KBR, INC.
Form 10-K
February 22, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2011

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number 1-33146

KBR, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-4536774**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

601 Jefferson Street Suite 3400

Houston, Texas 77002

(Address of principal executive offices)

Telephone Number Area code (713) 753-3011

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock par value $0.001 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting stock held by non-affiliates on June 30, 2011, was approximately $5.7 billion, determined using the closing price of shares of common stock on the New York Stock Exchange on that date of $37.69.

As of January 31, 2012, there were 148,026,670 shares of KBR, Inc. Common Stock, $0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the KBR, Inc. Company Proxy Statement for our 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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Forward-Looking and Cautionary Statements

This report contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward looking information. Some of the statements contained in this annual report are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The words believe, may, estimate, continue, anticipate, intend, plan, expect and similar expressions are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future financial performance and results of operations.

We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, factors that could cause actual future results to differ materially include the risks and uncertainties described under Risk Factors contained in Part I of this Annual Report on Form 10-K.

Many of these factors are beyond our ability to control or predict. Any of these factors, or a combination of these factors, could materially and adversely affect our future financial condition or results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially and adversely from those projected in the forward-looking statements. We caution against putting undue reliance on forward-looking statements or projecting any future results based on such statements or on present or prior earnings levels. In addition, each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statement.

PART I

Item 1. Business
General

KBR, Inc. and its subsidiaries (collectively, KBR) is a global engineering, construction and services company supporting the energy, hydrocarbons, government services, minerals, civil infrastructure , power, industrial and commercial markets. We offer a wide range of services through our Hydrocarbons, Infrastructure, Government and Power (IGP), Services and Other groups. Information regarding segment disclosures are incorporated by reference in Note 5 to our consolidated financial statements and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

KBR, Inc. was incorporated in Delaware on March 21, 2006 prior to an exchange offer transaction that separated us from our prior parent, Halliburton Company, which was completed on April 5, 2007. We trace our history and culture to two businesses, The M.W. Kellogg Company (Kellogg) and Brown & Root, Inc. (Brown & Root). Kellogg dates back to a pipe fabrication business which was founded in New York in 1901 and has been creating technology for petroleum refining and petrochemicals processing since 1919. Brown & Root was founded in Houston, Texas in 1919 and built the world s first offshore platform in 1947. Brown & Root was acquired by Halliburton in 1962 and Kellogg was acquired by Halliburton in 1998 through its merger with Dresser Industries.

Our Business Groups and Business Units

We operate in four business groups which are consistent with our segment reporting under Accounting Standards Codification (ASC) 280 Segment Reporting: Hydrocarbons; IGP; Services; and Other as described below.

Hydrocarbons. Our Hydrocarbons business group serves the Hydrocarbon industry by providing services ranging from prefeasibility studies to front-end engineering design (FEED), and construction to commissioning of process facilities in remote locations around the world. We are involved in hydrocarbon processing which includes constructing liquefied natural gas (LNG) plants in several countries. Our global teams of engineers also execute and provide solutions for projects in the oil and gas, olefins, refining, petrochemical, biofuels and carbon capture markets. The Hydrocarbons business group is comprised of the Gas Monetization, Oil & Gas, Downstream, and Technology business units.

Gas Monetization business unit Our Gas Monetization business unit designs and constructs facilities that enable our customers to monetize their natural gas resources. We design and build LNG and gas-to-liquids (GTL) facilities that allow for the economical development and transportation of resources across the globe. Additionally, we make significant contributions in gas processing development, equipment design and innovative construction methods.

Oil & Gas business unit Our Oil & Gas business unit delivers onshore and offshore oil and natural gas production facilities which include platforms, floating production and subsea facilities, and pipelines. We also provide specialty consulting services which include field development studies and planning, structural integrity management, and proprietary designs for ship and semi-submersible hulls.

Downstream business unit Our Downstream business unit serves clients in the petrochemical, refining, chemicals, biofuels and syngas markets throughout the world. We leverage our differentiated process technologies, but also execute projects and complexes using non-KBR technologies. Our success is based on delivering value over the lifecycle of projects in the hydrocarbon market.

Technology business unit Our Technology business unit offers highly efficient, differentiated proprietary process technologies for the coal monetization, petrochemical, refining and syngas markets. In addition to offering technology licenses, we partner with our Downstream business unit on project management and engineering, procurement and construction (EPC) projects to provide fully integrated solutions worldwide.

Infrastructure, Government & Power. Our IGP business group serves the Infrastructure, Government & Power industries delivering effective solutions to industrial commercial, defense and governmental agencies worldwide, providing base operations, facilities management, border security, EPC services, and logistics support. We also provide project management, construction management, design and support services for an array of complex infrastructure initiatives including aviation, road, rail, maritime, water, waste water, building, and pipeline projects. For the industrial manufacturing market, we provide a full range of pre-FEED, FEED and EPC services to a variety of heavy industrial and advanced manufacturing markets, frequently employing our clients proprietary knowledge and technologies in strategically critical projects. For the power

market, we use our full-scope EPC expertise to execute projects which play a distinctive role in increasing the world s power generation capacity from multiple fuel sources and in enhancing the efficiency and environmental compliance of existing power facilities. The IGP business group includes the North American Government and Logistics (NAGL *, formerly North American Government and Defense*), International Government, Defence and Support Services (IGDSS *, formerly International Government and Defence*), Infrastructure and Minerals (I&M), and the Power and Industrial (P&I) business units.

North American Government and Logistics business unit Our NAGL business unit offers operations, maintenance, and logistics support in both contingency and sustainment environments as well as construction and design or build services to the United States Department of Defense (DoD) and Department of State (DoS) and other federal government agencies.

International Government, Defence and Support Services business unit Our IGDSS business unit supports armed forces and government departments around the world by providing logistics and field support, operations and maintenance of camps and bases, program and project management, construction management, training, visualization software and engineering and support services. We provide services to government departments in the United Kingdom (U.K.), Europe, Middle East and Australia.

Infrastructure & Minerals business unit Our I&M business unit provides engineering, construction and project management services across the world on complex infrastructure projects. The I&M business unit provides global focus and leadership in four key markets mining & minerals; transport (aviation, ports, rail and roads); water; and facilities (includes buildings and pipelines.)

Power & Industrial business unit Our P&I business unit provides full-scope EPC services for the industrial and power markets globally. Within the Industrial product line, we serve clients in the forest products, manufacturing, technology, life sciences, consumer products, metals and materials sectors. Within the Power product line, we deliver fossil fuel and renewable power generation projects, plant re-powering projects and emissions control projects for customers that include regulated utilities, power cooperatives, municipalities, independent power producers and industrial cogeneration providers.

Services. Our Services business group delivers full-scope construction, construction management, fabrication, operations/ maintenance, commissioning/startup and turnaround expertise worldwide to a broad variety of markets including oil and gas, petrochemicals and hydrocarbon processing, oil sands, mining, power, alternate energy, pulp and paper, industrial and manufacturing, and consumer product industries. Specifically, Services is organized around four major product lines; U.S. Construction, Industrial Services, Building Group and Canada Operations.

Our U.S. Construction product line delivers direct hire construction and construction management for stand-alone construction projects to a variety of markets and works closely with the Hydrocarbons group and Power and Industrial business units to provide construction execution support on all domestic EPC projects.

Our Industrial Services product line is a diversified maintenance organization operating on a global basis providing maintenance, on-call construction, turnaround and specialty services to a variety of markets. This group works with our other business units to identify potential for pull through opportunities and to identify upcoming EPC projects at the 94 locations where we have embedded KBR personnel.

Our Building Group product line provides commercial general contractor services to education, food and beverage, manufacturing, health care, hospitality and entertainment, life science and technology, and mixed-use building clients.

Our Canada Operations product line is a diversified construction and fabrication operation providing direct hire construction, construction management, module assembly, fabrication and maintenance services to our Canadian customers. This product line serves a number of markets including oil and gas customers operating in the oil sands, pulp and paper, mining, and industrial markets.

Other. Included in Other is the Ventures business unit and other operations. The Ventures business unit invests KBR equity alongside clients equity in projects where one or more of KBR s other business units has a direct role in technology supply, engineering, construction, construction management or operations and maintenance. Project equity investments under current management include defense equipment and housing, toll roads and petrochemicals.

In addition to the Ventures business unit, other business operations are reported in our Other group including the Allstates staffing business acquired in the BE&K, Inc. (BE&K) acquisition in 2008, our engineering resource operations and other operations that do not individually meet the criteria for group presentation under ASC 280.

Our Business Strategy

Our business strategy is to create shareholder value by providing our customers differentiated capital project delivery and services offerings across the entire engineering, construction and operations project lifecycle as a vertically integrated global contractor. We execute our business strategy on a global scale delivering consistent, predictable results in all markets where we operate. An essential feature of our global strategy is to establish local operations in market geographies where demand for our services is expected to grow. Our core skills are conceptual design, FEED (front-end engineering design), engineering, project management, procurement, construction, construction management, logistics, commissioning, operations and maintenance. We will complement organic growth by pursuing targeted acquisitions that focus on expanding our capabilities and market coverage or accelerating business growth strategies. Key features of our business unit strategies include:

The Hydrocarbons business group will build on our world-class strength and experience with hydrocarbon processing projects and seek to expand our footprint in both offshore and onshore oil and gas services. Our business will grow by utilizing our leading technology and execution excellence to provide high value process facilities to customers. Our Technology business unit will expand its portfolio of differentiated process technologies and associated service, proprietary equipment and catalyst offerings and deliver through an expanded global platform.

The Infrastructure, Government & Power business group will broaden our commercial, government operations, EPC logistics, construction and maintenance services internationally. We will apply our design, project management and construction skills to infrastructure, industrial, mining, minerals and power markets utilizing the same global delivery platform already in place for Hydrocarbons. In 2012, we intend to report the Infrastructure and Minerals business units separately.

The Services business group will capitalize on our brand reputation and core competencies to expand our direct hire construction, general contracting and industrial services operations both domestically and internationally with focus on safe operations and high value predictable outcomes.

The Ventures business unit will invest alongside our clients in selected projects to both earn a return on our capital and secure capital projects for our business units to design, build and service.

Competition and Scope of Global Operations

We operate in highly competitive markets throughout the world. The principal methods of competition with respect to sales of our capital project and service offerings include:

- customer relationships;
- successful prior execution of large projects in difficult locations;
- technical excellence and differentiation;
- high value in delivered projects and services measured by performance, quality, operability and cost;
- service delivery, including the ability to deliver personnel, processes, systems and technology on an as needed, where needed and when needed basis with the required local content and presence;

- consistent superior service quality;
- market leading health, safety, and environmental standards and sustainable practices;
- financial strength through liquidity and capital capacity and the ability to support warranties;
- breadth of proprietary technology and technical sophistication; and
- robust risk awareness and management processes.

We conduct business in over 70 countries. Based on the location of services provided, our operations in countries other than the United States accounted for 78% of our consolidated revenue during 2011 and 79% of our consolidated revenue during both 2010 and 2009. Revenue from our operations in Iraq, primarily related to our work for the U.S. government, was 21% of our consolidated revenue in 2011, 29% of our consolidated revenue in 2010 and 35% of our consolidated revenue in 2009. See Note 5 to our consolidated financial statements for selected geographic information.

