand)				
	2001	**2002**	**2003**	**2004**	**2005**
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 31	$ 47	$ 397	$ 90	$ 351
Working capital (deficit)	(1,458)	(94)	(1,405)	(2,112)	(1,674)
Total assets	8,997	6,942	3,782	2,591	2,232
Long-term obligations, net of current portion	90	2,891	2,608	1,038	315
Total stockholders' equity (deficit)	$ 1,865	$ (42)	$ (3,229)	$ (2,918)	$ (1,618)

The balance sheet data as of June 30, 2004 and 2005 is derived from the financial statements that have been audited by Rosenberg, Rich, Baker, Berman & Company in this prospectus and include all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements have been derived from the unaudited financial statements reviewed by Rosenberg, Rich, Baker, Berman & Company included in this prospectus.

The statement of operations data for the six months ended December 31, 2004 and December 31, 2005 have been derived from the unaudited financial statements reviewed by Rosenberg, Rich Baker Berman & Company included in this prospectus and include all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements. The (unaudited) results for the six month period ended December 31, 2005 are not necessarily indicative of the operating results to be expected in the future.

	For the Six Months Ended December 31, 2004 (Unaudited)	For the Six Months Ended December 31, 2005 (Unaudited)	Cumulative Totals to to December 31, 2005 (Unaudited)
REVENUES	$ 475	$ 549	$ 21,869
COSTS AND EXPENSES			
Cost of Sales	375	473	15,832
Research and development	2,266	3,822	47,366
General and Administrative	2,595	3,182	86,824
Depreciation and Amortization	18	41	2,993
LOSS FROM OPERATIONS	(4,779)	(6,969)	(131,146)
Other Income(Expense)	(263)	(4,405)	(7,121)
Interest Income (expense), net	(95)	(20)	(136)
NET LOSS	$ (5,137)	$ (11,394)	$ (138,403)
LOSS PER COMMON SHARE, basic and diluted *	$ (0.06)	$ (0.07)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted *	91,474,828	163,613,560	

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

RISK FACTORS

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

CAUTIONARY STATEMENT

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

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

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

Risks Related to Financial Aspects of Our Business

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

The Company has expended a over $ 2.1 million pursuant to a contract with the Bell Labs division of Lucent Technologies, Inc. to initially develop longer life battery cells for military applications. The Company expects to continue exploratory research with Lucent Technologies, Inc. and is negotiating with Bell Labs to extend its Development Agreement for a third 12 month period through February of 2007 at a cost of $100,000 per month. Even though a feasibility prototype product has been successfully developed, pure research involves a high degree of risk with significant uncertainty as to whether a commercially viable product will result. On March 10, 2005 the Company undertook an additional capital commitment of $1.2 million to Lucent Technologies Inc for new research and development of uncooled magnetic ultra sensors using the science of Nanotechnology the Company is currently negotiating with Bell Labs to extend such agreement for a second twelve month term

through March of 2007 at a cost of $100,000 per month. The Company does not expect significant revenues from either product for at least 3 years.

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

The market price of our common stock closed at $7.88 on July 26, 2000 and closed at $.28 on April 24, 2006. During such period the number of shares outstanding of the Company increased from approximately 30 million shares to 255 million shares (undiluted) and approximately 480 million shares (full diluted). Such increase was the result of periodic private placements by the Company in order to finance company operations. Stocks in telecommunications equipment providers of DSL products have been very volatile during such period. Our common stock is a highly speculative investment and is suitable only for such investors with financial resources that enable them to sustain the loss of their entire investment in such stock. Because the price of our common stock is less than $5.00 per share and is not traded on the NASDAQ National or NASDAQ Small Cap exchanges, it is considered to be a "penny stock" limiting the type of customers that broker/dealers can sell to. Such customers consist only of "established customers" and "Accredited Investors" (within the meaning of Rule 501 of Regulation D of the Securities Act of 1933, as amended-generally individuals and entities of substantial net worth) thereby limiting the liquidity of our common stock.

We have reported net losses for each of our fiscal years from our inception in 1996 and for the six months (unaudited) ended December 31, 2005 respectively and may not be able to operate profitability in the future.

We have had substantial operating losses since our inception in 1996 (including $11,234,324 and $7,758,586 for the fiscal years ended June 30, 2005 and June 30, 2004, respectively and (unaudited) $11,394,054 and $5,137,792 for the six month period ending December 31, 2005 and December 31, 2004 respectively) and cannot be certain when or if we will ever be profitable. We expect to continue to have net losses for the foreseeable future and have a need to raise not less than $5-10 million in additional cash in the next 12 months through further offerings to continue operations. We have never been profitable from our inception in October, 1996 through December 31, 2005 (unaudited) and we have incurred (a) accumulated losses of $138,403,461 and a stockholder's deficit of $1,354,185 and (b) cumulative negative operating cash flow of $61,004,109. As of December 31, 2005 (unaudited) we have a negative net worth of $1,354,185 and negative working capital of $1,455,755.

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

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

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

As of April 19, 2006, we have warrants, options outstanding convertible into approximately 277 million total shares of mPhase common stock which, upon conversion, may adversely affect the future price of our common stock. As of April 19, 2006 we have warrants and options convertible into approximately 202,852,407 million shares of our common stock at $.35 per share or less that, upon exercise, will result in significant dilution to many of our current shareholders and may adversely affect the future price of our common stock. We may be forced to raise additional cash for operations by selling additional shares of our common stock at depressed prices causing further dilution to our shareholders.

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 deployment of any of our solutions for the delivery of broadcast television, high-speed internet and voice by a major telephone service provider.

We have had to date no material revenues derived from sales of either our legacy Traverser Digital Video Data Delivery System (DVDDS) or our TV+ solution or our new Broadband Loop Watch product. There has been to date only one sale of our IPTV solution for 1000 customers of a telecommunications service provider in Russia that is just commencing deployment as a trial. There are no other deployments of Release 3.0 of our TV+ Solution by telephone service providers globally and there currently is uncertainty as to the extent, if at all, that deployments of IPTV will occur in the future.

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

We depend upon Lucent Technologies Inc. for the successful development of our TV+ solution, certain design and software used in our Broadband Loop Watch product and our Nanotechnology products and our business would be materially adversely affected if Lucent Technologies Inc. were to terminate our relationship.

The loss of key personnel could adversely affect our business.

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

Economic support from affiliated companies has been significant.

During the downturn in the telecommunications industry that has continued over the past 4 years, both Microphase Corporation, and Janifast Ltd. had provided significant financial support to mPhase in the form of either cash infusions or conversions of related party debt. Such companies, which share common management with mPhase, are under no legal obligation to and may not be able to sustain such economic support of mPhase in the future should such support be necessary.

Sales and margins from our component DSL products have varied dramatically during the past four years and remains volatile.

Sales and gross margins from our POTS Splitter and other DSL products have experienced a general decline and significant volatility during the period from June 30, 2001 through December 31, 2005 as a result of the significant downturn in capital spending by telecommunications service providers. Sales have declined during fiscal year ended June 30, 2005 as compared to June 30, 2004 and have decreased during the second quarter of fiscal year 2005 as compared to the quarter ended December 31, 2004. Outlook for continuing growth in sales remains uncertain. Failure to achieve significant sales with adequate gross margins with respect to our component DSL products will negatively affect the cash available to the Company prior to commencement of sales of our TV solution thereby having a negative effect upon the overall financial condition of the Company and the price of our common stock.

We are negotiating with a new supplier for our POTS Splitter product that has been the source of all of our revenues to date.

We are currently negotiating with a key vendor to supply a new version of our POTS Splitter product that is more competitively priced than our current POTS Splitter. Unless we are able to successfully reach an agreement with a new cost-reduced POTS Splitter product line we may lose revenue from our main source of sales to date.

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

Although our legacy Traverser DVDDS television platform is patent-protected and not the subject of any infringement allegations we do not have currently patents or patents pending for our TV+ solution. The telecommunications industry, in general, is characterized by a large number of patents and frequent patent litigation based upon claims of patent infringement when compared to other industries.

Risk Factors Related to Our Targeted Markets

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

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

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

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

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

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

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

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

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

The market for our broadcast digital television platforms over DSL is characterized by:

Rapid technology change;

New and improved product introductions;

Changing customer demands; and

Evolving industry standards and product obsolescence.

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

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

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

USE OF PROCEEDS

The selling stockholders will receive the proceeds from the resale of the shares of common stock. We will not receive any proceeds from the resale of the shares of common stock by the selling stockholders. However, we will receive approximately $57 million if all of the warrants and options are converted to purchase shares of common stock registered under this prospectus which would be used for general working capital.

PRICE RANGE OF COMMON STOCK

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

Year/Quarter	High	Low
Fiscal year ended June 30, 1999		
First Quarter	**$4.25**	**$0.75**
Second Quarter	**3.65625**	**1.5625**
Third Quarter	**5.625**	**1.875**
Fourth Quarter	**8.75**	**2.90625**
Fiscal year ended June 30, 2000		
First Quarter	**$9.25**	**$2.96875**
Second Quarter	**6.1875**	**2.50**
Third Quarter	**19.125**	**6.50**
Fourth Quarter	**14.125**	**6.00**
Fiscal year ended June 30, 2001		
First Quarter	**$9.25**	**$3.00**
Second Quarter	**5.9375**	**1.4688**

Third Quarter	**3.38**	**1.22**
Fourth Quarter	**2.61**	**1.03**
Fiscal year ended June 30, 2002		
First Quarter	**$1.67**	**$.31**
Second Quarter	**.86**	**.31**
Third Quarter	**.62**	**.27**
Fourth Quarter	**.50**	**.23**
Fiscal year ended June 30, 2003		
First Quarter	**$.32**	**$.15**
Second Quarter	**.31**	**.15**
Third Quarter	**.36**	**.19**
Fourth Quarter	**.42**	**.28**
Fiscal Year ended June 30, 2004		
First Quarter	**$.42**	**$.29**
Second Quarter	**$.61**	**$.26**
Third Quarter	**$.69**	**$.41**
Fourth Quarter	**$.46**	**$.29**
Fiscal Year ended June 30, 2005		
First Quarter	**$.31**	**$.21**
Second Quarter	**$.35**	**$.23**
Third Quarter	**$.59**	**$.30**
Fourth Quarter	**$.41**	**$.24**
Fiscal Year ended June 30, 2006		
First Quarter	**$.28**	**$.22**
Second Quarter	**$.30**	**$.16**

As of April 24, 2006 (unaudited), we had 277,311,213 shares of common stock outstanding and approximately 15 thousand stockholders. The last reported sales price of our common stock on April 24, 2006 was $.28 per share.

DIVIDEND POLICY

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

SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with "Company Operations" and the historical financial statements and notes included in this prospectus. The statement of operations data for the years ended June 30, 1999, 2000 and 2001, are derived from financial statements that have been audited by Arthur Andersen LLP, and the statement of operations data for the years ended June 30, 2002, 2003 and 2004, and 2005 are derived from financial statements that have been audited by Rosenberg, Rich, Baker, Berman & Company, independent auditors, and are included in this prospectus. The operations data for the quarterly periods ended September 30, 1999 and each quarter thereafter to and including the quarter ended December 31, 2001 are derived from unaudited financial statements reviewed by Arthur Andersen LLP and the operations data for the quarterly periods from September 30, 2002 and each quarter thereafter through and including the quarter ended December 31, 2005, have been derived from unaudited financial statements reviewed by Rosenberg, Rich, Baker, Berman & Company, which include all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation. The results for the fiscal year ended June 30, 2005 and the results for the three months ended December 31, 2005 are not necessarily indicative of the operating results to be expected in the future.