We market substantially all of our capital project and service offerings through our business units. We have many substantial competitors in the markets that we serve. The companies competing in the markets that we serve include but are not limited to AMEC, Bechtel Corporation, CH2M Hill Companies Ltd., Chicago Bridge and Iron Co., N.V., Chiyoda, Fluor Corporation, Foster Wheeler Ltd., Jacobs Engineering Group, Inc., JGC Corp, John Wood Group PLC, McDermott International, Petrofac PLC, Saipem S.PA., Shaw Group, Inc., Technip, URS Corporation, Aecom Technology Corporation and Worley Parsons Ltd. Since the markets for our services are vast and extends across multiple geographic regions, we cannot make a meaningful estimate of the total number of our competitors.

Our operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, civil unrest, force majeure, war or other armed conflict, expropriation or other governmental actions, inflation, exchange controls and currency fluctuations. We strive to manage or mitigate these risks through a variety of means including contract provisions, contingency planning, insurance schemes, hedging, and other risk management activities. Please read Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Instruments Market Risk, Risk Factors International and political events may adversely affect our operations, and Note 14 to our consolidated financial statements for information regarding our exposures to foreign currency fluctuations, risk concentration, and financial instruments used to manage our risks.

Recent Significant Acquisitions and Other Transactions

On December 31, 2010, we obtained control of the remaining 44.94% interest in our M.W. Kellogg Limited (MWKL) consolidated joint venture previously held by JGC Corporation. MWKL is located in the U.K. and provides EPC services primarily for LNG, GTL and onshore oil and gas projects. MWKL will continue to support our LNG and other Hydrocarbons projects.

On December 21, 2010, we completed the acquisition of 100% of the outstanding common shares of ENI Holdings, Inc. (ENI). ENI is the parent to the Roberts & Schaefer Company (R&S), a privately held, EPC services company for material handling systems. Headquartered in Chicago, Illinois, R&S provides services and associated processing infrastructure to customers in the mining and minerals, power, industrial, refining, aggregates, precious and base metals industries. ENI and its acquired businesses have been integrated into our IGP business group.

On April 5, 2010, we acquired 100% of the outstanding common stock of Houston-based Energo Engineering (Energo) which provides Integrity Management (IM) and advanced structural engineering services to the offshore oil and gas industry. Energo s results of operations were integrated into our Hydrocarbons business group.

In January 2010, we entered into a collaboration agreement with BP p.l.c. to market and license certain technology. In conjunction with this arrangement, we acquired a 25-year license granting us the exclusive right to the technology. The activity associated with this arrangement is integrated into our Hydrocarbons business group.

See Note 3 to our consolidated financial statements for further discussion of our recent acquisitions.

Joint Ventures and Alliances

We enter into joint ventures and alliances with other industry participants in order to reduce and diversify risk, increase the number of opportunities that can be pursued, capitalize on the strengths of each party, expand or create the relationships of each party with different potential customers, and allow for greater flexibility in delivering our services based on cost and geographical efficiency. Several of our significant joint ventures and alliances are described below. All joint venture ownership percentages presented are as of December 31, 2011.

Kellogg Joint Venture (KJV) is a joint venture consisting of JGC Corporation, Hatch Associates PTY LTD (Hatch), Clough Projects Australia PTY LTD (Clough) and KBR for the purpose of design, procurement, fabrication, construction, commissioning and testing of the Gorgon Downstream LNG Project located on Barrow Island off the northwest coast of Western Australia. We hold a 30% interest in the joint venture which is consolidated for financial accounting purposes and it is reported in our Hydrocarbons business group.

Aspire Defence Holdings Limited (Aspire Defence) Allenby & Connaught is a joint venture between us, Carillion Private Finance Limited and two financial investors formed to contract with the U.K. Ministry of Defence (MoD) to upgrade and provide a range of services to the British Army s garrisons at Aldershot and around the Salisbury Plain in the United Kingdom. We own a 45% interest in Aspire Defence which is reported in our Ventures business unit that is included in our Other group. In addition, we own a 50% interest in each of the two joint ventures within our IGP group that provide the construction and related support services to Aspire Defence. We account for our investments in these entities using the equity method of accounting.

Mantenimiento Marino de Mexico (MMM) is a joint venture formed under a Partners Agreement with Grupo R affiliated entities. The principal Grupo R entity is Corporative Grupo R, S.A. de C.V. and Discoverer ASA, Ltd., a Cayman Islands company. The Partners Agreement covers five joint venture entities executing Mexican contracts with PEMEX. The MMM joint venture was set up under Mexican maritime law in order to hold navigation permits to operate in Mexican waters. The scope of the business is to render services of maintenance, repair and restoration of offshore oil and gas platforms and provisions of quartering in the territorial waters of Mexico. We own a 50% interest in MMM and in each of the four other joint ventures. We account for our investment in these entities using the equity method of accounting and it is reported in our Services business group.

Backlog

Backlog represents the dollar amount of revenue we expect to realize in the future as a result of performing work on contracts awarded and in progress. Our backlog was $10.9 billion and $12.0 billion at December 31, 2011 and 2010, respectively. We estimate that as of December 31, 2011, 59% of our backlog will be recognized as revenue within one year. All backlog is attributable to firm orders at December 31, 2011 and December 31, 2010. For additional information regarding backlog see our discussion within Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Contracts

Our contracts are broadly categorized as either cost-reimbursable or fixed-price, although both categories contain a portion of hybrid contracts containing both cost-reimbursable and fixed-price scope.

Fixed-price contracts are for a fixed sum to cover all costs and any profit element for a defined scope of work. Fixed-price contracts entail more risk to us because they require us to predetermine both the quantities of work to be performed and the costs associated with executing the work. Although fixed-price contracts involve greater risk than cost-reimbursable contracts, they also are potentially more profitable since the owner/customer pays a premium to transfer project risks to us.

Cost-reimbursable contracts include contracts where the price is variable based upon our actual costs incurred for time and materials, or for variable quantities of work priced at defined unit rates, including reimbursable labor hour contracts. Profit on cost-reimbursable contracts may be a fixed amount, a mark-up applied to costs incurred, or a combination of the two. Cost reimbursable contracts are generally less risky than fixed-price contracts because the owner/customer retains many of the project risks.

Our IGP business group provides substantial work under cost-reimbursable contracts with the DoD and other governmental agencies which are generally subject to applicable statutes and regulations. If the Government finds that we improperly charged any costs to a contract under the terms of the contract or applicable Federal Procurement Regulations, these costs are potentially not reimbursable or, if already reimbursed, we may be required to refund the costs to the customer. Such conditions may also include financial penalties. If performance issues arise under any of our government contracts, the government retains the right to pursue remedies, which could include termination under any affected contract. Furthermore, the government has the contractual right to terminate or reduce the amount of work under our contracts at any time. See Risk Factors *Our U.S. government contracts work is regularly reviewed and audited by our customer, U.S. government auditors and others, and these reviews can lead to withholding or delay of payments to us, non-receipt of award fees, legal actions, fines, penalties and liabilities and other remedies against us.*

Significant Customers

We provide services to a diverse customer base, including international and national oil and gas companies, independent refiners, petrochemical producers, fertilizer producers and domestic and foreign governments. Revenue from the United States government, which was derived almost entirely from our IGP business group, totaled $2.2 billion, or 24% of consolidated revenue, in 2011, $3.3 billion, or 32% of consolidated revenue, in 2010, and $5.2 billion, or 43% of consolidated revenue, in 2009. Revenue from the Chevron Corporation, which was derived almost entirely from our Hydrocarbons business group, totaled $2.0 billion, or 22% of consolidated revenue, in 2011, $1.8 billion, or 18% of consolidated revenue, in 2010, and $1.4 billion or 11%, of consolidated revenue, in 2009. No other customers represented 10% or more of consolidated revenues in any of the periods presented.

Raw Materials

Equipment and materials essential to our business are available from worldwide sources. The principal equipment and materials we use in our business are subject to availability and pricing fluctuations due to customer demand, producer capacity and market conditions. We monitor the availability and pricing of equipment and materials on a regular basis. Our procurement department actively leverages our size and buying power to ensure that we have access to key equipment and materials at the best possible prices and delivery schedule. While we do not currently foresee any significant lack of availability of equipment and materials in the near term, the availability of these items may vary significantly from year to year and any prolonged unavailability or significant price increases for equipment and materials necessary to our projects and services could have a material adverse effect on our business. Please read, *Risk Factors The nature of our contracts, particularly those that are fixed-price, subject us to risks associated with cost over-runs, operating cost inflation and potential claims for liquidated damages. and Risk Factors Current or future economic conditions in the credit markets may negatively affect ability to operate our or our customers businesses, finance working capital, implement our acquisition strategy, and access our cash and short-term investments.*

Intellectual Property

We have developed or otherwise have the right to license leading technologies, including technologies held under license from third parties, used for the production of a variety of petrochemicals and chemicals and in the areas of olefins, refining, fertilizers and semi-submersible technology. We also license a variety of technologies for the transformation of raw materials into commodity chemicals such as phenol and aniline used in the production of consumer end-products. We are a licensor of ammonia process technologies used in the conversion of synthetic gas to ammonia. We believe our technology portfolio and experience in the commercial application of these technologies and related know-how differentiates us from other contractors, enhances our margins and encourages customers to utilize our broad range of engineering, procurement, construction and construction services (EPC-CS) services.

Our rights to make use of technologies licensed to us are governed by written agreements of varying durations, including some with fixed terms that are subject to renewal based on mutual agreement. Generally, each agreement may be further extended and we have historically been able to renew existing agreements before they expire. We expect these and other similar agreements to be extended so long as it is mutually advantageous to both parties at the time of renewal. For technologies we own, we protect our rights through patents and confidentiality agreements to protect our know-how and trade secrets. Our expenditures for research and development activities were immaterial in each of the past three fiscal years.

Seasonality

On an overall basis, our operations are not generally affected by seasonality. Weather and natural phenomena can temporarily affect the performance of our services, but the widespread geographic scope of our operations mitigates those effects.

Employees

As of December 31, 2011, we had approximately 27,000 employees, of which approximately 13% were subject to collective bargaining agreements. Based upon the geographic diversification of our employees, we believe any risk of loss from employee strikes or other collective actions would not be material to the conduct of our operations taken as a whole. We believe that our employee relations are good.

Health and Safety

We are subject to numerous health and safety laws and regulations. In the United States, these laws and regulations include: the Federal Occupational Safety and Health Act and comparable state legislation, the Mine Safety and Health Administration laws, and safety requirements of the Departments of State, Defense, Energy and Transportation. We are also subject to similar requirements in other countries in which we have extensive operations, including the United Kingdom where we are subject to the various regulations enacted by the Health and Safety Act of 1974.

These laws and regulations are frequently changing, and it is impossible to predict the effect of such laws and regulations on us in the future. We actively seek to maintain a safe, healthy and environmentally friendly work place for all of our employees and those who work with us. However, we provide some of our services in high-risk locations and, as a result, we may incur substantial costs to maintain the safety of our personnel.

Environmental Regulation

We are subject to numerous environmental, legal, and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include, among others: the Comprehensive Environmental Response, Compensation, and Liability Act; the Resources Conservation and Recovery Act; the Clean Air Act; the Federal Water Pollution Control Act; and the Toxic Substances Control Act. In addition to federal and state laws and regulations, other countries where we do business often have numerous environmental regulatory requirements by which we must abide in the normal course of our operations. These requirements apply to our business groups where we perform construction and industrial maintenance services or operate and maintain facilities.

We continue to monitor conditions at sites owned or previously owned and until further information is available, we are only able to estimate a possible range of remediation costs. These locations were primarily utilized for manufacturing or fabrication work and are no longer in operation. The use of these facilities created various environmental issues including deposits of metals, volatile and semi-volatile compounds, and hydrocarbons impacting surface and subsurface soils and groundwater. The range of remediation costs could change depending on our ongoing site analysis and the timing and techniques used to implement remediation activities. We do not expect costs related to environmental matters will have a material adverse effect on our consolidated financial position or results of operations. Based on the information presently available to us, we have accrued approximately $7 million for the assessment and remediation costs associated with all environmental matters, which represents the low end of the range of estimated possible costs that could be as much as $11 million. See Note 10 to our consolidated financial statements for more information on environmental matters.

We have been named as a potentially responsible party (PRP) in various clean-up actions taken by federal and state agencies in the U.S. Based on the early stages of these actions, we are unable to determine whether we will ultimately be deemed responsible for any costs associated with these actions.

Existing or pending climate change legislation, regulations, international treaties or accords are not expected to have a material direct effect on our business or the markets that we serve, nor on our results of operations or financial position. However, climate change legislation could have a direct effect on our customers or suppliers, which could have an indirect effect on our business. For example, our commodity-based markets depend on the level of activity of mineral and oil and gas companies, and existing or future laws, regulations, treaties or international agreements related to climate change, including incentives to conserve energy or use alternative energy sources, could have an indirect impact on our business if such laws, regulations, treaties, or international agreements reduce the worldwide demand for minerals, oil and natural gas. We will continue to monitor emerging developments in this area.

Compliance

We are subject to numerous compliance-related laws and regulations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act, other applicable anti-bribery legislation, and laws and regulations regarding trade and exports. We are also governed by our own Code of Business Conduct and other compliance-related corporate policies and procedures that mandate compliance with these laws. Conducting our business with ethics and integrity is a key priority for KBR. Our Code of Business Conduct is a guide for every employee in applying legal and ethical practices to our everyday work. The Code of Business Conduct describes not only our standards of integrity but also some of the specific principles and areas of the law that are most likely to affect our business. We regularly train our employees regarding anti-bribery issues and our Code of Business Conduct.

Website Access

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are made available free of charge on our internet website at www.kbr.com as soon as reasonably practicable after we have electronically filed the material with, or furnished it to, the SEC. The public may read and copy any materials we have filed with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains our reports, proxy and information statements, and our other SEC filings. The address of that site is www.sec.gov. We have posted on our website our Code of Business Conduct, which applies to all of our employees and Directors and serves as a code of ethics for our principal executive officer, principal financial officer, principal accounting officer, and other persons performing similar functions. Any amendments to our Code of Business Conduct or any waivers from provisions of our Code of Business Conduct granted to the specified officers above are disclosed on our website within four business days after the date of any amendment or waiver pertaining to these officers.

Item 1A. Risk Factors

Demand for our services depends on demand and capital spending by customers in their target markets, many of which are cyclical in nature.

Demand for many of our services in our commodity-based markets depends on capital spending by oil and natural gas companies, including national and international oil companies, and by industrial, mining and power companies, which is directly affected by trends in oil, natural gas and commodities prices. Capital expenditures for refining and distribution facilities by large oil and gas companies have a significant impact on the activity levels of our businesses. Demand for LNG facilities for which we provide construction services could decrease in the event of a sustained reduction in demand for crude oil or natural gas. Perceptions of longer-term lower oil and natural gas prices by oil and gas companies or longer-term higher material and contractor prices impacting facility costs can similarly reduce or defer major expenditures given the long-term nature of many large-scale projects. Prices for oil, natural gas and commodities are subject to large fluctuations in response to relatively minor changes in supply and demand, market uncertainty, and a variety of other factors that are beyond our control. Factors affecting the prices of oil, natural gas and other commodities include:

- worldwide political, social unrest, military, and economic conditions;
- the level of demand for oil, natural gas, industrial services and power generation;
- governmental regulations or policies, including the policies of governments regarding the use of energy and the exploration for and production and development of their oil and natural gas reserves;
- a reduction in energy demand as a result of energy taxation or a change in consumer spending patterns;
- global economic growth or decline;
- the level of oil production by non-OPEC countries and the available excess production capacity within OPEC;
- global weather conditions and natural disasters;
- oil refining capacity;

- shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- potential acceleration of the development and expanded use of alternative fuels;
- environmental regulation, including limitations on fossil fuel consumption based on concerns about its relationship to climate change; and
- reduction in demand for the commodity-based markets in which we operate.

Historically, the markets for oil and natural gas have been volatile and are likely to continue to be volatile in the future.

The nature of our contracts, particularly those that are fixed-price, subject us to risks associated with cost over-runs, operating cost inflation and potential claims for liquidated damages.

We conduct our business under various types of contracts where costs are estimated in advance of our performance. Approximately 25% of the value of our backlog is attributable to fixed-price contracts where we bear a significant portion of the risk of cost over-runs. These types of contracts are priced based in part on cost and scheduling estimates which are based on assumptions including prices and availability of labor, equipment and materials as well as productivity, performance and future economic conditions. If these estimates prove inaccurate, there are errors or ambiguities as to contract specifications, or if circumstances change due to, among other things, unanticipated technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, weather delays, changes in the costs of equipment and materials, or our suppliers or subcontractors inability to perform, then cost over-runs may occur. We may not be able to obtain compensation for additional work performed or expenses incurred. Additionally, we may be required to pay liquidated damages upon our failure to meet schedule or performance requirements of our contracts. Our failure to accurately estimate the resources and time required for fixed-price contracts or our failure to complete our contractual obligations within the time frame and costs committed could result in reduced profits or, in certain cases, a loss for that contract. If the contract is significant, or we encounter issues that impact multiple contracts, cost over-runs could have a material adverse effect on our business, financial condition, and results of operations.

The nature of our engineering and construction business exposes us to potential liability claims and contract disputes which may exceed or are excluded from existing insurance coverage.

We engage in engineering and construction activities for large facilities where design, construction or systems failures can result in substantial injury or damage to employees or other third parties exposing us to legal proceedings, investigations and disputes. The nature of our business results in clients, subcontractors and vendors occasionally presenting claims against us for recovery of cost they incurred in excess of what they expected to incur, or for which they believe they are not contractually liable. When it is determined that we have liability, we may not be covered by insurance or, if covered, the dollar amount of these liabilities may exceed our policy limits. Our professional liability coverage is on a claims-made basis covering only claims actually made during the policy period currently in effect. In addition, even where insurance is maintained for such exposures, the policies have deductibles resulting in our assuming exposure for a layer of coverage with respect to any such claims. Any liability not covered by our insurance, in excess of our insurance limits or, if covered by insurance but subject to a high deductible, could result in a significant loss for us, which may reduce our profits and cash available for operations.

We occasionally bring claims against project owners for additional cost exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as owner-caused delays or changes from the initial project scope, which may result in additional cost, both direct and indirect. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is often difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we may invest significant working capital in projects to cover cost overruns pending the resolution of the relevant claims. A failure to promptly recover on these types of claims could have a material adverse impact on our liquidity and financial results.

Demand for our services provided under U.S. government contracts are directly affected by spending and capital expenditures by our customers.

We derive a significant portion of our revenue from contracts with agencies and departments of the U.S. government which is directly affected by changes in government spending and availability of adequate funding. Additionally, U.S. government regulations generally include the right for government agencies to modify, delay, curtail, renegotiate or terminate contracts at their convenience any time prior to their completion. We derive a significant amount of revenue from our LogCAP III and IV U.S. government contracts. The current level of government services we provide in the Middle East under our LogCAP contracts is not likely to continue indefinitely and we expect our overall volume of work under these contracts to continue to decline in the future. Factors that could impact current and future U.S. government spending include:

- policy and/or spending changes implemented by the current administration, DoD or other government agencies;
- changes, delays or cancellations of U.S. government programs or requirements;
- adoption of new laws or regulations that affect companies providing services to the U.S. government;

curtailment of the U.S. governments outsourcing of services to private contractors; and

level of political instability due to war, conflict or natural disasters.

The loss of or a significant decrease in the magnitude of work we perform for the U.S. government in the Middle East or other decreases in governmental spending and outsourcing could have a material adverse effect on our business, results of operations and cash flow.

The U.S. government awards its contracts through a rigorous competitive process and our efforts to obtain future contract awards from the U.S. government may be unsuccessful.

The U.S. government conducts a rigorous competitive process for awarding most contracts. In the services arena, the U.S. government uses multiple contracting approaches. Historically, omnibus contract vehicles, such as LogCAP, have been used for work that is done on a contingency or as-needed basis. In more predictable sustainment environments, contracts may include both fixed-price and cost-reimbursable elements. The U.S. government has also recently favored multiple award task order contracts, in which several contractors are selected as eligible bidders for future work. Such processes require successful contractors to continually anticipate customer requirements and develop rapid-response bid and proposal teams as well as have supplier relationships and delivery systems in place to react to emerging needs. We will face rigorous competition and pricing pressures for any additional contract awards from the U.S. government, and we may be required to qualify or continue to qualify under the various multiple award task order contract criteria. It may be more difficult for us to win future awards from the U.S. government and we may have other contractors sharing in any U.S. government awards that we win. In addition, negative publicity regarding findings stemming from Defense Contract Audit Agency (DCAA) audits and Congressional investigations may adversely affect our ability to obtain future awards. See *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Analysis U.S. Government Matters.*

Our U.S. government contract work is regularly reviewed and audited by our customer, U.S. government auditors and others, and these reviews can lead to withholding or delay of payments to us, non-receipt of award fees, legal actions, fines, penalties and liabilities and other remedies against us.

U.S. government contracts are subject to specific regulations such as the Federal Acquisition Regulation (FAR), the Truth in Negotiations Act, the Cost Accounting Standards (CAS), the Service Contract Act and DoD security regulations. Failure to comply with any of these regulations, requirements or statutes may result in contract price adjustments, financial penalties and contract termination. Our U.S. government contracts are subject to audits, cost reviews and investigations by U.S. government contracting oversight agencies such as the DCAA. The DCAA reviews the adequacy of, and our compliance with, our internal control systems and policies, including our labor, billing, accounting, purchasing, property, estimating, compensation and management information systems. The DCAA has the authority to conduct audits and reviews to determine if KBR is complying with the requirements under the FAR and CAS, pertaining to the allocation, period assignment, allowability, and allocation of costs assigned to US Government contracts. The DCAA presents its report findings to the Defense Contract Management Agency (DCMA). Should the DCMA determine that we have not complied with the terms of our contract and applicable statutes and regulations, payments to us may be disallowed which could result in adjustments to previously reported revenues and refunding of previously collected cash proceeds.

Given the demands of working in the Middle East and elsewhere for the U.S. government, we expect that from time to time we will have disagreements or experience performance issues with the various government customers for which we work. If performance issues arise under any of our government contracts, the government retains the right to pursue remedies, which could include termination under any affected contract. If any contract were so terminated, we may not receive award fees under the affected contract and our ability to secure future contracts could be adversely affected, although we would expect to receive payment for amounts owed for our allowable costs under cost-reimbursable contracts. Other remedies that our government customers may seek for performance issues include sanctions such as forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Further, the negative publicity that could arise from disagreements with our customers or sanctions as a result thereof could have an adverse effect on our reputation in the industry, reduce our ability to compete for new contracts, and may also have a material adverse effect on our business, financial condition, results of operations and cash flow.

Our results of operations depend on the award of new contracts and the timing of the performance of these contracts.

A substantial portion of our revenue is directly or indirectly derived from new contract awards. Delays in the timing of the awards or potential cancellations of such prospects as a result of economic conditions, material and equipment pricing and availability, or other factors could impact our long term projected results. It is particularly difficult to predict whether or when we will receive large-scale international and domestic projects as these contracts frequently involve a lengthy and complex bidding and selection process which is affected by a number of factors, such as market conditions, governmental and environmental approvals. Because a significant portion of our revenue is generated from such projects, our results of operations and cash flow can fluctuate significantly from quarter to quarter depending on the timing of our contract awards and the commencement or progress of work under awarded contracts. In addition, many of these contracts are subject to financing contingencies and, as a result, we are subject to the risk that the customer will not be able to secure the necessary financing for the project.