	Year Ended June 30, (in thousands except per share data)					
STATEMENT OF	2001	2002	2003	2004	2005	**Cumulative from inception October 2, 1996 to June 30, 2005**
OPERATIONS DATA:						
Total revenues	$ 10,524	$ 2,582	$ 1,582	$ 4,641	$ 1,711	$ 21,320
Costs and Expenses:						
Cost of sales	5,805	2,415	1,493	4,068	1,446	15,359
Research and development	10,780	3,820	3,538	4,070	5,127	43,544
General and administrative	17,322	7,039	2,684	4,178	6,394	83,641
Depreciation and amortization	660	670	515	123	63	2,953
Operating loss	(24,043)	(11,361)	(6,649)	(7,798)	(11,319)	(124,177)
Other income (expense), net	-	142	50	150	196	(2,717)
Interest income (expense)	43	(26)	(51)	(111)	(111)	(115)
Net loss	$ (24,000)	$ (11,245)	$ (6,650)	$ (7,759)	$ (11,234)	$ (127,009)
Basic and diluted net loss per share *	$ (.72)	$ (.23)	$ (.10)	$ (.10)	$ (.10)	
Shares used in basic and						

diluted net loss per share *	33,436,641	49,617,280	65,217,088	77,677,120	108,657,578

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

	Year ended June 30 (in thousand)				
	2001	**2002**	**2003**	**2004**	**2005**
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 31	$ 47	$ 397	$ 90	$ 351
Working capital (deficit)	(1,458)	(94)	(1,405)	(2,112)	(1,674)
Total assets	8,997	6,942	3,782	2,591	2,232
Long-term obligations, net of current portion	90	2,891	2,608	1,038	315
Total stockholders' equity (deficit)	$ 1,865	$ (42)	$ (3,229)	$ (2,918)	$ (1,618)

The balance sheet data as of June 30, 2004 and 2005 is derived from the financial statements that have been audited by Rosenberg, Rich, Baker, Berman & Company in this prospectus and include all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements have been derived from the unaudited financial statements reviewed by Rosenberg, Rich, Baker, Berman & Company included in this prospectus.

The statement of operations data for the six months ended December 31, 2005 and December 31, 2004 have been derived from the unaudited financial statements reviewed by Rosenberg, Rich Baker Berman & Company included in this prospectus and include all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements. The (unaudited) results for the six month period ended December 31, 2005 are not necessarily indicative of the operating results to be expected in the future.

	For the Six Months Ended		October 2, 1996
	December 31, 2004	December 31, 2005	(Date of Inception)
	(Unaudited)	(Unaudited)	to December 31, 2005
REVENUES	$ 475	$ 549	$ 21,869
COSTS AND EXPENSES			
Cost of Sales	375	473	15,832
Research and Development	2,266	3,822	47,366
General and Administrative	2,595	3,182	86,824
Depreciation and Amortization	18	41	2,993
LOSS FROM OPERATIONS	(4,779)	(6,969)	(131,146)
Other Income (Expense)	(263)	(4,405)	(7,121)
Interest Income (expense), net	(95)	(20)	(136)
NET LOSS	$ (5,137)	$ (11,394)	$ (138,403)
LOSS PER COMMON SHARE, basic and diluted*	$ (0.06)	$ (0.07)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted*	91,474,828	163,613,560	

*Does not include any Common Stock Equivalents since their effect would be anti-dilutive

SELECTED QUARTERLY FINANCIAL DATA

The statement of operations data as of the periods indicated below are derived from unaudited financial statements, of which the quarterly periods ended September 30, 1999 and each quarter thereafter to and including the quarter ended December 31, 2001 are derived from unaudited financial statements reviewed by Arthur Andersen LLP. The operations data for the quarterly periods ended March 31, 2002 and each quarter thereafter through and including the quarter ended December 31, 2005, have been derived from unaudited financial statements reviewed by Rosenberg, Rich, Baker, Berman & Company. The foregoing includes all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements.

	Three Months Ended December 31, (in thousands, except share amounts)	**Three Months Ended September 30, (in thousands, except share amounts)**
FISCAL 2006 QUARTERLY STATEMENT OF OPERATIONS DATA:		
Total revenues	$168	$381
Costs and Expenses:		
Cost of sales	135	338
Research and development	1,961	1,861
General and administrative	2,090	1,092
Depreciation and amortization	20	21
Operating loss	(4,038)	(2,931)
Interest expense, Net	(6)	(14)
Gain (Loss) on Debt extinguishments	(4,392)	(13)
Net Loss	(8,436)	$(2,958)
Basic and diluted net loss per share	(.05)	$(.02)
Shares used in basic and diluted net loss per share(1)	174,998,048	152,291,645

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

	Three Months Ended			
	September 30	**December 31**	**March 31**	**June 30**
	(in thousands, except share amounts)			
FISCAL 2004 QUARTERLY STATEMENT OF OPERATIONS DATA:				
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)
Gain (Loss) on debt extinguishment	23	-	(152)	279
Net Loss	$(865)	$(1,701)	$(2,334)	$(2,858)
Basic and diluted net loss per share	$(.01)	$(.02)	$(.03)	$(.03)
Shares used in basic and dilute net loss per share	71,725,318	72,814,272	81,564,405	84,885,017

	Three Months Ended			
	September 30	**December 31**	**March 31**	**June 30**
	(in thousands, except share amounts)			
FISCAL 2003 QUARTERLY STATEMENT OF OPERATIONS DATA:				
Total revenues	$210	$562	$210	$600
Costs and Expenses:				
Cost of sales	197	547	205	544
Research and development	803	753	906	1,076
General and administrative	893	731	544	516
Depreciation and amortization	131	129	129	127
Operating loss	(1,814)	(1,598)	(1,574)	(1,662)
Interest expense, Net	(18)	(15)	(11)	(7)
Gain on debt extinguishments	41	-	9	11
Gain (Loss) on investments	-	(16)	(12)	17
Net Loss	$(1,791)	$(1,629)	$(1,588)	$(1,641)
Basic and diluted net loss per share	$(.03)	$(.07)	$(.02)	$(.02)
Shares used in basic and diluted net loss per share(1)	60,881,131	65,914,466	65,956,810	68,164,160

	Three Months Ended			
	September 30	**December 31**	**March 31**	**June 30**
	(in thousands, except share amounts)			
FISCAL 2002 QUARTERLY STATEMENT OF OPERATIONS DATA:				
Total revenues	$537	$545	$866	$634
Costs and Expenses:				
Cost of Sales	457	530	724	704
Research and development	1,111	1,257	539	913

General and administrative	2,862	1,641	1,355	1,181
Depreciation and amortization	193	209	136	132
Operating loss	(4,086)	(3,092)	(1,888)	(2,296)
Interest expense, Net	(10)	(1)	(5)	(10)
Gain (Loss) on debt extinguishments	33	5	85	19
Net Loss	$(4,063)	$(3,088)	$(1,808)	$(2,287)
Basic and diluted net loss per share	$(.10)	$(.07)	$(.03)	$(.04)
Shares used in basic and diluted net loss per share(1)	42,037,506	44,645,458	55,606,168	56,459,167

	Three Months Ended			
	September 30	**December 31**	**March 31**	**June 30**
	(in thousands, except share amounts)			
FISCAL 2001 QUARTERLY STATEMENT OF OPERATIONS DATA:				
Total revenues	$1,865	$5,231	$2,959	$469
Costs and Expenses:				
Cost of Sales	872	2,779	1,689	465
Research and development	3,162	3,318	2,220	2,080
General and administrative	3,485	3,314	3,105	7,418
Depreciation and amortization	123	136	200	201
Operating loss	(5,779)	(4,316)	(4,255)	(9,695)
Interest income$ Net	28	8	4	3
Net loss	$(5,751)	$(4,308)	$(4,251)	$(9,692)
Basic and diluted net loss per share	$(.18)	$(.13)	$(.12)	$(.27)
Shares used in basic and diluted net loss per share(1)	31,562,727	32,324,964	34,205,000	35,702,797

	Three Months Ended			
	September 30	**December 31**	**March 31**	**June 30**
	(in thousands, except share amounts)			
FISCAL 2000 QUARTERLY STATEMENT OF OPERATIONS DATA:				
Total revenues	$-	$-	$40	$240
Costs and Expenses:				
Cost of sales	-	-	19	112
Research and development	1,491	1,904	2,858	3,903
General and administrative	1,210	1,226	12,776	12,648
Depreciation and amortization	114	116	118	123
Operating loss	(2,815)	(3,246)	(15,731)	(16,546)
Other income, net	-	-	-	20
Interest income, Net	18	41	57	42
Net Loss	$(2,797)	$(3,205)	$(15,674)	$(16,484)
Basic and diluted net loss per share	$(.11)	$(.12)	$(.56)	$(.55)
Shares used in basic and diluted net loss per share(1)	24,942,965	25,907,602	27,743,996	29,729,060

(1) The quarterly earnings per share data above are computed independently for each of the quarters presented. As such, the sum of the quarterly per common share information may not equal the full year amounts due to rounding differences resulting from changes in the weighted-average number of common shares outstanding.

(1) **SELECTED BALANCE SHEET DATA**

The summary financial data set forth below should be read in conjunction with "Company's Operations" and the historical consolidated financial statements and notes included in this prospectus. The balance sheet data including the effects of Changes in the Statement of Stockholders from October 2, 1996 (date of inception) to June 30, 1998 are derived from financial statements that have been audited by (i) Schuhalter, Coughlin & Suozzo, PC, independent auditors from inception to June 30, 1998 (ii) from financial statements that have been audited by Arthur Andersen for the years ended 1999, 2000 and 2001 and the balance sheet data as of June 30, 2002, 2003, 2004 and 2005 which are included in this prospectus, are derived from financial statements that have been audited by Rosenberg, Rich, Baker, Berman & Company and for the three month period ended December 31, 2005 from unaudited financial statements reviewed by Rosenberg, Rich, Baker, Berman &Company. The foregoing includes all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements.

	Year Ended June 30,				
	(in thousands except per share data)				
	2001	**2002**	**2003**	**2004**	**2005**
BALANCE SHEET DATA:					
Cash and cash equivalents	$31	$47	$397	$90	351
Working capital (deficit)	(1,458)	400	(1,405)	(2,111)	(1,674)
Total assets	8,997	6,943	3,781	2,591	2,232
Long-term obligations, net of current portion	90	2,890	2,608	1,038	315
Total stockholders' equity (deficit)	$1,865	$(43)	$(3,229)	$(2,918)	$ (1,618)

BALANCE SHEET DATA:	**December 31, 2005**
	(in thousands except per share data)
Cash and cash equivalents	1,173
Working capital (deficit)	(1,456)
Total assets	2,299
Long-term obligations, net of current portion	360
Total stockholders' equity (deficit)	(1,354)

COMPANY OPERATIONS

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

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

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

OVERVIEW

mPhase Technologies, Inc. (mPhase, the Company, we or us), a New Jersey corporation, founded in 1996 is a publicly-held company with approximately 15,000 shareholders and approximately 277 million shares of common stock outstanding. The Company's common stock is traded on the NASDAQ Over the Counter Bulletin Board under the ticker symbol XDSL.

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

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

Description of Operations

Since our inception in 1996 our primary activities through fiscal year 2003 consisted of designing, manufacturing and testing our flagship products designed to enable telephone service providers to deliver digital broadcast television over DSL. Fiscal years 2004 and 2005 marked a significant shift of the Company's focus, in response to technology advancements with respect to the delivery of video data using internet protocol. The Company has shifted its telecommunications solution focus from technology for the delivery of broadcast television high speed internet and voice over DSL to the development of middleware/software for carrier class delivery of IP TV over copper, fiber, coax or any infrastructure representing a combination of the foregoing that is used by a telecommunications service provider. This shift has taken place over the past two years and has culminated in our flagship product namely Release 3.0 of our TV+ solution. This product is part of an initial deployment of 1000 ports with a major telecommunications service provider in Russia. We have not, as yet, derived any significant revenue from our TV+ solution, which is the culmination of several earlier versions that have been changed to accommodate the latest in technological innovation and market demand for IPTV. The Company's recent entry into the field of nanotechnology is focused upon exploratory development of batteries with significantly longer shelf lives and enhanced capabilities and magnetometer sensor devices with potentially wide applicability for both military and commercial security applications. The Company believes that such development is consistent with its strategy of being a pioneer of high growth technology products and potentially diversifies its product mix.

mPhase introduced its first TV over DSL platform, the Traverser™ Digital Video and Data Delivery System ("DVDDS"), in 1998. The DVDDS is a patented end to end system that enables a telecommunications service provider to deliver up to several hundred channels of motion picture experts group two ("MPEG-2") standard broadcast digital television, high speed internet and voice over copper telephone lines between a central office facility of the provider and a customer's premise. mPhase has not, as yet, derived any material revenues from sales of the DVDDS. The DVDDS is a proprietary technology developed in conjunction with Georgia Tech Research Corporation (GTRC) and is one of the first systems of its kind developed. The system is the only system on the market that utilizes non- Internet Protocol ("IP") transmission over ADSL. The DVDDS was installed at Hart Telephone Company in Hartwell, Georgia, where a limited user system of approximately 80 customers was tested. A DVDDS™ system is also installed at the BMW manufacturing plant in Spartanburg, South Carolina for use as a television broadcast system in a commercial setting. The legacy DVDDS platform has been replaced by the Company s TV+ solution.