We may be unable to obtain new contract awards if we are unable to provide our customers with bonds, letters of credit or other credit enhancements.

Customers may require us to provide credit enhancements, including surety bonds, letters of credit or bank guarantees. We are often required to provide performance guarantees to customers to indemnify the customer should we fail to perform our obligations under the contract. Failure to provide a bond on terms required by a customer may result in an inability to bid on or win a contract award. Historically, we have had adequate bonding capacity but such bonding beyond the capacity of our Credit Agreement is generally at the provider s sole discretion. Due to events that affect the banking and insurance markets generally, bonding may be difficult to obtain or may only be available at significant cost. Moreover, many projects are often very large and complex, which often necessitates the use of a joint venture, often with a market competitor, to bid on and perform the contract. However, entering into joint ventures or partnerships exposes us to the credit and performance risk of third parties, many of whom may not be as financially strong as us. If our joint ventures or partners fail to perform, we could suffer negative results. In addition, future projects may require us to obtain letters of credit that extend beyond the term of our current Credit Agreement. Any inability to bid for or win new contracts due to the failure of obtaining adequate bonding, letters of credit and/or other customary credit enhancements could have a material adverse effect on our business prospects and future revenue.

The uncertainty of the timing of future contract awards may inhibit our ability to recover our labor costs.

The uncertainty of our contract award timing can also present difficulties in matching workforce size with contract needs. In some cases, we maintain and bear the cost of a ready workforce that is larger than called for under existing contracts in anticipation of future workforce needs for expected contract awards. If an expected contract award is delayed or not received, we may incur additional costs resulting from reductions in staff or redundancy of facilities, which could have a material adverse effect on us.

Our backlog is subject to unexpected adjustments and cancellations and, therefore, may not be a reliable indicator of our future revenue or earnings.

As of December 31, 2011, our backlog was approximately $10.9 billion. We cannot guarantee that the revenue projected in our backlog will be realized or profitable. Many of our contracts are subject to cancellation, termination, or suspension at the discretion of the customer. From time to time, changes in project scope may occur with respect to contracts reflected in our backlog and could reduce the dollar amount of our backlog and the timing of the revenue and profits that we actually earn. Projects may remain in our backlog for an extended period of time because of the nature of the project and the timing of the particular services equipment by the project. Additionally, poor project performance could also impact our backlog and profits if it results in termination of the contract. We cannot predict the impact future economic conditions may have on our backlog which could include a diminished ability to replace backlog once projects are completed and/or could result in the termination, modification or suspension of projects currently in our backlog. Such developments could have a material adverse affect on our financial condition, results of operations and cash flows.

We conduct a portion of our engineering and construction operations through joint ventures and partnerships exposing us to risks and uncertainties, many of which are outside of our control.

We conduct a portion of our engineering, procurement and construction operations through large project-specific joint ventures, where control may be shared with unaffiliated third parties. As with any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. We also cannot control the actions of our joint venture partners, including any nonperformance, default, or bankruptcy of our joint venture partners, and we typically share liabilities on a joint and several basis with our joint venture partners under these joint venture arrangements. If our partners do not meet their contractual obligations, the joint venture may be unable to adequately perform and deliver its contracted services requiring us to make additional investments or perform additional services to ensure the adequate performance and delivery of services to our customer. We could be liable for both our obligations and those of our partners which may result in reduced profits or, in some cases, significant losses on the project. Additionally, these factors could have a material adverse affect on the business operations of the joint venture and, in turn, our business operations and reputation.

Operating through joint ventures in which we have a minority interest could result in us having limited control over many decisions made with respect to projects and internal controls relating to projects. These joint ventures may not be subject to the same requirements regarding internal controls and internal control reporting that we follow. As a result, internal control issues may arise, which could have a material adverse effect on our financial condition and results of operation. Additionally, in order to establish or preserve relationships with our joint venture partners, we may agree to risks and contributions of resources that are proportionately greater than the returns we could receive, which could reduce our income and returns on these investments compared to what we may have received if the risks and resources we contributed were always proportionate to our returns.

We make equity investments in privately financed projects in which we could sustain significant losses.

We participate in privately financed projects that enable our government and other customers to finance large-scale projects, such as major military equipment, capital project and service purchases. These projects typically include the facilitation of non-recourse financing, the design and construction of facilities, and the provision of operation and maintenance services for an agreed to period after the facilities have been completed. We may incur contractually reimbursable costs and typically make an equity investment prior to an entity achieving operational status or receiving project financing. If a project is unable to obtain financing, we could incur losses on our equity investments and any related contractual receivables. After completion of these projects, the return on our equity investments can be dependent on the operational success of the project and market factors, which may not be under our control. As a result, we could sustain a loss on our equity investment in these projects.

Intense competition in the engineering and construction industry could reduce our market share and profits.

We serve markets that are highly competitive and in which a large number of multinational companies compete. These highly competitive markets require substantial resources and capital investment in equipment, technology and skilled personnel. Our projects are frequently awarded through a competitive bidding process, which is standard in our industry. We are constantly competing for project awards based on pricing and the breadth and technological sophistication of our services. Any increase in competition or reduction in our competitive capabilities could have a significant adverse impact on the margins we generate from our projects as well as our ability to maintain or increase market share.

If we are unable to attract and retain a sufficient number of affordable trained engineers and other skilled workers, our ability to pursue projects may be adversely affected and our costs may increase.

Our rate of growth and the success of our business depends upon our ability to attract, develop and retain a sufficient number of affordable trained engineers and other skilled workers either through direct hire or acquisition of other firms employing such professionals. The market for these professionals is competitive. If we are unable to attract and retain a sufficient number of skilled personnel, our ability to acquire projects may be adversely affected, the costs of executing our existing and future projects may increase, and our financial performance may decline.

We ship a significant amount of cargo using seagoing vessels which expose us to certain maritime risks.

We execute different projects around the world that include remote locations. Depending on the type of contract, location and the nature of the work, we may charter vessels under time and bareboat charter parties that assume certain risks typical of those agreements. Such risks may include damage to the ship and liability for cargo and liability which charterers and vessel operators have to third parties at law . In addition, we ship a significant amount of cargo and are subject to hazards of the shipping and transportation industry.

If we are unable to enforce our intellectual property rights or if our intellectual property rights become obsolete, our competitive position could be adversely impacted.

We utilize a variety of intellectual property rights in our services. We view our portfolio of process and design technologies as one of our competitive strengths and we use it as part of our efforts to differentiate our service offerings. We may not be able to successfully preserve these intellectual property rights in the future and these rights could be invalidated, circumvented, challenged or infringed upon. In addition, the laws of some foreign countries in which our services may be sold do not protect intellectual property rights to the same extent as the laws of the United States. Because we license technologies from third parties, there is a risk that our relationships with licensors may terminate, expire or be interrupted or harmed. In some, but not all cases, we may be able to obtain the necessary intellectual property rights from alternative sources. If we are unable to protect and maintain our intellectual property rights, or if there are any successful intellectual property challenges or infringement proceedings against us, our ability to differentiate our service offerings could diminish. In addition, if our intellectual property rights or work processes become obsolete, we may not be able to differentiate our service offerings and some of our competitors may be able to offer more attractive services to our customers. As a result, our business and financial performance could be materially and adversely affected.

Current or future economic conditions in the credit markets may negatively affect the ability to operate our or our customers businesses, finance working capital, implement our acquisition strategy, and access our cash and short-term investments.

We finance the most of our operations using cash provided by operations but also depend on the availability of credit to grow our businesses. Unfavorable economic conditions have brought uncertainty to the capital and credit markets in the U.S. and abroad, which could make it more difficult for us to raise additional capital or obtain additional financing. Our ability to obtain such additional capital or financing will depend in part upon prevailing market conditions as well as conditions in our business and our operating results, and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us. We cannot be certain that additional funds will be available if needed to make future investments in certain projects, take advantage of acquisitions or other opportunities or respond to competitive pressures. If additional funds are not available, or are not available on terms satisfactory to us, there could be a material adverse impact on our business and financial performance.

Disruptions of the credit markets could also adversely affect our clients borrowing capacity, which supports the continuation and expansion of projects worldwide, and could result in contract cancellations or suspensions, project delays and payment delays or defaults by our clients. In addition, clients may choose to make fewer capital expenditures or otherwise slow their spending on our services or to seek contract terms more favorable to them. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects or that cause them to exercise their right to terminate our contracts with little or no prior notice. Furthermore, any financial difficulties suffered by our subcontractors or suppliers could increase our cost or adversely impact project schedules. These disruptions could materially impact our backlog and financial performance.

In addition, we are subject to the risk that the counterparties to our Credit Agreement may be unable to meet their obligations if they suffer catastrophic demand on their liquidity that will prevent them from fulfilling their contractual obligation to us. We also routinely enter into contracts with counterparties, including vendors, suppliers, and subcontractors that may be negatively impacted by events in the credit markets. If those counterparties are unable to perform their obligations to us or our clients, we may be required to provide additional services or make alternate arrangements on less favorable terms with other parties to ensure adequate performance and delivery of service to our clients. These circumstances could also lead to disputes and litigation with our partners or clients, which could have a material adverse impact on our reputation, business, financial condition and results of operations.

Furthermore, our cash balances and short-term investments are maintained in accounts held at major banks and financial institutions located primarily in North America and the United Kingdom. Deposits are in amounts that exceed available insurance. Although none of the financial institutions in which we hold our cash and investments have gone into bankruptcy, been forced into receivership, or have been seized by their governments, there is a risk that this may occur in the future. If this were to occur, we would be at risk of not being able to access our cash which may result in a temporary liquidity crisis that could impede our ability to fund operations.

Our Credit Agreement imposes restrictions that limit our operating flexibility and may result in additional expenses, and this credit agreement may not be available if financial covenants are violated or if an event of default occurs.

Our Credit Agreement provides a credit line of up to $1.0 billion, and expires in December 2016. It contains a number of covenants restricting, among other things, our ability to incur liens and indebtedness, sell assets, repurchase our equity shares and make certain types of investments. We are also subject to certain financial covenants, including maintenance of a maximum ratio of consolidated debt to consolidated EBITDA and a minimum consolidated net worth. If we fail to meet the covenants, or an event of default occurs, the credit line would not be available unless the necessary waivers or amendments of lenders participating in the bank syndicate could be obtained.

A breach of any covenant or our inability to comply with the required financial ratios could result in a default under our Credit Agreement, and we can provide no assurance that we will be able to obtain the necessary waivers or amendments from our lenders to remedy a default. In the event of any default not cured or waived, the lenders are not obligated to provide funding or issue letters of credit and could elect to require us to apply available cash to collateralize any outstanding letters of credit and declare any outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable, thus requiring us to apply available cash to repay any borrowings then outstanding. If we are unable to cash collateralize our letters of credit or repay borrowings with respect to our Credit Agreement when due, our lenders could proceed against the guarantees of our major domestic subsidiaries. If any future indebtedness under our Credit Agreement is accelerated, we can provide no assurance that our assets would be sufficient to repay such indebtedness in full.

An impairment of all or part of our goodwill and/or our intangible assets could have a material adverse impact to our net earnings and net worth.

As of December 31, 2011, we had $951 million of goodwill and $113 million of intangible assets recorded on our consolidated balance sheet. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheet, it might indicate a decline in our fair value and would require us to further evaluate whether our goodwill has been impaired. We also perform an annual analysis of our goodwill to determine if it has become impaired. The analysis requires us to make assumptions in estimates of fair value of our reporting units. If actual results are significantly different than the estimates, we might be required to write down the impaired portion of goodwill. An impairment of all or a significant part of our goodwill and/or intangible assets could have a material adverse impact to our net earnings and net worth.

We are subject to certain U.S. laws and regulations, which are the subject of rigorous enforcement by the U.S. government.

To the extent that we export products, technical data and services outside of the United States we are subject to laws and regulations governing trade and exports, including but not limited to, the International Traffic in Arms Regulations, the Export Administration Regulations and trade sanctions against embargoed countries, which are administered by the Office of Foreign Asset Control within the Department of the Treasury. A failure to comply with these laws and regulations could result in civil and/or criminal sanctions, including the imposition of fines upon us as well as the denial of export privileges and debarment from participation in U.S. government contracts. Additionally, we may be subject to qui tam litigation brought by private individuals on behalf of the U.S. government under the Federal False Claims Act, which could include claims for treble damages. U.S. government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit, and/or suspension of payment, any of which could make us lose our status as an eligible U.S. government contractor and cause us to suffer serious harm to our reputation. Any suspension or termination of our U.S. government contractor status could have a negative adverse impact to our business, financial condition or results of operations.

We are subject to anti-bribery laws in the U.S. and other jurisdictions, violations of which could include suspension or debarment of our ability to contract with the United States, state or local governments, U.S. government agencies or the U.K. MoD, third party claims, loss of customers, adverse financial impact, damage to reputation and adverse consequences on financing for current or future projects.

The Foreign Corrupt Practices Act (FCPA) in the U.S. and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We train our staff concerning FCPA issues, and we also inform our partners, subcontractors, agents and other third parties who work for us or on our behalf that they must comply with the requirements of the FCPA and other anti-corruption laws. We also have procedures and controls in place to monitor internal and external compliance. We cannot assure you that our internal controls and procedures always will protect us from the reckless or criminal acts committed by our employees or third parties working on our behalf. If we are found to be liable for violations of these laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others), we could suffer from criminal or civil penalties or other sanctions which could have a material adverse effect on our business.

Our current business strategy includes acquisitions which present certain risks and uncertainties.

We seek business acquisition activities as a means of broadening our offerings and capturing additional market opportunities by our business units. As a result, we may incur certain additional risks accompanying these activities. These risks include the following:

- Valuation methodologies may not accurately capture the value proposition;
- Future completed acquisitions may not be integrated within our operations with the efficiency and effectiveness initially expected resulting in a potentially significant detriment to the associated product service line financial results, and pose additional risks to our operations as a whole;
- We may have difficulty managing the growth from acquisition activities;
- Key personnel within an acquired organization may resign from their related positions resulting in a significant loss to our strategic and operational efficiency associated with the acquired company;
- The effectiveness of our daily operations may be reduced by the redirection of employees and other resources to acquisition activities;
- We may assume liabilities of an acquired business (e.g. litigation, tax liabilities, contingent liabilities, environmental issues), including liabilities that were unknown at the time the acquisition, that pose future risks to our working capital needs, cash flows and the profitability of related operations;
- Business acquisitions may include substantial transactional costs to complete the acquisition that exceed the estimated financial and operational benefits;
- Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on attractive terms. Moreover, to the extent an acquisition transaction results in additional goodwill, it will reduce our tangible net worth, which might have an adverse effect on our credit capacity.

If we need to sell or issue additional common shares to finance future acquisitions, our existing shareholder ownership could be diluted.

Part of our business strategy is to expand into new markets and enhance our position in existing markets both domestically and internationally through the acquiring and merging of complementary businesses. To successfully fund and complete such potential acquisitions, we may issue additional equity securities that may result in dilution of our existing shareholder ownership earnings per share.

Provisions in our charter documents, Delaware law and Credit Agreement may inhibit a takeover or impact operational control which could adversely affect the value of our common stock.

Our certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable. These provisions include, among others, a staggered board of directors, prohibiting stockholder action by written consent, advance notice for raising business or making nominations at meetings of stockholders and the issuance of preferred stock with rights that may be senior to those of our common stock without stockholder approval. Many of these provisions became effective following the exchange offer. These provisions would apply even if a takeover offer may be considered beneficial by some of our stockholders. If a change of control or change in management is delayed or prevented, the market price of our common stock could decline. Additionally, our Credit Agreement contains a default provision that is triggered upon a change in control of at least 25%.

International and political events may adversely affect our operations.

A significant portion of our revenue is derived from foreign operations, which exposes us to risks inherent in doing business in each of the countries where we transact business. The occurrence of any of the risks described below could have a material adverse effect on our business operations and financial performance. With respect to any particular country, these risks may include:

- expropriation and nationalization of our assets in that country;
- political and economic instability;
- civil unrest, acts of terrorism, force majeure, war, or other armed conflict;
- currency fluctuations, devaluations, and conversion restrictions;
- confiscatory taxation or other adverse tax policies;
- governmental activities that limit or disrupt markets, restrict payments, or limit the movement of funds;
- governmental activities that may result in the deprivation of contract rights; and
- governmental activities that may result in the inability to obtain or retain licenses required for operation.

Due to the unsettled political conditions in many oil-producing countries and other countries where we provide governmental logistical support, our financial performance is subject to the adverse consequences of war, the effects of terrorism, civil unrest, strikes, currency controls, and governmental actions. Our operations are conducted in areas that have significant amounts of political risk. In addition, military action or continued unrest in the Middle East could impact the supply and price of oil and gas, disrupt our operations in the region and elsewhere, and increase our costs related to security worldwide.

We may have additional tax liabilities associated with our international operations.

We are subject to income taxes in the United States and numerous foreign jurisdictions, many of which are developing countries. Significant judgment is required in determining our worldwide provision for income taxes due to lack of clear and concise tax laws and regulations in certain developing jurisdictions. It is not unlikely that laws may be changed or clarified and such changes may adversely affect our tax provisions. Also, in the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination may be uncertain. We are regularly under audit by various tax authorities. Although we believe that our tax estimates are reasonable, the final outcome of tax audits and related litigation could be materially different from that which is reflected in our financial statements.

We work in international locations where there are high security risks, which could result in harm to our employees and contractors or substantial costs.

Some of our services are performed in high-risk locations, such as Iraq, Afghanistan, Nigeria, Algeria, Egypt and Saudi Arabia where the country or location and surrounding area is suffering from political, social, economic issues, war or civil unrest. In those locations where we have employees or operations, we have and may continue to incur substantial costs to maintain the safety of our personnel. Despite these precautions, we have suffered the loss of employees and contractors which could expose us to claims and litigation. In the future the safety of our personnel in these and other locations may continue to be at risk, exposing us to the potential loss of additional employees and contractors.

We are subject to significant foreign exchange and currency risks that could adversely affect our operations and our ability to reinvest earnings from operations, as well as mitigate our foreign exchange risk through hedging transactions may be limited.

We generally attempt to denominate our contracts in U.S. Dollars or in the currencies of our costs. However, we do enter into contracts that subject us to currency risk exposure, primarily when our contract revenue is denominated in a currency different than the contract costs. A significant portion of our consolidated revenue and consolidated operating expenses are in foreign currencies. As a result, we are subject to significant foreign currency risks, including risks resulting from changes in foreign exchange rates and limitations on our ability to reinvest earnings from operations in one country to fund the financing requirements of our operations in other countries.

The national governments of certain countries may impose restrictive exchange controls on local currencies and, as a result, it may not be possible for us to engage in effective hedging transactions to mitigate the risks associated with fluctuations of a particular currency. We are often required to pay all or a portion of our costs associated with a project in the local currency. As a result, we generally attempt to negotiate contract terms with our customer, who is often affiliated with the local government, or has a significant local presence, to provide that we are only paid in the local currency for amounts that match our local expenses. If we are unable to match our local currency costs with revenue in the local currency, we would be exposed to the risk of adverse changes in currency exchange rates.

Halliburton s indemnity for matters relating to the Barracuda-Caratinga project only applies to the replacement of certain subsea bolts, and Halliburton s actions may not be in our stockholders best interests.

Under the terms of our master separation agreement with our former parent Halliburton, Halliburton agreed to indemnify us for any liability we incur as a result of the replacement of certain subsea flow-line bolts installed or in connection with the Barracuda-Caratinga project arbitration. At our cost, we control the defense, counterclaim and/or settlement of this matter, but Halliburton has discretion to determine whether to agree to any settlement or other resolution. We expect Halliburton will take actions that are in the best interests of its stockholders, which may or may not be in our or our stockholders best interests. For example, Halliburton has directed us to challenge the recent arbitration award to the project owner and the legal costs of the challenge will be born by us. Please read Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Legal Proceedings .

We rely on information technology systems to conduct our business, and disruption, failure or security breaches of these systems could adversely affect our business and results of operations.

We rely heavily on information technology (IT) systems in order to achieve our business objectives. We also rely upon industry accepted security measures and technology to securely maintain confidential and proprietary information maintained on our IT systems. However, our portfolio of hardware and software products, solutions and services and our enterprise IT systems may be vulnerable to damage or disruption caused by circumstances beyond our control such as catastrophic events, power outages, natural disasters, computer system or network failures, computer viruses, cyber attacks or other malicious software programs. The failure or disruption of our IT systems to perform as anticipated for any reason could disrupt our business and result in decreased performance, significant remediation costs, transaction errors, loss of data, processing inefficiencies, downtime, litigation, and the loss of suppliers or customers. A significant disruption or failure could have a material adverse effect on our business operations, financial performance and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own or lease properties in domestic and foreign locations. The following locations represent our major facilities.

Location	Owned/Leased	Description	Business Segment
Houston, Texas	Leased(1)	Office facilities	All and Corporate
Arlington, Virginia	Leased	Office facilities	IGP
Houston, Texas	Owned	Campus facility	All and Corporate
Birmingham, Alabama	Owned	Campus facility	All and Corporate
Leatherhead, United Kingdom	Owned	Campus facility	All
Greenford, Middlesex United Kingdom	Owned	Office facilities	Hydrocarbons

(1) At December 31, 2011, we had a 50% interest in a joint venture which owns an office building in which we lease office space. We also lease office space in other buildings owned by unrelated parties.

We also own or lease numerous small facilities that include sales offices and project offices throughout the world. All of our owned properties are unencumbered and we believe all properties that we currently occupy are suitable for their intended use.

Item 3. Legal Proceedings

Information relating to various commitments and contingencies is described in Risk Factors contained in Part I of this Annual Report on Form 10-K and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and in Notes 9 and 10 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 3.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under the symbol KBR. The following table sets forth, on a per share basis for the periods indicated, the high and low sale prices per share for our common stock as reported by the New York Stock Exchange and dividends declared:

	Common Stock Price Range		Dividends Declared Per Share
	High	Low	
Fiscal Year 2011			
First quarter ended March 31, 2011	$ 38.28	$ 28.43	$ 0.05
Second quarter ended June 30, 2011	$ 38.79	$ 33.79	$ 0.05
Third quarter ended September 30, 2011	$ 39.34	$ 23.29	$ 0.05
Fourth quarter ended December 31, 2011	$ 30.17	$ 20.86	$ 0.05
Fiscal Year 2010			
First quarter ended March 31, 2010	$ 23.00	$ 17.30	$
Second quarter ended June 30, 2010	$ 24.40	$ 19.31	$ 0.05
Third quarter ended September 30, 2010	$ 24.89	$ 19.53	$ 0.05
Fourth quarter ended December 31, 2010	$ 31.42	$ 24.53	$ 0.05

At January 31, 2012, there were 133 shareholders of record. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

On June 8, 2010, we initiated a Board of Directors authorized share repurchase program allowing us to maintain, over time, our outstanding shares at approximately 150 million shares. In August 2011, we made our final share repurchase under this authorization. On August 26, 2011, KBR announced that its Board of Directors authorized a new share repurchase program to repurchase up to 10 million of our outstanding common shares. The authorization does not specify an expiration date. The following is a summary of share repurchases of our common stock settled during the three months ended December 31, 2011.