The new mPhase TV+ solution, developed in conjunction with Bell Laboratories division of Lucent Technologies, Inc., is also designed to allow for the simultaneous delivery of voice, high speed data, and broadcast TV over copper telephone lines between a telephone service provider's central office (CO) and the customer premises. The TV+ system was developed as an outgrowth of mPhase's engagement of Bell Labs in fiscal year 2003 to cost reduce mPhase's set top box that operates with the proprietary DVDDS system developed by Georgia Tech Research Corporation (GTRC). The TV+ system has replaced the legacy DVDDS system with an open industry standards-based platform. Release 1 and 2.0 (containing an enhanced electronic program guide) of the mPhaseTV+ system are complete and ready for commercial deployment. The TV+ system delivers 255 broadcast television channels over ADSL and utilizes an industry-leading, standards-based Lucent Technologies, Inc.'s Stinger™ DSL Access Concentrator for transport of digital television plus high speed internet and voice. The mPhase TV+ system consists of a powerful software platform and a cost reduced set top box located in a telephone customer's premises plus the Lucent Stinger located at the CO or in the loop servicing the customer. For mPhase the alliance with Lucent marks a change in strategy from selling a complete proprietary platform to providing an industry-standards solution The Company believes that the demand for the TV+ system will be greatest in markets primarily outside of the United States that do not have a hybrid fiber coaxial cable ("HFC") infrastructure necessary for cable TV or fiber to the curb necessary for very fast DSL (VDSL).

In December of 2004, the Company announced that a major telecommunications service provider in Russia had chosen to deploy its TV+ solution to 1000 of its customers. The Russian service provider has over 1 million customers and is part of a holding company with 15 million customers. The Company is currently delivering for testing Release 3.0 of its IPTV or TV+ solution to such service provider in Russia.

Release 3.0 of the TV+ solution, utilizes a communications framework based upon Internet Protocol (IP) instead of Asynchronous Transfer Mode (ATM) that is utilized by Releases 1.0 and 2.1. ATM is an industry standard for transportation of data based upon a packaging of information into a fixed-size cell format for transportation across networks. Many telecommunications service providers currently deploy equipment that handles this protocol because it can support voice, video, data and multimedia applications simultaneously with a high degree of reliability. IP is another transport protocol that maintains network information and routes packets across networks. IP packets are larger and can hold more data than ATM cells. Historically, there have been concerns that service providers would be unable to provide the same quality of service with IP because it is not optimized for time-sensitive signals such as broadcast television and voice. Nevertheless, there is a greater demand by telecommunication service providers for IP systems for delivery of television, voice and high-speed data because such systems are significantly more cost effective to deploy based upon greater scalability.

Release 3.0 of the TV+ solution is a system management software/middleware product that will operate with both the Lucent Stinger as well as the DSLAM's of other major vendors. Release 3.0 of the TV system will also be able to send multiple TV channels over both fiber, coax as well as down a single DSL line over copper using ADSL2 supported DSLAM's and be capable of delivery of Video on Demand. Our TV+ solution is an open standards-based, carrier class technology with tremendous scalability and enables a telecommunications service provider to custom tailor the deployment of feature rich IP television, high-speed internet and voice. Such solution enables a telecommunications service provider to significantly enhance revenue and margins with a very high rate of return as compared to the traditional economics for delivery of telephone voice services only. Teleco's around the world are under increased pressure to delivery multiple converged services in order to retain their traditional telephone voice customers. The TV+ solution may be used in combination with any vendors set top box designed for the delivery of IP TV and the DSLAM's of all major vendors. The solution allows a service provider to start small and test its take rate among customers with a maximum of flexibility of design, features and cost allowing it to enter the market for converged services to its customers on an optimal basis.

mPhase has transformed itself from a developer of closed-end proprietary technology for the delivery of TV over DSL to a Company that has developed a carrier class middleware/software solution for the delivery of IP TV using a standards-based platform designed to provide telecommunications service providers with maximum flexibility in system configuration with components from all major vendors. mPhase is continuing in the development of a next generation set top box designed to further enhance its IP TV+ solution and to be used as a stand alone product. mPhase's current IPTV solution is designed to be used over fiber, coax and copper or any combination thereof currently deployed by a telecommunications service provider. Our IPTV solution may also be used with other telecommunications transport technology such as Multicast Routers instead of DSLAM's for the delivery of voice, data and IPTV.

mPhase DSL Component Products. mPhase continues to design and market a line of DSL component products ranging from commodity items such as POTS splitters to innovative loop management products. Most notable in the suite of DSL component products is the recently introduced*i*POTS3 (recently renamed the "Broadband Loop Watch") or Intelligent POTS Splitter product. The newly developed version of the Broadband Loop Watch product is compatible with the Lucent Stinger as well as DSLAM's manufactured by other vendors. This product marks a significant advancement in automating loop management. The Broadband Loop Watch allows service providers to perform full loop testing for DSL deployment and maintenance from a central office without having to deploy a more costly deployment of personnel to the field. This is accomplished by allowing service providers to temporarily bypass the POTS Splitter and have a comprehensive view of their DSL networks. Prior to the introduction of this product in order to perform full testing, service providers would have to manually intervene so that so that test signals could be passed through the network. In November of 2004, the Company announced that it had been selected to provide its automated Broadband Watch product for Saudi Arabia Telecom under an initial purchase order from Lucent Technologies of Saudi Arabia in excess of $1 million. Currently such deployment has been delayed pending final testing of the Broadband Loop Watch product and renegotiation of such purchase order with Lucent Technologies of Saudi Arabia. As DSL deployments scale, it is becoming increasingly more important for telecommunications service providers to streamline the process for provisioning and troubleshooting DSL services. Additionally, as competition for high speed Internet expands, the market is witnessing a reduction in price. Therefore, it has become imperative that telecommunications service providers lower the operational costs involved with supporting DSL services.

Nanotechnology

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

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

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

The Company is currently in discussion wiht Bell Labs to renew for an additional twelve months each Development Agreement on similar terms with respect to nano power cells and magnetometer technologies.

Nano Battery:

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

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

Magnetometer:

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

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

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

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

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

The mPhase and Lucent magnetometer team has successfully reached an early milestone and have produced a number MEM based sensor samples from the clean room facilities and are working on integrating them into the surrounding electronic circuitry so that measurement, characterization and sensitivity testing can be conducted. We are currently able to achieve sensitivities at room temperature of better than .1 micro gauss per root hertz squared and with additional development the goal is improvement of at least one order of magnitude. The Company is currently negotiating the extension through March of 2007 with Bell Labs of its magnetometer Development Agreement at a cost of $100,000 per month.

Revenues. To date, all material revenues have been generated from sales of the POTS Splitter Shelves and other DSL component products to a small number of telecommunications companies. mPhase believes that future revenues are difficult to predict because of "the length and variability of the commercial roll-out of the IPTV to various telecommunications service providers and (ii) the Company's recent entry into the NanoTechnology business. Since the Company believes that there may be a significant international market for its TV+ IPTV solution involving many different countries, with different regulations, certifications and commercial practices than the United States, future revenues are highly subject to the changing variables and uncertainties. Additionally, the recent instability of the telecommunications market evidenced by reduction in capital spending across the whole in the telecom sector contributes to our difficulty in accurately predicting future revenues.

Cost of revenues. The costs necessary to generate revenues from the sale of POTS Splitter Shelves and other related DSL component products include direct material, labor and manufacturing. mPhase paid these costs to Janifast Ltd., which has facilities in the People's Republic of China and is owned by and managed by certain senior executives of the Company. The cost of revenues also includes certain royalties paid to Microphase Corporation, a privately held corporation organized in 1955, which shares certain common management with the Company and is majority-owned by a director of mPhase. Costs for future production of the TV + Platform will consist primarily of payments to manufacturers to acquire the necessary components and assemble the product including Lucent Technologies Inc., Espial Group and Magpie Telecom Insiders, Inc and systems integration by Velankani Systems.

Research and development. Research and development expenses consist principally of the payments made to Microphase and Lucent, respectively, for development of the Broadband Loop Watch, the TV+ IPTV solution and nanotechnology products respectively. The IPTV+ solution consists primarily of middleware/software designed for the delivery of feature rich, carrier class, broadcast TV, high speed internet and voice by telecommunications service providers open using standards based equipment and transport configurations. All research and

development costs are expensed as incurred.

General and administrative. Selling, general and administrative expenses consist primarily of salaries and related expenses for personnel engaged in direct marketing of the TV+ solution for IPTV, POTS Splitter Shelves, the Broadband Loop Watch "intelligent pots splitter" diagnostic product and other DSL component products, as well as support functions including executive, legal and accounting personnel. Certain administrative activities are outsourced on a monthly fee basis to Microphase and mPhase leases its principal office in Norwalk, Connecticut from Microphase.

Non-Cash compensation charges. The Company makes extensive use of stock options and warrants as a form of compensation to employees, directors and outside consultants. We incurred non-cash compensation charges totaling $52,389,894 from inception (October 2, 1996) through June 30, 2005, of which $2,117,669 was included in research and development expenses and $50,281,225 was included in general and administrative expenses.

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

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

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

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

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

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

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

General and Administrative Expenses. Selling, general and administrative expenses were $6,394,040 for the year ended June 30, 2005 up from $4,177,961 for the comparable period in 2004, a decrease of $2,216,079. The increase in the selling, general and administrative costs was primarily the result of the addition of a number of new employees critical to the Company's needs in developing, marketing and selling the TV+ and NanoTechnology product lines with Lucent.

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

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

Other income and expense. Included in other income and expenses for the year ended June 30, 2005 were gains on extinguishments and settlements of $232,974 as compared to $150,058 for the prior year. For the year ended June 30, 2005, included in this amount are $418,695 gains on the extinguishment of debts offset by a $185,721 charge for reparations for the issuance of Common Stock to certain investors for a corrective market value adjustments. The $150,058 in fiscal 2004 is made up of gains on the extinguishment of debts as settled with creditors.

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

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

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

Cost of revenues. Cost of sales was $4,068,255 for the year ended June 30, 2004 as compared to $1,493,394 in the year ended 30, 2003. Cost of revenues increased for the twelve months ended June 30, 2004 compared to the prior period ending June 30, 2003 primarily because of increased sales. Gross margins for the period ended June 30, 2004 were 12%. The gross margins have varied dramatically as spending among telecommunication providers has contracted, coupled with downward pressures related to the supply and demand of telecommunications

products. The single most significant reason the margins decreased dramatically was due to the reduced selling price of our POTS Splitter product. Discounts, consisting of a 2% discount from the amount invoiced if paid within 10 days were offered during fiscal year 2004. Such discounts amounted to $71,425 for the period ended June 30, 2004, and were offered to Covad Communication our leading telecommunications service provider customer. Discounts were offered in fiscal 2003 to an existing customer to accelerate collections in connection with an order of our POTS Splitter product and was treated as a purchase discount to each of customers, and the reduction to net sales lowered the gross margins in the period.

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

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

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

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

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

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

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

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

TWELVE MONTHS ENDED JUNE 30, 2003 VS JUNE 30, 2002

Revenue

Total revenues were $1,581,639 for the year ended June 30, 2003 compared to $2,582,446 for the year ended June 30, 2002. The decrease was attributable to the continued slowing sales during fiscal year 2003 of the Company's POTS Splitter product line, caused by the general downturn in the telecommunications market, including customers that order component products from the Company. The Company continues to believe that its line of POTS Splitter products is positioned to be competitively priced with high reliability and connectivity, and as such has the potential to be a significant part of DSL deployment worldwide. The Company cannot say when the demand for telecommunication equipment will resume.

Cost of Revenues

Cost of sales was $1,493,394 for the fiscal year ended June, 2003 as compared to $2,415,219 in the prior period, representing 94% of gross revenues, for each of the fiscal years ended June 30, 2003 and 2002, respectively. The margins have contracted dramatically in the past two fiscal years as spending among the telecommunications providers have contracted, coupled with downward pressures related to the supply and demand of telecommunications products.

Research and Development

Research and development expenses were $3,538,305 for the fiscal year ended June 30, 2003 as compared to $3,819,583 during the comparable period in 2002; or a decrease of $281,278.

Such expenditures include $100,000 incurred with GTRC for the fiscal year ended June 30, 2003 as compared to $450,000 during the comparable period in 2002. In addition, the Company incurred research and development expenses for depreciation of test equipment located at Hart Telephone Company and at mPhase of $839,735 and $845,783 for the fiscal years ended June 30, 2003 and 2002, respectively.