Purchase Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [(a)]
October 3 24, 2011				
Repurchase Program [(a)]		$		8,794,300
Employee Transactions [(b)]	3,461	$ 24.74		
November 9 30, 2011				
Repurchase Program	120,000	$ 26.92	120,000	8,674,300
Employee Transactions [(b)]	28,081	$ 27.02		
December 1 30, 2011				
Repurchase Program	698,394	$ 25.83	698,394	7,975,906
Employee Transactions [(b)]	341	$ 25.12		
Total				
Repurchase Program [(a)]	818,394	$ 25.99	818,394	7,975,906
Employee Transactions [(b)]	31,883	$ 26.75		

(a) Represents remaining common shares that may be repurchased pursuant to the August 26, 2011 announced share repurchase program.
(b) Reflects shares acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting of restricted stock units.

Under our Credit Agreement we are permitted to repurchase our common stock, provided that no such repurchases shall be made from the proceeds borrowed under the Credit Agreement, and that the aggregate purchase price and dividends paid after December 2, 2011, does not to exceed the Distribution Cap. At December 31, 2011, the remaining availability under the Distribution Cap was approximately $732 million. The declaration and payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, general financial condition and liquidity, success in business activities, capital requirements, and general business conditions.

Performance Graph

The chart below compares the cumulative total shareholder return on our common shares for the five-year period ended December 31, 2011, with the cumulative total return on the Dow Jones Heavy Construction Industry Index and the Russell 1000 Index for the same period. The comparison assumes the investment of $100 on December 29, 2006, and reinvestment of all dividends. The shareholder return is not necessarily indicative of future performance.

	12/29/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/30/2011
KBR	$ 100.00	$ 148.30	$ 58.62	$ 74.11	$ 119.84	$ 110.16
Dow Jones Heavy Construction	100.00	189.61	84.84	96.55	123.48	101.42
Russell 1000	100.00	103.86	63.34	79.47	90.50	90.04

Item 6. Selected Financial Data

The following table presents selected financial data for the last five years. You should read the following information in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes to the consolidated financial statements.

	2011	2010	2009	Years Ended December 31, (In millions, except for per share amounts) 2008	2
ents of tions					
evenue	$ 9,261	$ 10,099	$ 12,105	$ 11,581	$
ng .	587	609	536	541	
from ing ons, net	540	395	364	356	
from inued ons, net				11	
ome able to trolling s	(60)	(68)	(74)	(48)	
ome able to	480	327	290	319	
et . able to er share:					
nuing ons	$ 3.18	$ 2.08	$ 1.80	$ 1.84	$
ntinued ons (a)				0.07	
et . able to er share	$ 3.18	$ 2.08	$ 1.80	$ 1.91	$
l net . able to er share:					
nuing ons	$ 3.16	$ 2.07	$ 1.79	$ 1.84	$
ntinued ons (a)				0.07	

l net	$ 3.16	$ 2.07	$ 1.79
able to			
er share			

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 expensive to develop.

The Company does, however, expect an increase in research and development costs beginning in March, 2004. In order to broaden and diversify its current line of business into additional high growth technology areas, the Company has entered into a Development Agreement, effective 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.

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 *ipots&#153* and the mPhase stretch. We believe the mPhase *ipots&#153* offers a much-needed solution for the DSL industry; the *ipots&#153* enables telcos to remotely and cost-effectively perform loop management and maintenance including line testing, qualification and troubleshooting. Prior to the introduction of the *ipots&#153*, 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 the ITU, ANSI and ETSI. The unique (patent pending) *ipots&#153* 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 truckroll. 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 mPhase stretch. This product extends the service distance for the mPhase Traverser&#153 and can be used in conjunction with other DSL services. The Company anticipates future demand for the stretch loop extender product as it addresses a primary issue in DSL services.

General and Administrative Expenses

Selling, general and administrative expenses were $1,518,411 for the six months ending December 31, 2003 down from $1,624,178 or a decrease of $105,767 from the comparable period in 2002. The decrease in the selling, general and administrative costs is comprised primarily of a reduction in expenses of non-cash charges relating to the issuance of common stock and options to consultants, which totaled $307,245 for the six months ended December 31, 2003 as compared to $484,358 for the comparable period ended December 31, 2002 resulting in a savings of $177,113. This decrease, coupled with other reductions in selling, general and administrative costs including travel were offset by increases in marketing costs, including payroll and related expenses for two new technical sales managers having the composite effect of increasing aggregate administrative expenses other than non-cash charges relating to the issuance of equity investments by approximately $75,000. We expect sales and travel expenses to grow as the Company's approaches the deployment of its TV+ products in the future.

Depreciation and Amortization

Depreciation and amortization expense was $74,082 for the six months ending December 31, 2003, down from $259,381, or a decrease of $185,299 from the comparable period in 2002. The decrease is a result of the Company's reduced outlays for capital expenditures in its two most recent 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.

Net Loss

The Company recorded a net loss of $2,565,377 for the six months ended December 31, 2003 as compared to a loss of $3,421,396 for the six months ended December 31, 2002. This represents a loss per common share of $.04 for the six month period ended December 31, 2003 as compared to a loss per common share of $.06 for the six months ending December 31, 2002; based upon weighted average common shares outstanding of 63,397,799 and 72,251,251 during the periods ending December 31, 2003 and 2002, respectively.

Although it is difficult to predict the exact timing of our fist sales, the Company believes the initial major deployments and the resultant revenues of its flagship products, the *traverser&#153* and the *TV+* respectively, are not expected until the second quarter of fiscal year 2005, which along with any upturn of spending in the telephone industry will also increase sales and improve the Company's margins and provide the Company with the opportunities to attain profitability.

The Outlook for the Company's Flagship Products

The Company believes the initial deployments and resultant revenues of its Flagship products, The Traverser&#153 DVDDS amd the TV+ respectively, are not expected until the second quarter of fiscal year 2005, 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 both of its TV platforms 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 to cost-reduce its INI set top box and develop its new TV+ product.

For the years ended June 30, 2003, 2002 and 2001 and for the period since inception (October 2, 1996) to June 30, 2003, approximately $100,000, $450,000, $3,813,683 and $13,524,300, respectively, has been billed to mPhase for research and development conducted by GTARC. With the completion of the DVDDS legacy product, the Company has shifted its research and development from GATRC to Lucent Technologies Inc. Such new research and development was (a) initially for cost reduction of its INI set top box (b) development by Lucent of the new TV+ product (consisting of a newly designed television broadcast switch compatible with the Lucent Stinger data delivery system as well as equipment of other major vendors). 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, 2003 and 2002 of $1,112,500 and $156,250, respectively.

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 may be exercised on a cashless basis) to purchase 5,069,242 shares of the Company's common stock valued at $.35 per share. In addition the Company is obligated to pay GTRC a total of $100,000 in quarterly installments payments commencing at the end of March of 2004. Under the terms of its license from GTRC mPhase is the sole, worldwide licensee of the technology developed by GTARC in conjunction with the legacy DVDDS product. Upon completion of the legacy DVDDS product, GTRC may receive a royalty of up to 5% of product sales.

The amount of research and development costs the Company has expended from October 2, 1996, its inception date, through June 30, 2003 is $34,347,079. During the year ended June 30, 2003, the Company incurred research and development expenses of $3,538,305 related to the continued development of its current TV platforms and other DSL products and services as compared to $3,819,583 for the same period ended June 30, 2002.

Strategic Alliances Implemented

mPhase Technologies, Inc. has signed a worldwide distribution agreement with Corning Cable Systems, an industry-leading manufacturer of fiber optic and copper communications network solutions and pioneer of DSL POTS splitter applications. This agreement enables Corning Cable Systems to resell mPhase's line of "intelligent" DSL component products including the recently released iPOTS3, as well as its other "intelligent" products. This relationship expands mPhase's distribution network extensively via Corning Cable Systems' worldwide sales force. Based on this agreement, mPhase will act as the original equipment manufacturer for Corning Cable Systems, jointly manufacturing the iPOTS product set, as well as providing sales support and continuing product design and development work. mPhase. mPhase continues to aggressively directly market these product since the current agreement with Corning is non-exclusive in scope.

In addition, the Company has entered into a Co-Branding Agreement with Lucent for its redesigned cost reduced Traverser INI set top box. 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.

The deferred revenues balance recorded on the Balance Sheet for the fiscal year ended June 30, 2003 is made up of three customer deposits consisting of $156,180 in the aggregate for the POTS product and of $58,000 for final customer acceptance of the Traverser&#153 product which will occur upon commercial production of such product.

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 June 30, 2003 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. The Company has 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 has 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.

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, 2003, 2002 and 2001, the Company reserved approximately \$302,000, approximately \$928,000, and approximately \$315,000, respectively, for technical obsolescence and marketability based upon current prices and overall demand and charged a like amount to expense, representing 8.4% of average inventory, at cost, of approximately \$3,588,000 on hand during the period in fiscal 2003; 20.2% of average inventory, at cost, of approximately \$4,602,000 on hand during the period in fiscal 2002; and 13.6% of average inventory, at cost, of approximately \$2,309,000 on hand during fiscal 2001. The reserve and corresponding charges in fiscal

2002 were increased as the Company experienced a dramatic decrease, along with the entire telephonic industry, in demand for our component products in addition to the decision to table the production of certain product line items built on certain European standards and which the Company does not expect to pursue in the near future. As of June 30, 2003, the Company recorded a cost adjustment of approximately $1,059,000, recognizing permanent cost reductions due to price adjustments approximating $318,000 and reductions due to obsolescence resulting from a lack of inter-operability of certain components in inventory with the Company's present product line approximating $741,000. As a result on June 30, 2003 the Company had a total inventory valuation reserve of $486,500 against its inventory with a total balance, at cost, of $2,589,678, or 18.8%. 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 finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited. The Company has incurred costs for obtaining transmission rights. This enabled the Company to obtain retransmission accreditation to proprietary television content that the Company plans to provide with its flagship product, the Traverser&#153 within its incorporated joint venture mPhase Television.Net, in which the Company owns a 56.5% interest.

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

Mr. Michael McInerney, an outside Director, is employed by Lintel Inc. and Mr. Abraham Biderman was employed until September 30, 2003 by our former investment banking firm Lipper & Company.

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

The Company has also incurred charges for beta testing and on-site marketing, including the display of a live working model at Hart Telephone. In addition, the Company has entered into a supply agreement with Hart Telephone, which is scheduled to commence upon the commercial production of the Traverser&#153. In addition the Company has tested its TV+ platform in July of 2003 with 3 customers of Hart Telephone. A member of mPhase's Board of Directors is employed by Lintel, Inc., the parent corporation of Hart Telephone.

Mr. Durando, the President and CEO of mPhase, owns a controlling interest and is a director and COB of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Dotoli is also a shareholder of Janifast Limited. Mr. Ergul, the chairman of the board of mPhase, owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited. Microphase, Janifast, Hart Telephone and Lintel Corporation are significant shareholders of mPhase. Microphase, Janifast and Hart Telephone have converted significant liabilities to equity in fiscal years June 30, 2001, 2002 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.