Other portions of research and development expenses include (a) a decrease of research and development expenses incurred with Microphase by $322,640 to $428,434 for the fiscal year ended June 30, 2003 from $751,074 for the comparable period ended June 30, 2002, (b) non cash compensation of $385,495 for the twelve month period ended June 30, 2003 compared to $267,338 for the same period ending June 30, 2002 and (c) miscellaneous expenses of $143,024 and $298,227 for the periods ended June 30, 2003 and June 30, 2002, respectively.

The Company incurred increased charges with Lucent Technologies, Inc. in the current year, totaling $1,112,500 incurred on development of the Broadcast Television Switch for use with Lucent's Stinger DSL product, $437,500 incurred for the cost reduction effort for mPhase's set top box. In addition, $75,000 was incurred for software development associated with mPhase's*i*POTS3 product, as compared with $156,250 incurred in the year ended June 30, 2002.

The elements contributing to the decrease in other research and development expenses included a decrease in the operations of the Company's joint venture, mPhase Television.net. The major costs incurred by the joint venture were payroll expenses attributable to research and development of the Company's transmission capabilities and acquisition of television content. Costs incurred by the joint venture during the fiscal year ended June 30, 2002 were $232,334 as compared to $62,352 for the period ended June 30, 2003. Additionally, this decrease can be attributed to the Company abandoning certain research projects on DSL components the Company believed were no longer commercially viable, this approximated $12,960 in fiscal 2003 compared to $440,295 in fiscal 2002.

The decrease in research expenditures incurred with GTRC is due to the Company's shift of capital expenditures from the Traverser DVDDS to the TV+ product. The Company's project with Lucent provides for cost reduction of the INI set top box and other product enhancements as well as development of a Broadcast Television Switch for use with Lucent's Stinger product. To date expenses incurred with respect to the TV+ platform and development of the new cost reduced set top box are $593,750, and $437,500 respectively for the fiscal year ended June 30, 2003.

Research expenditures incurred with Microphase were related to the continuing development of the Company's DSL component products, including the Company's line of POTS Splitters and Microfilters and the Company's newest products, the *i*POTS and the mPhase Stretch. We believe the mPhase *i*POTS offers a much needed solution for the DSL industry; the*i*POTS enables telecommunications service providers to remotely and cost-effectively perform loop management and maintenance including line testing, qualification and troubleshooting. Prior to the introduction of the*i*POTS™ loop management could not be remotely performed through a conventional POTS Splitter without the use of expensive cross connects or relay banks because of the mandatory DC blocking capacitors in traditional POTS splitters, as required by various telephone protocol and regulatory standards. The unique (patent pending)*p*ots circuit allows most test heads to perform both narrow and wideband testing of the local loop through the central office POTS Splitter without having to physically disconnect the POTS Splitter, thereby eliminating the need to dispatch personnel and a truck roll. The Company anticipates future demand for this product, as it significantly reduces the cost of deploying and maintaining DSL services. Also recently developed is the DSL loop extender product called mPhaseStretch. This product extends the service distance for the mPhase Traverser and can be used in conjunction with other DSL services. The Company believes there will be future demand for the Stretch loop extender product as it addresses a primary issue in DSL services.

General and Administrative Expenses

General and administrative expenses were $2,683,534 for the twelve-month period ended on June 30, 2003 as compared to $7,038,923 for the same period ended June 30, 2002. This represents a decrease of these expenses of $4,355,389 or approximately 59% in fiscal 2003 as a percentage of these expenses in fiscal 2002. The decrease in administrative costs included a decrease of $1,696,771 in non-cash changes for the issuance of options to consultants which totaled $748,840 for the year ended June 30, 2003 as compared to $2,994,111 during the comparable period in 2002. The decrease also occurred as a result of the reduction in workforce and the reduction in marketing expenses which the Company began in Fiscal 2002 in response to the current contraction in the telecommunications equipment market. Other components of the decrease in selling, general and administrative expenses included decreases in (a) executive compensation and administrative payroll and related costs of approximately $775,000, (b) marketing expenses such as trade shows of approximately $250,000, (c) reductions in occupancy costs by approximately $290,000, (d) decreases in shareholder services and related expenses by approximately $190,000, (e) insurance and risk management costs by approximately $145,000 and (f) various decreases in other administrative categories aggregating approximating $490,000. The foregoing approximated reductions of general and administrative expenses other than non-cash charges of $2,125,000 in the twelve months ended June 30, 2003 compared to the same period ended June 30, 2002.

We do not expect this downward trend to continue, yet administrative expenses are expected to remain at the current levels until the Company begins its marketing effort to roll out its TV+ products in the second quarter, and at such time we expect that selling and travel expenses will grow. Further when the Company begins to implement and support its Television over DSL platforms then administrative payroll and related costs will again rise as the Company will need to add employees to its administrative workforce.

Depreciation and Amortization

Depreciation and amortization expense was $515,417 in fiscal 2003 as compared to $670,183 for 2002. These expenses decreased $154,766, or approximately 23% of the prior year s expense as a result of the Company's reduced need for and outlays on capital expenditures in its two preceding fiscal years. We do not expect such downward trend to continue but such depreciation and amortization expense should remain at the current reduced levels until the Company commences deployment of its Television over DSL platforms. We expect to increase capital expenditures in connecting with the deployment of equipment at test sites with various telecommunications service providers globally as deployment of our TV+ product progresses and such equipment will need to be depreciated or amortized, as the case may be, that will result in increased depreciation at that time.

Net Loss

The Company recorded a net loss of $6,650,211 for the period ended June 30, 2003 as compared to a loss of $11,245,361 for the period ended June 30, 2002. This represents a loss per common share of $.10 for the fiscal year ended June 30, 2003 as compared to a loss per common share of $.23 for the fiscal year ended June 30, 2002 based upon weighted average common shares outstanding of 65,217,088 and 49,617,280 during the fiscal years ended June 30, 2003 and 2002, respectively.

SIX MONTHS ENDED DECEMBER 31, 2005 VS. DECEMBER 31, 2004

REVENUE

Total revenues were $548,802 for the six months ended December 31, 2005 compared to $474,687 for the six months ended December 31, 2004. The increase was attributable primarily to significantly increasing sales of the Company's POTS Splitter product line in the first quarter of fiscal year 2005, followed by more modest decrease in sales during the second quarter of fiscal year 2005, as compared to such quarters in fiscal year 2004. There remains continued volatility in capital spending in the telecommunications market, including customers that order component products from the Company. The Company is in the process of reevaluating its line of POTS Splitter products to ensure that such products will continue to be competitively priced with high reliability and connectivity, and as such has the potential to be a significant part of DSL deployment worldwide. The Company cannot predict future demand for such product line.

COST OF REVENUES

Cost of sales was $473,071 for the six months ended December 31, 2005 as compared to $374,905 in the prior period, as a result of an increase in POTS Splitter sales and constituted 86% and 79% of gross revenues, for the six months ended December 31, 2004 and 2003, respectively. The margins have decreased slightly during the current period as spending among the telecommunications service providers continues to be volatile together with an increase in competition from global providers of such products resulting in commodity pricing.

RESEARCH AND DEVELOPMENT

Research and development expenses were $3,822,070 for the six months ended December 31, 2005 as compared to $2,266,385 during the comparable period in 2004; or an increase of $1,555,685 from the comparable period in 2004. The Company incurred all of its research and development expenses with vendors including Lucent, Microphase, Magpie Insiders, Inc., Espial, Velankani and other strategic vendors for the six months ended December 31, 2005 which totaled $3,607,947 as compared to $1,678,635 incurred with vendors other than GTRC during the comparable period in 2004. The increase in the research and development expenses includes non-cash charges relating to the issuance of common stock and options to employees and consultants, which totaled $135,550 for the six months ended December 31, 2005 as compared to $385,495 for the comparable period ended December 31, 2004 resulting in a decrease of $249,945.

Such decreases are the result primarily of elimination of further development of the TRAVERSER DVDDS product by GTRC as the Company focuses its efforts on research and development and expenditures associated therewith on the TV+ product with Lucent, which has been comparatively, to date, less expense to develop.

The Company does, however, expects an increase in research and development costs beginning in the third quarter of fiscal year 2006 due to continuing development of new features for its IPTV solution as well as continued development with Bell Labs of our nanotechnology line of products..

Research expenditures incurred with Microphase were related to the continuing development of the company's DSL component products, including the company's line of pots splitters and microfilters and the company's newest product, the Broadband Loop Watch. We believe the mPhase Broadband Loop Watch offers a much-needed solution for the DSL industry; the product enables telecommunications service providers to remotely and cost-effectively perform loop management and maintenance including line testing, qualification and troubleshooting. Prior to the introduction of the Broadband Loop Watch, loop management could not be remotely performed through a conventional pots splitter without dispatching personnel to the field. The unique Broadband Loop Watch circuit allows most test heads to perform both narrow and wideband testing of the local loop through the central office pots splitter without having to physically disconnect the pots splitter, thereby eliminating the need to dispatch personnel and a truck roll. The Company anticipates future demand for this product, as it significantly reduces the cost of deploying and maintaining DSL services.

The changes in Research and Development expenses for the six-month period ended December 31, 2005 as compared to the six month period ended December 31, 2004 included the following significant items:

1.

An increase of charges from Lucent Technologies of $1,018,949

2.

A decrease of depreciation related to research and development of $61,719

from $128,506 to $66,787.

3.

An increase of expenses with Microphase and other strategic vendors of $710,668

Charges from Lucent Technologies Inc. totaled $2,618,549 for the six months ended December 31, 2005 as compared to $1,599,600 for the same period ended December 31, 2004. Such charges consisted of $1,097,600 for development of the TV+ product and $1,400,000 incurred with respect to the Company's new Nanotechnology product line.

The elements attributing to the decrease in other research and development expenses included a decrease in the operations of the Company's joint venture, mPhase Television.net. The major costs incurred by the joint venture were payroll expenses attributable to research and development of the Company's transmission capabilities and acquisition of television content. Costs incurred by the joint venture during the six months ending December 31, 2005 were $31,000 as compared to $0 for the six months ending December 31, 2004.

GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $3,182,481 for the six months ended December 31, 2005 up from $2,780,291, an increase of $402,190 from the comparable period in 2004. The increase in the selling, general and administrative costs includes non-cash charges relating to the issues of common stock and options to employees and consultants, which totaled $1,175,075 for the six months ended December 31, 2005 as compared to $1,127,833 for the comparable period ended December 31, 2004 resulting in an increase of $47,242. Additionally travel expenses increased by $143,383 and increased spending in advertising, trade shows and marketing and resulting expenses amounted to an aggregate of $20,666. The balance of increased spending in selling salaries and payroll fringes of approximately $200,000 in the six months ended December 2005 account for the major components of the increases in the general and administrative expenses. We expect sales and travel expenses to grow as the Company approaches the deployment of its TV+ products in the future.

DEPRECIATION AND AMORTIZATION

Total Depreciation for the six months ended December 31, 2005 was $124,091 of which $83,325 was charged against research and development. In 2004, total depreciation for the six months ended December 31, 2004 was $135,524 of which $125,404 was charged against research and development. As a result, depreciation and amortization expense was $26,023 for the six month ended December 31, 2005, up from $9,200, or a increase of $16,823 from the comparable period in 2004. The increase is a result of the expansion of the Company's marketing efforts and signals the end of reduced outlays for capital expenditures previously shown in its two most recent fiscal years. We expect to increase capital expenditures in connection with the deployment of equipment at test sites with various telecommunications service providers globally as deployment of our TV+ product progresses.

OTHER INCOME AND EXPENSES

Included in other income and expenses for the six months ended December 31, 2005 were losses on extinguishments and settlements of $4,404,186 as compared to $226,221 for the same period in the prior year, For the quarter ending December 31, 2005 included in this amount is approximately $4.4 million for a charge for the issuance of approximately 35 million shares of Common Stock to certain investors for a corrective market value adjustment.

A total of 24,637,744 additional shares were issued in order to cause the average price of prior private placement units to be "market down" to $.18 per share have been accounted for as "reparation" shares and 11,642,344 of the additional shares were recorded as "Additional Paid in Capital" in proportion with a reasonable allocation for incentive costs of new investment dollar amounts.

NET LOSS

The Company recorded a net loss of $11,394,054 for the six months ended December 31, 2005 as compared to a loss of $5,137,192 for the six months ended December 31, 2004. This represents a loss per common share of $.07 for the six month period ended December 31, 2005 as compared to a loss per common share of $.06 for the six months ending December 31, 2004; based upon weighted average common shares outstanding of 163,613,560 and 91,474,828 during the periods ending December 31, 2005 and 2004, respectively.

Although it is difficult to predict the exact timing of additional material deployments of its TV+ product, the Company believes that significant revenue is not expected until the of fiscal year 2007, which along with any upturn of spending in the telephone industry, will also increase sales and improve the Company's operating margins and provide the Company with the opportunity to attain profitability sometime in fiscal year 2008.

The Outlook for the Company's Flagship Product

The Company believes significant deployments and resultant revenues of its Flagship product the TV+ IPTV solution are not expected until fiscal year 2007, which, if accompanied by a material upturn in spending in the telephone industry could lead to increased sales and improve the Company's margins and provide the Company with the opportunity to become profitable.

Research and Development Activities

mPhase throughout its history has outsourced its research and development activity with respect to its IPTV solution as well as its POTS splitter products. GTARC has conducted a significant amount of research and development for mPhase pursuant to a research agreement comprised of a series of delivery orders, which outline the timing, necessary actions and form of payment for specific tasks related to the completion of certain components of the DVDDS legacy product. Microphase has performed research and development for mPhase with respect to certain component DSL products such as the iPOTS products, low pass filters and POTS Splitters and the legacy DVDDS product. Most recently, mPhase has engaged Lucent for development of Release 3.0 of its TV+ product and for development of two new products using the science of nanotechnology.

For the years ended June 30, 2005, 2004 and 2003 approximately $5,127,438, $4,069,721 and $3,538,305, respectively, has been billed to mPhase for research and development conducted by Lucent Technologies, Inc, Microphase Corporation and GTARC. With the completion of the DVDDS legacy product, the Company has shifted its research and development from GTARC to Lucent Technologies Inc. The Company has recently expanded its research and development efforts with Lucent Technologies to the NanoTechnology business segment. The Company incurred research and development expenses with Lucent for fiscal years ended June 30, 2005 June 30, 2004, June 30, 2003 of $3,319,280, $2,328,602, and $1,112,500, respectively.

Strategic Alliances Implemented

The Company has entered into a Co-Branding Agreement with Lucent for its redesigned cost reduced INI set top box as part of its TV+ product solution. In addition, pursuant to a Systems Integration Agreement with Lucent, the Company has been designated as the exclusive worldwide reseller of the Lucent Stinger when bundled as part of the mPhase TV+ product.

Critical Accounting Policies

Revenue Recognition

All revenue included in the accompanying consolidated statements of operations for all periods presented relates to sales of mPhase's POTS Splitter Shelves and DSL component products.

As required, mPhase has adopted the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", which provides guidelines on applying generally accepted accounting principals to revenue recognition based upon the interpretations and practices of the SEC. The Company recognizes revenue for its POTS Splitter Shelf and other DSL component products at the time of shipment, at which time; no other significant obligations of the Company exist, other than normal warranty support.

Research and Development

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

Income Taxes

mPhase accounts for income taxes using the asset and liability method in accordance with SFAS No.109 "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are measured using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations in the period that includes the enactment date. Because of the uncertainty as to their future realizability, net deferred tax assets, consisting primarily of net operating loss carryforwards, have been fully reserved for. Accordingly, no income tax benefit for the net operating loss has been recorded in the accompanying financial statements.

Utilization of net operating losses generated through September 30, 2005 may be limited due to "changes in control" of our common stock that occurred.

Stock-based Compensation

Financial Accounting Statement No. 123, Accounting for Stock Based Compensation, encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. For the periods prior to October 1, 2005, the Company had chosen to continue to account for stock-based compensation for grants to employees using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for

stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The Company had adopted the "disclosure only" alternative described in SFAS 123 and SFAS 148, which require pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied.

On October 1, 2005, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 123R, "Share-Based Payment" (SFAS 123R). SFAS 123R revised SFAS 123, "Accounting for Stock Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires companies to measure and recognize compensation expense for all employee stock-based payments at fair value over the service period underlying the arrangement. Therefore, the Company is now required to record the grant-date fair value of its stock-based payments (i.e., stock options and other equity-based compensation) in the statement of operations, The Company adopted FAS 123R using the "modified prospective" method, whereby fair value of all perviously-granted employee stock-based arrangements that remained unvested at October 1, 2005 and all grants made on or after October 1, 2005 have been included in the Company's determination of stock-based compensation expense for the three months ended December 31, 2005. The Company has not restated its operating results for the three months ended December 31, 2004 to reflect charges for the fair value of employee stock-based arrangements.

The Company accounts for non-employee stock based awards in which goods or services are the consideration received for the equity instruments issued based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more readily determinable.

Inventory Reserve and Valuation Allowance

The Company carries its inventory at the lower of cost, determined on a first-in, first-out basis, or market. Inventory consists mainly of the Company's POTS Splitter Shelf and Filters. In determining the lower of cost or market, the Company periodically reviews and estimates a valuation allowance to reserve for technical obsolescence and marketability. The allowance represents management's assessment and reserve for the technical obsolescence based upon the inter-operability of its component products, primarily filters and splitters, with presently deployed and next generation DSL infrastructures as well as a reserve for marketability based upon current prices and the overall demand for the individual inventory items. Material changes in either the technical standards of future DSL deployments or further erosion in the demand for deployments of DSL infrastructures could affect the estimates and assumptions resulting in the amounts reported. The allowance represents management's assessment and reserve for the technical obsolescence based upon the inter-operability of its component products, primarily filters and splitters, with presently deployed and next generation DSL infrastructures as well as a reserve for marketability based upon current prices and the overall demand for the individual inventory items. Material changes in either the technical standards of future DSL deployments or further erosion in the demand for deployments of DSL infrastructures could affect the estimates and assumptions resulting in the amounts reported. The allowance is estimated as the difference between inventory at historical cost, on a first in first out basis, and market based upon assumptions about future demand, current prices and product liability, and charged to the provision for inventory, which is a component of cost of sales. At the point the historical cost is adjusted, a lower cost-basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

During the fiscal years ended June 30, 2005, 2004 and 2003, the Company reserved approximately $183,000, $98,000, and approximately $302,000, respectively, for technical obsolescence and marketability based upon current prices and overall demand and charged a like amount to expense, representing 23.7% of average inventory, at cost, or approximately $864,057 on hand during the period in fiscal year 2005, representing 5.9% of average inventory, at cost, of approximately $1,671,000 on hand during the period in fiscal 2004; and 8.4% of average inventory, at cost, of approximately $3,588,000 on hand during the period in fiscal 2003. As of June 30, 2005, the Company recorded a cost adjustment of approximately $49,300 recognizing permanent cost reductions due to price adjustments and further reduced the reserve for reductions due to obsolescence resulting from a lack of inter-operability of certain components in inventory with the Company's present product line approximating $250,000. As a result on June 30, 2005 the Company had a total inventory valuation reserve of $205,642 against its inventory with a total balance, at cost, of $695,785, or 29.5%. If there was to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory allowances and our gross margins could be adversely affected.

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 product components and finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited. Directors that are significant shareholders of Janifast Limited include Messrs Ronald A. Durando, Gustave T. Dotoli, and Necdet F. Ergul.

Mr. Abraham Biderman is a Managing Director or Eagle Advisers, an investment banking firm, which has earned finder's fees and reimbursement expense of $633,000 and $6,117,000 during the 12 months ended June 30, 2005 and $312,067 in connection with raising approximately $3,120,670 for the six month period ended December 31, 2005.

Mr. Biderman, and Mr. Anthony Guerino own a relatively small amount of stock, warrants and options in mPhase Technologies, Inc..

Mr. Durando, the President and CEO of mPhase, owns a controlling interest and is a director and COO of Janifast Limited. Mr. Durando and Mr. Dotoli are also officers of Microphase Corporation. Mr. Dotoli is also a shareholder of Janifast Limited. Mr. Ergul, the chairman of the board of mPhase, owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited. Microphase, Janifast, Hart Telephone and Lintel Corporation are significant shareholders of mPhase. Microphase, Janifast and Hart Telephone converted significant liabilities to equity in fiscal years 2001, 2002, 2003 and in the current fiscal year. Management believes the amounts charged to the Company by Microphase, Janifast, mPhase Television.Net and Hart Telephone are commensurate to amounts that would be incurred if outside parties were used. The Company believes Microphase, Janifast and Hart Telephone have the ability to fulfill their obligations to the Company without further support from the Company.

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

On July 25, 2005, Mr. Smiley extended his 12% Promissory Note for $100,000 for an additional year.

During August of 2005 Mr. Dotoli and Mr. Smiley, the COO and CFO and General Counsel of the Company respectively, each lent the Company $75,000. Mr. Dotoli was repaid the principal amount of such loan, in cash, in January of 2005 and Mr. Smiley converted his $75,000 loan into 375,000 shares of common stock of the Company plus a 5 year warrant to purchase a like amount of shares at $.25 per share. In January of 2005, Mr. Smiley received 425,000 shares of common stock of the Company as additional compensation for services performed. In June of 2005 Mr. Smiley converted his $100,0000 12% Promissory Note plus accrued interest into 520,000 shares of common stock plus a 5 year warrant to purchase 520,0000 shares of common stock at $.25 per share. In addition, Mr. Smiley converted $9,975 of accrued interest into 49,875 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share. Finally Mr. Smiley received 25,000 additional shares of common stock as a market adjustment to his equity investment of $25,000 on August 30, 2004. Mr. Dotoli cancelled $3,750 of accrued and unpaid interest from August 15, 2004 through January 15, 2005 into 375,000 shares of common stock pursuant to the terms of a portion of a warrant that was exercised at $.01 per share previously given by the Company to Mr. Dotoli in exchange for and cancellation of unpaid compensation.

During the six month period ended December 31, 2005 Mr. Durando, Mr. Dotoli and Mr. Smiley advanced $50,000, $100,000 and $150,000 respectively in the form of Bridge Loans to the Company. Mr. Durando and Mr. Smiley s loans were repaid in full without any interest and Mr. Detail s loan was repaid, in full, with 12% accrued interest during the third quarter of fiscal year 2006.. In addition as of December 31, 2005 officers of the Company were owed $167,000 in the aggregate in unpaid salary.

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

Charges and Expenses with Related Parties					
	For the Years Ended June 30,				
	2001	2002	2003	2004	2005
Charges incurred with Janifast Ltd. included in:					
Cost of sales and ending inventory	$8,932,378	$1,759,308	$178,959	$2,771,925	$1,536,494
Total Janifast	$8,932,378	$1,759,308	$178,959	$2,771,925	$1,536,494
Charges incurred with Microphase Corp. included in:					
Cost of sales and ending inventory (Including Royalties)	$335,777	$200,440	$86,468	$140,123	$94.740
Research and development	1,660,606	876,074	428,434	84,494	60,000
General and administrative	132,600	136,080	133,200	231,068	304,030
Total Microphase Corp.	$2,128,983	$1,212,594	$648,102	$455,685	$458,770
Charges incurred with Lintel & Affiliates included in:					
Research and development	$192,000	$0	$0	$0	$0
General and administrative	285,000	0	0	0	0
Total Lintel & Affiliates	$477,000	$0	$0	$0	$0
Charges incurred with Joint Venture Partners & Affiliates included in:					
Research and development	$949,420	$64,039	$0	$0	$0
General and administrative	60,000	0	0	0	0

Total Joint Venture Partner & Affiliates	$1,009,420	$64,039	$0	$0	$0
Total Charges with Related Parties included in:					
Cost of sales and ending inventory	$9,268,155	$1,959,748	$265,427	$2,912,048	$1,631,234
Research and development	2,802,026	940,113	428,434	84,494	60,000
General and administrative	477,600	136,080	133,200	231,068	304,030
Total Charges with Related Parties	$12,547,781	$3,035,941	$827,061	$3,227,610	$1,995,264

Included in Cost of Sales in the Consolidated Statements of Operations (including changes in inventory)	Year ended June 30, 2001	2002	2003	2004	2005
Janifast Ltd.	$3,634,783	$1,512,311	$935,137	$3,507,476	$1,275,960
Microphase (including royalties)	$1,589,422	$661,305	$408,918	$140,123	$94,740
Total Related Party Expenses Included In Cost of Sales	$5,224,205	$2,173,616	$1,344,055	$3,647,599	$1,370,700

Charges and Expenses with Related Parties

	(Unaudited) Six months ended December 31, 2004	2005
Charges incurred with Janifast Ltd. included in:		
Cost of sales and ending inventory	398,715	544,449
Total Janifast Ltd.	398,715	544,449
Charges incurred with Microphase Corp. included in:		
Cost of sales and ending inventory (Including Royalties)	11,784	106,409
Research and development	41,000	109,898
General and administrative	147,213	69,855
Total Microphase Corp.	199,997	286,162
Total Charges with Related Parties	598,712	830,611

Included in Cost of Sales in the Consolidated Statements of Operations (including changes in inventory)	(Unaudited) Six months ended December 31, 2004	2005
Janifast Ltd.	$299,350	$270,879
Microphase (including royalties)	$16,410	$16,409
Total Related Party Expenses Included In Cost of Sales	$315,760	$287,288

Liquidity and Capital Resources

From inception (October 2, 1996) through December 31, 2005 and June 30, 2005 the Company has incurred cumulative (a) development stage losses and has an accumulated deficit of $138,403,461 and $127,009,407 respectively and (b) negative cash flow from operations of $61,004,109 and $55,638,706 respectively. The auditors report for the fiscal year ended June 30, 2005 includes the statement that there is substantial doubt of the Company's ability to continue as a going concern". Management estimates that the Company needs to raise approximately $5-10 million during the next 12 months to continue operations. As of December 31, 2005, June 30, 2005,and June 30, 2004, the

Company had a negative net worth of $1,354,185, $1,617,735 and $2,917,962 respectively.