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,			For the Three Months Ended December 31, (Unaudited)	
	2001	2002	2003	2002	2003
Charges incurred with Janifast included in:					
Cost of sales and ending inventory	$8,932,378	$1,759,308	$178,959	$132,465	$1,816,019
Total Janifast	$8,932,378	$1,759,308	$178,959	$132,465	1,816,019
Charges incurred with Microphase Corp. included in:					
Cost of sales and ending inventory (Including Royalties)	$335,777	$200,440	$86,468	$62,319	$22,948
Research and development	1,660,606	876,074	428,434	240,000	54,000
General and administrative	132,600	136,080	133,200	73,200	15,000
Total Microphase Corp.	$2,128,983	$1,212,594	$648,102	$375,519	$91,948
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	$194,784	$1,838
Research and development	2,802,026	940,113	428,434	240,000	54,000
General and administrative	477,600	136,080	133,200	73,200	15,000
Total Charges with Related Parties	$12,547,781	$3,035,941	$827,061	$507,784	$1,907,967

Liquidity and Capital Resources

From inception (October 2, 1996) through December 30, 2003 and June 30, 2003 the Company has incurred cumulative (a) development stage losses and has an accumulated deficit of $110,581,874 and $108,016,497 respectively and (b) negative cash flow from operations of $44,364,545 and $43,615,413 respectively. The auditors report for the fiscal year ended June 30, 2003 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 $2,000,000 during the next 12 months to continue operations. As of June 30, 2003, the Company had a negative net worth of $3,228,886 up from a negative net worth of $42,849 as a result of continuing net losses incurred after June 30, 2002.

At June 30, 2003 mPhase had working capital deficit of $1,405,331 as compared to working capital of $399,321 at June 30, 2002. Through June 30, 2003, the Company had incurred development stage losses totaling $108,016,497. At June 30, 2003, the Company had $396,860 of cash and cash equivalents and $287,135 of net accounts receivables to fund short-term working capital requirements. At December 31, 2003 mPhase had working capital deficit of $3,007,748 as compared to working capital deficit of $1,405,331 at June 30, 2003. Through December 31, 2003, the Company had incurred development stage losses totaling approximately $110,581,874. At December 31, 2003, the Company had approximately $319,923 of cash, cash equivalents and approximately $182,136 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. 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, 2003, the Company had cash and cash equivalents of $396,860 compared to $47,065 at June 30, 2002, net accounts receivable of $287,135 and net inventory of $2,103,328. This compared to $273,780 of net accounts receivable and $3,342,716 of net inventory at June 30, 2002. At December 31, 2003, the Company had cash and cash equivalents of $319,923 compared to $396,860 at June 30, 2003, accounts receivable of $182,186 and inventory of $1,088,875. This compared to $287,135 of accounts receivable and $2,103,328 of inventory at June 30, 2003.

Cash used in operating activities was $749,303 during the six months ending December 31, 2003. The cash used by operating activities principally consists of the net loss, and significant changes in assets and liabilities, including additional cash used for decreasing accrued expenses by $420,000 offset by depreciation and amortization of $402,257, and by non-cash charges of $307,425 for common stock options and warrants issued for services and cash flow provided from a decrease in inventory of approximately $615,000. The Company does not expect decreases of inventory to be as significant in upcoming quarters, yet we will not need to increase inventory until the roll out of our TV+ platform and the increase in accounts receivable is temporary as a significant sale and shipment occurred late in the September quarter.

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 $100,000 and $450,000, for the twelve month periods ended June 30, 2003 and 2002, respectively, and $13,524,300 from the period from inception through December 31, 2003.

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 may be exercised on a cashless basis) to purchase 5,069,242 shares of the Company's common stock valued at $.35 per share. In addition the Company is obligated to pay GTRC a total of $100,000 in quarterly installments payments commencing at the end of March of 2004. mPhase is the sole, worldwide licensee of the technology developed by GTARC in conjunction with the Traverser&#153 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.

As of December 30, 2003, mPhase is obligated to pay Lucent Technologies, Inc., the sum of $140,000 per month through May of 2004 under a new Development Agreement with Lucent for further development of the TV+ product representing charges the Company has yet to incur of approximately $560,000 in addition to $420,000 included in accounts payable at December 31, 2003, for a total sum of $980,000 pertaining to DSL Delivery Systems.

The Company does, however, expect an increase in research and development costs beginning in February, 2004. In order to broaden and diversify its current line of business into additional high growth technology areas, the Company has entered into a Development Agreement, effective 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 t o 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 Years Ended June 30,			For the Six Months Ended December 31, (Unaudited)	
Equity Conversions of Debt With Related Parties and Strategic Vendors	2001	2002	2003	2002	2003
Related Party Conversions					
Number of shares	4,840,077	6,546,550	5,533,333	4,533,333	0
Number of warrants	0	3,733,334	3,491,800	2,491,800	0
Amount converted to equity	$2,420,038	$1,594,628	$1,748,756	$1,448,756	$0
Strategic Vendor Conversions					
Number of shares	0	999,662	390,000	340,000	0
Number of warrants	0	870,000	215,000	0	0

Amount converted to equity	$0	$529,503	$198,032	$117,486	$0
Total Related Party and Strategic Party Conversions					
Number of shares	4,840,077	7,546,212	5,923,333	4,873,333	0
Number of warrants	0	4,603,334	3,706,800	2,491,800	0
Amount converted to equity	$2,420,038	$2,124,131	$1,946,788	$1,566,242	$0
Gain on Extinguishment of Debt	$0	$142,236	$61,226	$40,725	$0

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.

On December 31, 2003, the Company became in arrears with respect to $420,872 of a balloon payment on a Note payable to its outside Law Firm, Piper & Rudnick LLC. The Company is in discussion with respect to such law firm to extend and/or cancel all or portions of this debt. It should be noted that Piper & Rudnick hold warrants received in March of 2001 in exchange for cancellation of certain payables. Such warrants have conversion rights into our common stock for 2,233,490 shares that are being registered hereunder (see Selling Shareholders list-page 65 hereof) and are cashless. Such warrants could be exercised shares of our common stock which could then be sold in the open market upon the effectiveness of this Registration Statement on Form S-1 in the open market to recover our outstanding payable. See also Risk Factor Section on Page 8 hereof.

As of June 30, 2003, mPhase is obligated to pay Lucent Technologies, Inc., the sum of $100,000 per month through November of 2003 for development of mPhase's new Broadcast Television Switch that will enable the Lucent Stinger Digital Subscriber Line Technology to deliver television as well as data and voice over copper telephone lines. mPhase has no other material commitments for capital expenditures. The Company entered a Development Agreement, dated as of September 15, 2003, with Lucent Technologies, Inc. for further development of its TV+ product. Under the terms of such agreement, the Company paid Lucent an initial installment of $70,000 in December of 2003 plus the obligation to pay 8 additional installments of $140,000 per month commencing on January 1, 2004. Under the contract, Lucent will enhance the features of the Television+ product to include a programming guide, near video on demand, advanced management software and a low bitrate encoder.

We have evaluated our cash requirements for fiscal year 2004 and into fiscal year 2005 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

$2,000,000 primarily in private placement of its common stock with accredited investors, in the current fiscal year. As of January 30, 2004, the Company has raised approximately $1,990,000, and as such, we will not need to curtail certain expenses as incurred at the present levels including marketing and research and development expenses.

Management believes that the $2 million to be raised, 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. 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 $19.8 million shares of common stock at exercise prices of approximately $.30 per share which are presently "in the money" and can be exercised during the next 12 months; the likelihood and potential for which will increase should this prospectus become effective and should the price of the Company's common stock continue to rise.

Should these cash flows 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, 2003, plus financing to be secured during fiscal year 2004, and expected POTS splitter revenues, will be sufficient to meet our obligations until the end of fiscal year 2004 and for the first half of fiscal year 2005. 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.

Current Developments

On February 3, 2004 the Company entered into a Research and Development Agreement with the Bell Labs division of Lucent Technology, Inc. to develop micro power source arrays fabricated using nanotextured superhydrophobic materials. Under the terms of the contract, mPhase is obligated to pay a total of $1.2 million with an initial deposit of $100,000 plus installments of $100,000 per month commencing February 2004 and ending December 2004.

BUSINESS

Overview

We develop, market and sell innovative 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 ordinary copper telephone lines. 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. mPhase is not seeking, at this point in time, to develop robust feature-intensive expensive television platforms to compete with cable in the United States currently both of our TV over DSL solutions support a single television stream over a telephone wire. Therefore our television products are targeted primarily for International markets outside of the United States.

On February 3, 2003, 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. The Company is initially focusing its efforts in developing new power cell 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 digital engineering development for the Traverser&#153 DVDDS System to GTARC. 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 have 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 the manufacture of quantities of POTS Splitters that are made by Janifast Ltd.

mPhase has outsourced to Lucent Technologies, Inc. cost reduction of its Traverser&#153 INI set top box and development of its new TV+ platform. With respect to manufacturing of its TV+ Platform, 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.

The Company has entered into a number of significant agreements with Lucent Technologies, Inc which 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 Traverser&#153 INI set top box. 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+ platform added significant software and hardware value to the Stinger DSL product by enabling such product to deliver broadcast television over ADSL 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 number 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. 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.

The Company has recently entered into a new Development Agreement, dated as of September 15, 2003, with Lucent that provides for continuing development and enhancement of capabilities of its TV+ product at a cost of $1,190,000.

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. Recently mPhase introduced its *intelligent* line of POTS Splitter products. The *i*POTS 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. mPhase has established a worldwide non-exclusive distribution agreement with Corning Cable for the *i*POTS product and continues to market such product directly.

Industry Background

The Company believes there is a significant market for its television over DSL products, in particular, for its latest TV+ Platform. 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. In fact, according to Kagan World Media, the percent of television-owning households subscribing to multi-channel television services outside of North America in 2002 was only 36%. Both the Traverser&#153 DVDDS and mPhaseTV+ platforms empower 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 products enable telephone companies and other communications service providers utilizing twisted pair telephone wires 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. Neither of mPhase's product solutions require a capital-intensive fiber nor cable build- out, long lead times, or a technically challenging deployment. Instead, utilizing their already installed copper telephone line infrastructure, telephone companies can increase their per subscriber revenue, capture additional marketshare, 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 systems DSL 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 Television Over DSL Solution

mPhase markets and sells a line of innovative DSL (digital subscriber line)-based broadband telecommunications equipment. Our flagship product line includes two systems enabling the delivery of television over DSL. Both of these products facilitate telephone companies becoming full service communications providers by enabling the simultaneous delivery of digital broadcast television, high speed data and voice services over the existing telephone line infrastructure. mPhase has these systems with a specific target in mind, specifically, telephone companies in parts of the world where access to multi-channel television is limited, as well as domestic, rural telephone operators.

mPhase introduced its first TV over DSL product, the Traverser&#153 Digital Video and Data Delivery System, (DVDDS) in 1998. The DVDDS, is an end-to-endsystembased upon proprietary technology developed in conjunction with Georgia Tech Research Corporation. Because it is an end-to-end video-over-ADSL (asymetric digital subscriber line) equipment. The proprietary transport method utilized in the Traverser&#153 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 continues to market this product, and believes it to be ideal for customers particularly interested in supporting television services with a minimal need to support high-speed data customers.