At June 30, 2005 mPhase had working capital deficit of $1,674,419 as compared to a working capital deficit of $2,111,425 at June 30, 2004. Through June 30, 2005, the Company had incurred development stage losses totaling $127,009,407. At June 30, 2005, the Company had $351,185 of cash and cash equivalents and $533,841 of net accounts receivables to fund short-term working capital requirements. At December 31, 2005 mPhase had working capital deficit of $1,455,755 as compared to working capital deficit of $1,674,419 at June 30, 2005. At December 31, 2005, the Company had approximately $1,172,757 of cash, cash equivalents and approximately $158,594 of trade receivables to fund short-term working capital requirements. The Company's ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near term to: (1) satisfy its current obligations, (2) continue its research and development efforts, and (3) the successful wide scale development, deployment and marketing of its products.

Historically, mPhase has funded its operations and capital expenditures primarily through private placements of common stock and warrants. Management expects that its ongoing financial needs will be provided by financing activities and believes that the sales of its line of POTS Splitter products and other related DSL component products will provide some offset to cash flow used in operations, although there can be no assurance as to the level and growth rate of such sales in future periods as seen with quarter to quarter fluctuations in component sales. At June 30, 2005, the Company had cash and cash equivalents of $351,185 compared to $90,045 at June 30, 2004. At June 30, 2005 net accounts receivable were $533,841 and net inventory of $490,142. This compared to $64,100 of net accounts receivable and $1,237,972 of net inventory at June 30, 2004. At December 31, 2005, the Company had cash and cash equivalents of $1,172,757 compared to $351,185 at June 30, 2005. At December 31, 2005 the Company had accounts receivable of $158,594 and inventory of $447,943. This compared to $533,841 of accounts receivable and $490,142 of inventory at June 30, 2005.

Cash used in operating activities was $5,365,403 during the six months ending December 31, 2005. The cash used by operating activities principally consists of the net loss, and significant changes in assets and liabilities, including additional cash in the amount of $ 297,248 provided by increasing accounts payable offset slightly by a reduction of accrued expenses plus depreciation and amortization of $84,669, and by non-cash charges of $1,351,125 for common stock options and warrants issued for services and offset by cash outflow from an increase in inventory of approximately $42,199. The Company expects that it will not have a need to increase inventory significantly until the roll out of our TV+ platform although it does expect additional cash expenditures of up to $1,000,000 in connection with the set up of free equipment trials of the TV+ solution for a number of telecommunications service providers in Russia during the second half of fiscal year 2006.

The Company has entered into various agreements with GTARC, pursuant to which the Company receives technical assistance in developing the Digital Video and Data Delivery System. The Company has incurred expenses in connection with technical assistance from GTARC totaling approximately $0 and $0, for the six month periods ended December 31, 2005 and 2004, respectively, and $13,539,932 from the period from inception through December 31 2005.

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

Effective June 30, 2001 the Company converted $2,420,039 of liabilities due to directors and related parties into 4,840,077 shares of the Company's common stock pursuant to debt conversion agreements.

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

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

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

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

During the six months ended December 31, 2005 certain strategic vendors and related parties converted approximately $590,000 of accounts payable and accrued expenses into 3,336,864 shares of the Company's common stock and warrants to purchase 3,277,778 shares of common stock of mPhase.

As of December 31, 2005, mPhase is obligated to pay Lucent Technologies, Inc., the sum of $313,600 in 2 payments of $156,800 each against project milestones under its current Development Agreement for development of Version 3.0 of its TV+ product In addition, the Company is obligated to make payments of $100,000 per month through February 1, 2006 under a separate Development Agreement with Lucent covering development of its new battery developed through the science of NanoTechnology.

The Company also has 3 remaining payments of $100,000 per month as of December 31, 2005 through March of 2006 with the expansion of its research and development efforts with Lucent Technologies Inc in the science of Nanotechnology entering of a second Research and

Development Agreement in March of 2005 to develop a Magnetometer product through the science of Nanotechnology.

The Company is currently negotiating with Bell Labs division of Lucent Technologies, Inc. to extend its Development Agreements described above for the TV+ solution and both the Magnetometer and power cell Nanotechnology product lines.

In order to broaden and diversify its current line of business into additional high growth technology areas, the Company had previously renewed in February of 2005 its Development Agreement, originally executed in February 3, 2004, with the Bell labs division of Lucent Technologies, Inc. to commercialize the use of nano power cell technology. Under the terms of the $1.2 million contract, Lucent/ Bell Labs will develop for mPhase micro-power source arrays fabricated using nanotextured, superhydrophobic materials. This new business arrangement with Lucent Bell Labs will give mPhase the opportunity to develop and offer breakthrough battery technology applications, initially to government market segments including defense and homeland security, and ultimately to the commercial market. The initial applications for the nano power cell technology will address the need to supply emergency and reserved power to a wide range of electronic devices for the defense department.

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

				For the Six Months Ended December 31, (Unaudited)	
	For the Years Ended June 30,				
Equity Conversions of Debt With Related Parties and Strategic Vendors	**2003**	**2004**	**2005**	**2004**	**2005**
Related Party Conversions					
Number of shares	**5,533,333**	**--**	**3,259,879**	2,689,875	3,000,000
Number of warrants	**3,491,800**	**--**	**3,259,879**	2,689,875	3,000,000
Amount converted to equity	**$1,760,967**	**$--**	**$651,976**	$527,975	$540,000
Strategic Vendor Conversions					
Number of shares	**390,000**	**110,467**	**635,296**	100,000	331,864
Number of warrants	**215,000**	**5,069,242**	**1,356,696**	700,000	277,778
Amount converted to equity	**$198,032**	**$1,963,202**	**$926,894**	$20,000	$50,000
Total Related Party and Strategic Party Conversions					
Number of shares	**5,923,333**	**110,467**	**3,895,171**	2,789,875	3,336,864
Number of warrants	**3,706,800**	**5,069,242**	**4,616,571**	3,389,875	3,277,778
Amount converted to equity	**$1,958,999**	**$1,963,202**	**$1,078,869**	$697,975	$590,000
Gain (Loss) on Extinguishment of Debt	**$61,226**	**$150,058**	**$418,696**	$(40,500)	$30,608

Effective March 10, 2005, the Company entered into a Development Agreement with Lucent Technologies, representing a total obligation of $1.2 million payable in 12 monthly installments of $100,000 each through March of 2006 for development of an ultra cool magnetometer sensor utilizing the science of nanotechnolgy.

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

Effective February 3, 2004, the Company became obligated to pay a total of $1.2 million to Lucent Technologies Inc. under a new Development Agreement in installments of $100,000 per month for a period of 12 months to develop a micro power source array using nanotextured superhydrophobic materials This Agreement was extended in February of 2005 for an additional 12 months for a total of $1.2 million to Lucent Technologies, Inc. payable in installments of $100,000 per month.

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

Effective February 18, 2004 of fiscal year ended June 30, 2004, GTRC agreed to convert approximately $1.8 million of aggregate invoices for work performed for the Company in development of its TraverserDVDDS product into a 5 year cashless warrant to purchase5,069,200 shares of the Company's common stock or stock valued at $.35 per share.

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

We have evaluated our cash requirements for fiscal year 2006 and beyond based upon certain assumptions, including our ability to raise additional working capital from equity financing and increased sales of our POTS Splitter. The Company anticipated that it would need to raise, at a minimum, approximately $5-10 million primarily in private placement of its common stock with accredited investors, in the next year. As of December 31, 2005, the Company has raised in the current fiscal year approximately $5,180,000 through the issuance of 27,706,310 shares of common stock plus warrants to purchase 27,706,310 shares of common stock at strike prices ranging from $.17 to $.30.

Management believes that the $ 7.734 million raised through March 18, 2006, in new Private Placements in the capital markets, will be sufficient to cover its current operating expenses and permit the Company to maintain its present operational levels through fiscal year 2006. This amount may be supplemented with additional funds that could be received from investors, including selling shareholders' listed in this prospectus, currently holding warrants to purchase up to a total of approximately 108 million shares of common stock at exercise prices of $.17-$.30 per share which may trade "in the money" and can be exercised during the next 12 months; the likelihood and potential for which may increase should this prospectus become effective and should the price of the Company's common stock rise.

Should these cash flows from potential warrant exercises not be available to us, we believe we would have the ability to revise our operating plan and make certain further reductions in expenses, so that our resources which were available at June 30, 2005, plus financing secured during fiscal year 2006, and expected POTS splitter revenues, will be sufficient to meet our obligations until the end of fiscal year 2006. We have continued to experience operating losses and negative cash flows. To date, we have funded our operations with a combination of component sales, debt conversions with related parties and strategic vendors, and private equity offerings. Management believes that we will be able to secure the necessary financing in the short-term to fund our operations into our next fiscal year. However, failure to raise additional funds, or generate significant cash flows through revenues, could have a material adverse effect on our ability to achieve our intended business objectives.

Additionally, the November 2005 private placement was closed out in March of 2006 with the placement of 30,799,381 equity units at $.18 consisting of one share of common stock plus a 5 year warrant for a like amount of shares with a strike price of $.18 generating proceeds of $5,400,000.

In order to encourage participation in the current private placement and the exercise of other warrants previously issued to certain investors that had participated in prior private placements with the Company at higher prices, the Company offered to reduce the price of certain outstanding warrants to $.18, to issue a replacement of 5 year warrant with a strike price of $.20 for an amount of shares equal to the amount exercised. The foregoing generated additional net proceeds of $2,199,750 to the Company.

As of December 31, 2005, the Company issued qualified stock options to its employees and non-qualified stock options to employees and consultants having a total aggregate value of $1,310,625. In addition, in January of 2006, the Company issued 9,500,000 shares of common stock valued at $1,995,000 to employees, directors and consultants plus qualified and non-qualified stock options for 11,512,500 having an aggregate value of $1,585,075.

The Company is focusing upon a dual strategy of maximizing sales from its new cutting edge products and continued development of its TV+ and Nanotechnology products to achieve maximum returns to its shareholders as a high growth technology enterprise.

On February 28, 2005, the Company announced that it will collaborate with Rutgers, the State University of New Jersey, on broadening of its nanotechnology based battery to include chemistries such as Lithium as well as the Zinc and Manganese Dioxide chemistries that it is developing through the Bell Labs division of Lucent Technologies Inc. The agreement with Rutgers is contingent upon obtaining federal and state funding for the project.

BUSINESS

Overview

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

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

Outsourcing

The Company practices an outsourcing model whereby it contracts with third party vendors to perform certain functions rather than performing those functions internally. For instance, mPhase out sources its research of both its TV+ product and exploratory research of micro electro mechanical systems development and its exploratory development of power source array fabrication using nanotextured superhydrophobic materials to the Bell Labs division of Lucent Technologies Inc.. It also out sources analog engineering development and certain administrative functions to Microphase Corporation and manufacturing of its POTS Splitter product to Janifast Ltd.

We currently have no contracts in place for the manufacturing of our products with either Microphase Corporation or Janifast Ltd. or any other non-affiliated third party manufacturers. We periodically execute purchase orders for the manufacture of quantities of POTS Splitters that are made by Janifast Ltd.

With respect to manufacturing of its IPTV TV+ solution, mPhase is targeting leading contract manufacturing companies with strategically located facilities globally with which it can establish long-term relationships. By using contract manufacturers, mPhase will attempt to avoid the substantial capital investments required for internal production. Janifast Ltd. has produced and delivered 1000 set top boxes to a major Russian telecommunication service provider in connection with the initial deployment of the Company's TV+ solution.

The Company has entered into various Project Development Agreements with Lucent Technologies, Inc in fiscal years 2004 and 2005 described above, as well as other significant agreements that include a Co-Branding Agreement, dated as of January 21, 2003, allowing the Company to add the Lucent name and Logo to its cost-reduced INI set top box for use with its TV+ products. Such agreement is for an initial period of one year and is subject to renewal on an annual basis by mutual consent. In addition, the Company has entered into a Systems Integrator Agreement, dated as of April 4, 2003 designating the Company as a reseller of the Lucent Stinger DSL transport product when bundled as part of the mPhase TV+ platform globally. Such agreement gives mPhase the exclusive right to sell the TV+ product worldwide containing the Lucent Stinger as the DSL transport mechanism for delivering broadcast television, high speed data and voice over copper telephone wires. In order to qualify for such status, as an accredited reseller, Lucent Technologies, Inc. determined that the Company's TV+ solution added significant value to the Stinger DSL product by enabling such product to deliver broadcast television using internet protocol in addition to the Stinger's well known existing world-class capabilities for the delivery of voice and high-speed data over copper telephone lines. Such agreement is for an initial two year term provided that either party may cancel such agreement with 60 days' notice to the other party.

As a member of the Lucent Business Partner organization, mPhase is able to leverage established relationships with an existing Stinger customer base without having to expand its sales force. To date there are approximately 4 million ports of the Stinger deployed around the world some of which may represent potential future deployments and upgrades for the IPTV TV+ solution. mPhase and the Lucent Global Business Partners group are also targeting other Business partners in markets where there currently is a lack of cable television infrastructure.

mPhase also develops and designs component DSL products including Plain Old Telephone Service Splitters (POTS Splitters) and low pass filters. Since its inception in 1996, virtually all of mPhase's sales revenue has been derived from the sales of POTS Splitters and other DSL component products. mPhase's product line also includes its intelligent line of POTS Splitter product known as the Broadband Loop Watch. This is a device which allows telecommunications service providers to perform DSL loop qualification from a central office without having to deploy workers to the field.

Industry Background

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

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

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

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

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

Our IP Television Solution

mPhase markets and sells its innovative IPTV delivery middleware/software as part of its TV+ solutions and is developing a next generation set top box as an additional component of such solution and as a stand alone product. The Company has refocused its efforts on IPTV software/middleware based upon carrier class open standards from its original development of delivery of TV as part of broadband DSL proprietary hardware our flagship product line is our TV+ solution enabling the delivery of IP TV, voice and high-speed interned over any type of infrastructure of a telecommunications service provider. mPhase has developed its TV+ solution with a specific target in mind, namely, telephone companies in parts of the world where access to multi-channel television is limited, as well as domestic, rural telephone operators.

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

The DVDDS was originally installed at Hart Telephone Company in Hartwell, Georgia. as part of a beta trial of over 80 customers. Another DVDDS system is installed at the BMW manufacturing plant in Spartanburg, South Carolina for use as a closed television system in a commercial setting.

As of December 30, 2005. the Company is testing for deployment in Russia, its IPTV solution or Release 3.0 of its TV+ solution.. Over the years, the Company has spent over $30 million on research and development culminating in the IPTV product and believes it has significant experience and market knowledge in the field as a result of over 7 years of development efforts, changing market conditions and new technology developments in connection with Internet Protocol delivery of video.

Bell Labs and mPhase initially commenced research on the TV+ solution in December of 2002 as a compliment to and enhancement of the software and set top boxes needed to delivery television over DSL using the Lucent Stinger DSLAM. Bell Labs had previously been working in a contract engineering capacity helping mPhase to cost-reduce its digital set top box.

The two companies elected to team and create what we believe to be the most reliable, scaleable and cost-effective system for the delivery of television services over copper telephone wires. This collaborative platform combines the data centric strengths of Lucent's Stinger with the TV-centric strengths of mPhase's Traverser™ resulting in a best of breed solution. For mPhase, the TV+ Solution marks a shift in strategy from selling a complete, proprietary platform to providing an industry-standard, modular solution. This joint approach offered a number of advantages. For instance, by utilizing the Lucent Stinger for transport, mPhase's mPhaseTV+ platform can capitalize upon the proven, extremely robust and cost effective method of supporting and delivering data combined with the Traverser's method of supporting video.

Releases 1.0 and 2.0 of the TV+ solution were designed as ATM (asynchronous transfer mode) solutions then targeted to the traditional reliability and use of such protocol by the majority of telecommunications service providers. Release 3.0 of the TV+ solution marks the final evolution of the IP based solution ideally suited for large-scale deployments, and in parts of the world that cannot afford the cost of upgrading to cable infrastructure.

NanoTechnology

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

Business Development, Organization, and Acquisition Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In November of 2004, mPhase announced the selection by Lucent Russia to deploy 1,000 ports of mPhase's TV+ solution to a telecom services company in the far eastern region of Russia that is one of 7 regional mega communications service providers. In addition the Company announced that it had received an initial order of $1 million for its IPOT3 product renamed as the Broadband Loop Watch from Lucent Saudi Arabia. Due to certain delays in delivery and deployment, such contract is currently in the process of being renegotiated.

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

Our revenue, historically, has been derived from sales of component telephone equipment parts, the majority of which has come from our sales of POTS Splitter Shelves. In our fiscal years ended June 30, 2003, June 30, 2004 and 2005 respectively, we generated approximately $2.6 million, $4.8 million and $1,711,085 in revenue and $548,802 in revenue for the six months ended December 31, 2006, respectively, and losses of $6,649,011, $7,797,469 and $11,504,944 respectively from the commercial sale of our component products. Our other component products, including Filters and Central Office POTS Filter Shelves, are marketed to other DSL equipment vendors. We do not believe that the sales of our TV+ feature product will be materially impaired by the sale of these component products to these potential competitors.

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

Our Products & Services

To date mPhase's revenue has been derived almost exclusively from sales of DSL component telephone equipment parts, the majority of which has come from our sales of POTS Splitter Shelves. In November of 2004 we received our first order for 1000 ports of our TV+ solution from a major telecommunications service provider in Russia and are currently deploying with such telecommunications provider such ports. In addition, we are in renegotiations with Lucent Saudi Arabia for deployment of our Broadband Loop watch Product.

mPhase supplies the telecommunications industry with products designed to enable, enhance or support broadband DSL services. mPhase's line of TV-over-DSL products include Versions 1.0 and 2.0 of its TV+ Platform with Version 3.0 of its TV+ product. Additionally, mPhase markets a line of DSL component products ranging from commodity items such as traditional POTS Splitters and microfilters to higher-end, feature-rich products such as the recently introduced Intelligent POTS Splitter.

Traverser DVDDS

mPhase's legacy television-over-DSL System is the Traverser DVDDS. This system is a patented end-to-end solution enabling the delivery of digital broadcast television, high speed data services, and traditional voice services over a pair of copper telephone wires. It has been recently replaced by the mPhase TV+ solution.

History of the IPTV+ Solution

mPhase and Bell Labs Lucent Technologies have teamed together to create an industry-standard, high quality and cost effective television over DSL platform known as the mPhaseTV+ solution. Releases 1.0 and 2.1 of this solution consists of three key elements:

The mPhase BTS (broadcast television switch) layer interfacing the video headend and the DSLAM;

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

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

This hybrid, collaborative platform capitalizes upon the strengths of both Lucent's and mPhase's technology. The BTS embodies the same video networking intelligence as the Traverser DVDDS. However, when combined with the proven, robust Stinger, which effectively and cost-effectively supports data, the end result is what we believe to be a best-of-breed, industry-standard solution.

The mPhase BTS resides between the DSLAM and the video headend and provides video networking intelligence that enables television services over DSL. The BTS is also responsible for video-related functionality such as demuxing and mapping MPEG-2 bitstreams, video subscriber management, video content management and billing management.

mPhase has developed, in conjunction with Bell Labs, a low cost, efficient and compact digital set top box with an integrated DSL Modem called the INI Version 400. Various versions of this device exist or are in development such as a standards-based product inoperable with the

Lucent Stinger as well as other manufactures' DSLAMs.

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

The Company expects to sell Release 3.0 or its IP(internet protocol) based TV+ platform to customers planning to support large scale deployments, delivering both high speed data and television services. Such system is designed for maximum flexibility cost effectiveness and highly scaleable for large deployments by telephone service providers and represents a shift of the Company's focus from hardware to software. Since most telecommunications providers require an IP rather than ATM mode for deploying digital broadcast television and video on demand, we believe that our Release 3.0 will supersede our earlier releases of the TV+ solution.

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

Component Parts Pots Splitter Shelves Intelligent Pots Splitter (iPots)

Although the Company has repositioned itself mainly as a software/middleware provider of IPTV solutions, mPhase also designs and markets a line of DSL component products ranging from commodity items such as carrier-class POTS splitters located at the central office as well as customer premises equipment splitters and filters located in the home. Recently, mPhase has introduced a line of innovative loop management products intended to lower the operational costs involved with supporting DSL services. The Broadband Loop Watch (intelligent POTS Splitter), product line marks a significant advancement in automating loop management by utilizing "intelligent functionality" thereby enabling testing of a telephone loop for DSL deployment without having to dispatch personnel to the field to manually perform such tests. This product reduces the operational costs of deploying and maintaining DSL services. The Broadband Loop Watch (originally named the *i*POTS*3)* is a significant advancement from the Company's original *i*POTS*1*, allowing service providers a 3-way view of the network and is compatible with DSLAM's of most vendors. The*i*POTS*1 was originally* designed for use only with the Lucent Stinger DSLAM.

Microfilters

We have developed a complete line of microfilters, including a 2 and 4 pole filter for use in single and multiphone households, as well as a network interface splitter.

Research and Development Activities

As of June 30, 2005, we had been billed approximately $13,539,952 for research and development conducted by Georgia Tech Research Institute (GTRC) in connection with the development, over 5 years of the legacy Traverser DVDDS system .On March 26, 1998, we entered into a license agreement with Georgia Tech which owns the Digital Video and Data System technology. GTRC and its affiliates have granted us the exclusive license to use and re-sell Traverser DVDDS worldwide. We are obligated to pay Georgia Tech royalties of up to 5% on future sales of the Traverser™ The license agreement expires automatically when the patents covering the invention expire.

The Company has paid Lucent Technologies, Inc, through December 31, 2005 a total of $3,721,902 for development of Versions 1.0 through Versions 3.0 its TV+ or IPTV solution which commenced as of September 15, 2002. In September of 2004, mPhase announced a new Project Development contract with the Bell Labs division of Lucent Technologies Inc to develop Release 3.0 of its TV+ platform as a new IP based system with an open standards-based architecture based upon a new "Soft Switch" software enabling the delivery of broadcast TV, high-speed internet and voice over fiber and copper. Such Agreement was extended in August of 2005 through December 31, 2005 and is currently in negotiations for another extension of 12 months. The Company is obligated to pay a total $398,257 primarily to Lucent Technologies Inc, Magpie Insiders, Inc., Espial, Latens and Velankani Software as of December 31, 2005 in remaining payments in order to complete Release 3.0 of the TV+ product.

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

Market

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

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

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

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

1.

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

2.

mPhase believes its business partnership with Lucent will help validate our products and result in greater sales.

3.

Version 3.0 of the TV+ solution is a market driven IP based solution and is a powerful software/middleware enabling tool providing complete standards-based flexibility for any combination of transport hardware including all major DSLAM's, set top boxes and other features necessary to optimize a solution by a telephone service provider for the delivery of broadcast television, voice and high-speed internet.

mPhase is currently targeting international incumbent telephone companies. The Company expects to derive the majority of its system sales abroad, specifically from telephone service providers in Russia and Turkey.

mPhase believes that foreign markets will adopt its IPTV solution more rapidly than domestic service providers since there is not generally intense competition from cable television. Therefore, the Company has placed much of its initial emphasis on targeting the international market.

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

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

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

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

Sales Strategy

IPTV

mPhase will pursue sales opportunities through a variety of channels, including direct sales by the Company's internal sales team, distributors and in conjunction with Lucent Technologies, Inc.

mPhase should be able to leverage the Lucent brand and the reputation of the Stinger as a highly scaleable and cost-effective transport medium. An example of this is found with respect to mPhase's initial deployment of 1000 ports of its TV+ solution to a major telephone service provider in Russia through Lucent Russia as an addition to the Lucent Stinger DSLAM.

In markets where Lucent is directly selling into accounts deemed to be strong potential markets, the two companies can collaborate their efforts to bring forth a compelling product solution.

Joint Venture Opportunities

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

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

DSL Component Products

mPhase continues to sell a line of DSL component products including: POTS Splitter Shelves, DSL Loop Diagnostic systems such as the Broadband Loop Watch product, in-line microfilters, Continuity Test Cards and Network Intelligent Device splitters. These products are essential components to any DSL installation, regardless of the DSL equipment vendor. The mPhase components are interoperable with Digital Subscriber Line Access Multiplexing equipment from a broad range of DSL manufacturers. Potential customers for the DSL component products include other DSL equipment manufacturers, re-sellers, network integrators and telecommunications service providers deploying DSL worldwide.

To date, mPhase has deployed over 250,000 POTS Splitter ports. The mPhase DSL component products are sold both by mPhase directly as well as through established distribution agreements.

The Company recognizes the depressed market conditions that began in 2001 that continue to pervade the telecommunications equipment industry. Although the Company experienced a rebound in the market in the first quarter sales of POTS Splitters during fiscal year ended June 30, 2004, it has continued to experience a general decline in such sales in each quarter thereafter through the remaining portion of the fiscal year ended June 30, 2005 and for the six months ended December 31, 2005. Sales through January, 2006 have continued to be weak.

We are continuously in discussions with various original equipment manufacturers of telecommunications equipment to identify opportunities for joint bids for infrastructure deployment with major domestic and international telecommunications service providers. We also continue to market our component products directly.

Intellectual Property, Patents and Licenses

The Company has entered into software development and licensing agreements with Magpie with respect to certain software used in connection with Release 3.0 of its TV+ product. Under such development and licensing Agreement the Company has made aggregate payments of approximately $320,000 as of April 21, 2005. In addition the Company will pay a licensing fee per set top box sold as part of the TV product. In the third quarter of fiscal year 2005, the Company entered into a second development agreement with Magpie calling for payments of approximately $430,000 in order to complete software development necessary for Release 3.0 of its TV+ solution. Such payments are payable monthly subject to completion of milestones.

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

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

The intellectual property owned and licensed by us falls into two general categories, analog and digital intellectual property. We have a pending patent application that was filed in June 1999 claiming priority to three provisional patent applications for the analog portion of our technology used in relation to the Traverser DVDDS platform.

Our DSL filter technology enables increased video clarity over copper wire, longer transmission distances and decreased signal error rate. The intellectual property related to the DSL filters includes:

low pass filter shelves and POTS Splitters, which combine the Traverser DSL spectrum from the traditional voice service; and

ADSL filters, which are filters that conform to the worldwide DSL standard and are utilized in the transmission of data and voice service at up to 8 Mbps. We believe that both of these components are key to providing a DSL signal at sufficient quality and service distances for combined video and data delivery.

We license our digital intellectual property. We also have an exclusive, worldwide license to manufacture and market products using the technology developed by Georgia Tech under our contract with them. The exclusive license with Georgia Tech is applicable for the duration of their patent protecting the system design and other technology related to the legacy Traverser DVDDS platform.

The licensed patented and patent-pending technology developed at Georgia Tech covers the capabilities of the Traverser DVDDS.

A patent for the System and Method for the Delivery of Digital Video and Data over a Communications Channel was issued on November 28, 2000 to the Georgia Tech Research Corporation. The Company is expected to maintain this patent in the United States and certain foreign countries.

On July 12, 2005, mPhase announced that it had been awarded a U.S. Patent for Signal Splitting Technology used in its new Broadband Loop Watch product.

We also have patents pending that protect:

The software management and control of the individual Traverser links, the DVDDS, and the channel changing methodology and interface to the electronic program guide at the customer site through the Intelligent Network Interface;

apparatus and methods of remote control of the Intelligent Network Interface; and,

systems and methods to provide subscribers means to playback previously recorded video content.

We purchase from GlobeSpan telecommunication rate adaptive DSL chipsets used in the Traverser DVDDS.

The Company has filed 7 patents that consist of a combination of (a) patents granted to mPhase from the bell labs division of Lucent Technologies, Inc. and (b) joint patents developed by mPhase and employees of bell labs with respect to the nanotechnology products currently under development.

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. If we are unable to maintain the proprietary nature of the Traverser technology, our future operations could be adversely affected.

With the migration of the Company's television delivery platform from the Traverser to the TV+ solution, the Company is currently reexamining the need to maintain the cost of patent protection with respect to the legacy Traverser product.

Regulation

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

Competition

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

Cable Television Network Operators

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

Direct Broadcast Satellite Services

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

Other IP TV Vendors

mPhase competes with both vendors of middleware and set top boxes. Companies that supply middleware for IPTV include a joint venture of Microsoft and Alcatel, Minerva, Orca Interactive, Siemens, VBrick Systems, and Video Furnance. Other set top box vendors for IP TV include Advanced Digital Broadcast, Amino Communications, i3 micro, Kreatel, Pace Micro Technology, Samsung, Telsey Telecommunication and VBrick Systems. IP end to end systems competitors include UTStarcom, mxWare and Industria. Lucent has recently established a partnership with Orca Interactive, a company located in Israel that makes software/middleware for the delivery of IPTV that is in direct competition with mPhase's IPTV product.

Differentiating Factors

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

Headend Equipment Providers

mPhase does not manufacturer digital head end gear. All customers interested in deploying an mPhase IP TV+ solution must build a digital headend to receive, digitize and groom the television signals. Through extensive lab and field testing, mPhase has established an approved vendor list of several headend providers.

Nanotechnology

The science of nanotechnology is very new and evolving. There has been significant venture capital fundings of start up companies during calendar year 2005-2006 focusing upon development of a wide range of potential products and applications. mPhase believes that its power cell and magnetometer products may be the earliest products commercialized using the science of nanotechnology. Nevertheless, the Company does not expect any material revenues from such product for 3 years.

Employees

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

Properties.

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

LEGAL PROCEEDINGS

The Company has recently been advised that, following an investigation by the staff of the Securities and Exchange Commission, the staff intends to recommend that the Commission file a civil injunctive action against Packetport, Inc. and its Officers and Directors. Such recommendation relates to alleged civil violations by Packetport and such Officers and Directors of various sections of the Federal Securities Laws. The staff has alleged civil violations of Sections 5 and 17(a) of the Securities Act of 1933 and Sections 10(b) and 13(d) of the Securities Exchanges Act of 1934. As noted in other public filings of mPhase, the CEO and COO of mPhase also serve as Directors and Officers of Packetport. Such persons have advised mPhase that they deny any violation of law on their part and intend to vigorously contest such recommendation. On November 15, 2005, the Commission filed a Civil Enforcement Action arising out of such investigation in Federal District Court in the District of Connecticut against. mPhase was not named in such civil action as a party defendant, however both the CEO and COO of the Company has been named as defendants. The Commission has alleged that such defendants have violated various sections of the Securities Act of 1933, as amended (the Securities Act), the Securities Exchange Act of 1934, as amended (the Exchange Act), including the anti-fraud provisions of Section 10 and Rule 10b-5 as well as Sections 17 of the Exchange Act and Section 5 of the Securities Act. In addition Microphase Corporation is also named as a defendant in the civil action in connection with its sale of the stock of Packeport.com in early 2000. All defendants to the suit continue to deny any wrongdoing and intend to vigorously defend all allegations contained in such action.

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

OUR MANAGEMENT

Executive Officers and Directors

Our officers and directors, and their ages, as of December 1, 2005, are as follows:

Name	Age	Position(s)
Necdet F. Ergul	**81**	**Chairman of the Board and Director**
Ronald A. Durando	**48**	**President, Chief Executive Officer And Director**
Gustave T. Dotoli (2)	**70**	**Chief Operating Officer and Director**
Martin S. Smiley	**58**	**Executive Vice President, Chief Financial Officer and General Counsel**
Outside Directors		
Anthony H. Guerino, Esq. (1)(2)	**58**	**Director**
Abraham Biderman (1)(2)	**58**	**Director**

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

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

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

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

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

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

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

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

Board Committees

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

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

Director Compensation

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

Executive Compensation

The following table sets forth, for the fiscal year ended June 30, 2005 and the two previous fiscal years, the compensation paid by us to, as well as any other compensation paid to or earned by, our Chief Executive Officer, and our four most highly compensated executive officers, other than the Chief Executive Officer, whose compensation during the fiscal year ended June 30, 2005 was greater than $100,000 for services rendered to us in all capacities during such year.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Securities Underlying Options/Sars (Shares)	Restricted Stock
Name And Principal Position	**Year**	**Salary**	**Bonus**	**Restricted Stock Award (Shares)**		
Ronald A. Durando(1)(2)	**2005**	**$305,000**	**-**	**-**	**-**	
Chief Executive Officer	**2004**	**$285,000**	**-**	**-**	**1,500,000**	
and President	**2003**	**$234,504**	**-**	**-**	**450,000**	
Gustave T. Dotoli(1)(2)	**2005**	**$215,000**	**-**	**-**	**-**	
Chief Operating Officer	**2003**	**$193,254**	**-**	**-**	**350,000**	
	2002	**$313,504**	**-**	**-**	**1,225,000**	
Martin S. Smiley (2)						
Executive VP, Chief	**2005**	**125,000**	**-**	**425,000**	**-**	
Financial Officer	**2004**	**103,958**	**-**	**-**	**-**	
& General Counsel	**2003**	**109,583**	**-**	**-**	**200,000**	
David Klimek (3)						
Chief Technical Officer	**2005**	**$86,950**	**-**	**-**	**50,000**	
	2004	**$89,062**	**-**	**-**	**100,000**	
	2003	**$90,958**	**-**	**-**	**75,000**	

1.

Does not include warrants to purchase 1,395,400 shares of common stock issued Mr. Durando and Warrants to purchase 1,096,400 of common stock of Mr. Dotoli respectively to cancel previously unpaid compensation. Such warrants relate to $234,362 and $35,000 of unpaid cash compensation to Mr. Durando for fiscal years 2002 and 2003 and $184,105 and $27,500 of unpaid cash compensation to Mr. Dotoli for fiscal years 2002 and 2003, respectively the amount of which is included as cash compensation in the above table.

2.

No individual named above received prerequisites or non-cash compensation during the years indicated which exceeded the lesser of $50,000 or an amount equal to 10% of such person's salary except for Mr. Smiley who in fiscal year 2005 received 425,000 shares of common stock valued at $136,000 in January of 2005. No other executive officer received compensation and bonuses that exceeded $100,000 during any year.

3.

Mr. Klimek declined to stand for reelection as a Director and Chief Technical Officer of the Company as of July 20, 2005, the date of the Company's most recent annual meeting.

Compensation of Directors

During fiscal year 2005 mPhase compensated each of the inside directors with Options to purchase 4,000,000 shares of common stock at a price of $.35 per share for services both as officers and directors. The outside directors were each compensated with Options to purchase 150,000 shares of common stock at $.35 per share. There was no cash stipend paid to any directors during the fiscal years 2004 and 2003.

STOCK OPTIONS

The following table contains information regarding options granted in the fiscal year ended June 30, 2005 to the executive officers named in the summary compensation table above. For the fiscal year ended June 30, 2005, mPhase granted options and compensatory warrants to acquire up to an aggregate of 7,775,000 shares to employees and directors.

OPTION GRANTS IN LAST FISCAL YEAR

(INDIVIDUAL GRANTS)

Name	Number of Securities Underlying Option/SARS	% of Total Option/SARS Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Market Price on Grant Dates	Expiration Dates	Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for

	Granted (#)					5 Year Option Term		
						0%	5%	10%
Ronald A. Durando	2,500,000	32%	$.35	$.31	2010	$0	$0	$67,750
Gustave T. Dotoli	1,500,000	19%	.35	.31	2010	0	0	$24,375
David Klimek	150,000	2%	.35	.31	2010	0	0	$3,750

The following table sets forth information with respect to the number and value of outstanding options held by executive officers named in the summary compensation table above at June 30, 2005. During the fiscal year ended June 30, 2004, no options were exercised. The value realized is the difference between the closing price on the date of exercise and the exercise price. The value of unexercised in-the-money options is based upon the difference between the closing price of mPhase's common stock on June 30, 2005, and the exercise price of the options.

STOCK OPTIONS

The following table sets forth information with respect to the n