The DVDDS is installed at Hart Telephone Company in Hartwell, Georgia, where a 70-user system is currently operational. Hart Telephone completed the construction of its digital headend toward the end of 2001, signifying the commencement of commercial deployment. 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.

mPhase recently introduced its second product in its flagship line, called the mPhaseTV+ platform. mPhaseTV+ is a modular solution utilizing the industry-leading, standards-based Lucent Stinger DSL Access Concentrator for transport. During July of 2003, mPhase successfully tested its TV+ product with 3 customers of Hart telephone.

Bell Labs approached mPhase about creating a hybrid, mPhaseTV+ solution that would capitalize upon the strengths of each company's DSL platform in December of 2002. Prior to this, Bell Labs had 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&#153, 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&#153 method of supporting video.

The mPhaseTV+ platform eliminates the need for telephone companies to replace their already installed equipment. Because this solution is modular, telephone companies that already have Stingers deployed can quickly and easily upgrade to support television in addition to data and voice services. There are currently 4 million Stinger ports deployed in 20 countries around the globe that deliver voice and data over DSL. With minor modifications, mPhase's BTS and Traverser&#153 CPE are also interoperable with other leading vendor's DSLAMs on the market today, making it possible for any telephone company with an installed base of equipment to quickly and relatively inexpensively become full service communications providers.

The mPhaseTV+ platform is ideally suited for large-scale deployments, and in parts of the world which cannot afford the cost of upgrading to cable infastructure. In contrast to the DVDDS, the TV+ Platform is well designed for markets where there either is currently or will likely be a demand to support high speed data AND television services simultaneously and cost effectively.

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 upon the development of advanced battery and power cell products 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&#153 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&#153 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&#153 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 intergrated platform with the Lucent Stinger&#153 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&#153 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&#153 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.

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, 2002 and June 30, 2003 respectively, we generated approximately $2.6 million and $1.6 million in revenue, 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 Traverser&#153, mPhaseTV+ or INI2 feature products 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 Traverser&#153 DVDDS and TV+ products are deployed and depending upon cost-competitiveness.

Our Products & Services

To date mPhase's revenue has been derived exclusively from sales of DSL component telephone equipment parts, the majority of which has come from our sales of POTS Splitter Shelves. We have derived no material revenue to date with respect to either of our broadcast television platform over DSL platforms. In our fiscal years ended June 30, 2003 and June 30, 2002 we generated approximately $1.6 million and $2.6 million in revenue, respectively, from the commercial sale of our component products and overall losses for such years of $6,650,211 and $11,245,361, respectively.

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 its legacy, end to end platform, the Traverser&#153 Digital Video and Data Delivery System (DVDDS,) as well as its newly available mPhaseTV+ Platform. 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&#153 DVDDS

mPhase's legacy television-over-DSL System is the Traverser&#153 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 (requires Class5E voice switch) over a pair of copper telephone wires.

The mPhase DVDDS consists of three key elements: a digital headend called the Programming and Control Center (PCC), Central Office (CO) equipment which includes the Universal Access Shelf and POTS Splitter Shelf, and adjusted set top box called the INI. In order for a subscriber to receive services from a telco via the Traverser&#153 System, all three components must be installed.

Telecommunications service providers using the mPhase DVDDS need to build a digital video head-end to receive television content. This includes installing a satellite receiving dish, off-the-shelf video equipment and mPhase's software to manage the video content. At the PCC, local off-air channels are received, digitized and combined with the signals received via satellite. The PCC can be co-located with a single central office or remotely located and connected to each CO via DWDM, SONET or ATM. mPhase does not manufacture digital head end equipment. However, after extensive lab and field testing, it has established vendor relationships with a number of head end equipment providers.

The Traverser&#153 DVDDS Central Office (CO) equipment, known as the mPhase Universal Access Shelf and POTS splitter shelf, integrate video signals from the PCC with the Internet and voice signals. The outputs are DSL "lines" capable of carrying a single high- quality video stream, high-speed data at speeds up to 2 Mbps downstream and telephone voice services.

Upon reaching the home or business, the DSL line is fed into the Traverser&#153 INI set top box, which functions as a combined DSL modem and digital set-top box. The set top box separates the three signals and routes them to the television, PC and telephone.

The DVDDS is telco switching and operating equipment agnostic and is not dependent on a specific operating configuration. However, because the DVDDS is based upon proprietary technology, it does not interoperate with other manufacturer's DSL equipment, at neither the CO nor the home. Our patented television delivery method transmits signals in native MPEG-2 format to ensure high quality and reliability.

The Traverser&#153 utilizes technology we license exclusively from Georgia Tech Company and technology which we license non-exclusively from Globespan Semiconductor, Inc. Georgia Tech provided a significant part of the engineering research and design to develop the Traverser&#153. The Traverser&#153 also utilizes an advanced filler technology developed by Microphase Corp.

mPhaseTV+ Platform

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+ Platform. 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&#153 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. 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, and a proprietary version interoperable with the mPhase Traverser&#153.

Together with a digital video headend (or PCC) and the Lucent Stinger, the mPhaseTV+ platform provides another 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 the mPhaseTV+ platform to customers planning to support large scale deployments, delivering both high speed data and television services.

The original Traverser&#153 DVDDS is better suited for smaller deployments where the customer is primarily interested in delivering television and not necessarily high speed data. Both products are suited for markets lacking an existing coaxial cable infrastructure. Currently, both platforms support a single television stream and are therefore not competitive in urban and suburban U.S. markets where digital cable and DBS servers are prolific.

The Company believes the initial major deployments and any revenues from sales of its flagship products, the Traverser&#153 DVDDS and the TV+, are not expected until the second quarter of fiscal year 2005. 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)

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 CPE 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 *i*POTS, (intelligent POTS Splitter), product line includes the *i*POTS*1* and the *i*POTS*3*. These products mark 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. These products reduce the operational costs of deploying and maintaining DSL services. The *i*POTS*3* is an upgrade from the 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* is designed for use only with the Lucent Stinger DSLAM.

mPhase has established a worldwide non-exclusive distribution agreement with Corning Cable Systems for the sale of the *i*POTS product line. Utilizing Corning as a distribution channel potentially expands exposure for this product, as Corning is one of the largest vendors of central office DSL filtering equipment. In parallel, the Company continues to aggressively market this product directly.

mPhaseStretch&#153

mPhase has developed another product known as the mPhaseStretch&#153. This product is a loop extender which enhances the performance of the legacy Traverser&#153 DVDDS System by extending its transmission distance for the delivery of voice, video and data up to 20,000 feet. The mPhaseStretch&#153 is a powered device that is placed on the line at approximately 9,000 feet or before the signal degrades. The addition of the Stretch gives mPhase what the Company believes to be the greatest serviceable distance radius for the delivery of converged services. Our current product is only compatible with the Traverser&#153 DVDDS. A universal version of the Stretch&#153, or a version interoperable with other vendor's DSLAM equipment, (including the mPhase TV+/Lucent Stinger solution) is currently being developed by mPhase.

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.

mPhase Television.Net, Inc.

mPhase Television. Net, Inc. (mPhase TV) has established licensing agreements with content originators thus allowing service providers to offer subscribers a full complement of U.S. television programming. mPhase TV has secured rights to rebroadcast television content from U.S. network and cable broadcasters. mPhase TV can offer programming content in the U.S. to U.S. telephone service providers seeking to deploy either of mPhase's television platforms. This eliminates the need for service providers from having to negotiate many separate contracts with U.S. broadcast television programmers.

It is important to note that the role of mPhaseTV has changed since its inception. Originally, mPhaseTV was to act as a content aggregator, downlinking a complete lineup of channels, digitizing those channels and uplinking them via satellite for further delivery to each telco site. The benefit of mPhaseTV acting as a content aggregator was that service providers would not have to build a full-scale headend that included encoders, and other equipment. However, recent advances in technology have significantly reduced the costs for a telephone company to build a full scale headend. Therefore the role of mPhaseTV is now limited to providing the appropriate licenses and relationships as opposed to offering a content aggregation solution. Telephone companies purchasing content through mPhaseTV are required to build a full-scale digital headend.

In March of 2000, mPhase provided the initial funding for mPhaseTV, by lending it $1,000,000 at 8% per annum interest. The loan is repayable to us in common stock at the time that mPhase Television qualifies for listing in the NASDAQ Small Cap Market. We also contributed $20,000 in cash to the joint venture and granted options to Alphastar Internal Inc. (Alphastar) to purchase 200,000 shares of our stock for $4.00 per share. The agreement required Alphastar to provide mPhase Television the right to transmit television broadcasts over Alphastar's digital satellite network. On May 1, 2000, we acquired an additional 6.5% interest in mPhase Television for an additional $1,500,000 in cash. We report mPhaseTV as a consolidated subsidiary.

As part of its cost reduction efforts in fiscal year 2002, mPhase renegotiated its joint venture relationship with Alphastar that originally established mPhaseTV. Under the new arrangement, mPhaseTV terminated its lease of the rights to use Alphastar's earth station satellite uplink and downlink facility in Oxford, CT. Such facilities had enabled mPhaseTV to aggregate television content from the multiple networks and content providers eliminating the need for telecommunications service providers in the United States from building a master headend as an additional cost to the Traverser&#153 DVDDS and TV+ platforms. As noted above, recent developments in technology have significantly reduced the cost of such master headend facilities which eliminates the need for mPhase to aggregate television content. mPhaseTV may serve as a strategic asset for selling the mPhase's video over DSL solutions in the U.S. by having secured the rights to transmit over DSL over a number of television channels directly from the content providers. This eliminates the need for a U.S. telecommunication services provider from purchasing either of mPhase's television delivery platforms from having to assemble such rights itself from each of the content providers. mPhase currently owns a 56% controlling interest in mPhaseTV.

Research and Development Activities

We have designed the Traverser&#153 and its ancillary component parts in conjunction with Georgia Tech Research Institute which conducts a majority of our digital research and development for the Traverser&#153 line of products. Microphase Corporation contributed the analog technology incorporated in the design of the Traverser&#153, as well as providing ongoing development of analog components for the Traverser&#153.

As of June 30, 2003, we had been billed approximately $13,500,000 for research and development conducted by Georgia Tech Research Institute (GTRC), of which approximately $1,770,480 remains outstanding. 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&#153 DVDDS worldwide. We are obligated to pay Georgia Tech royalties of 5% on future sales of the Traverser&#153DVDDS. The license agreement expires automatically when the patents covering the invention expire. We are currently negotiating with Georgia Tech to amend certain provisions of the agreement which would reduce the royalty in connection with the settlement of mPhase's current account with GTRC.

On February 13, 2003 mPhase announced that the Bell Labs division of Lucent Technologies, Inc. would help redesign a cost-reduced features enhanced version of mPhase's Traverser&#153 Intelligent Network Interface digital set top box. The initial version of the newly- designed box will cost approximately 50% less than mPhase original set top box. The newly designed set top box will be developed in stages and will eventually support multiple channels of television, an electronic programming guide, video-on-demand, MPEG-2 and MPEG 4 digital quality TV, video over IP and is compatible with both CAP and DMT modulation. mPhase has contracted to pay Lucent a total of $625,000 relating to the redesign and cost-reduction of its set top box and has paid as of March 31, 2003 $472,955 to Lucent representing installments due based upon percentage of completion of the purchase order. In addition, mPhase has contracted to pay Lucent $1,000,000 for development of its broadcast digital television switch and integration of such switch with the Lucent Stinger resulting in mPhase's new mPhaseTV+ Platform. As of March 30, 2003 mPhase has paid Lucent $100,000 for such product and has an accrued balance of $200,000. mPhase is obligated to pay Lucent $100,000 per month through November of 2003 for completion of the mPhaseTV+ Platform. Finally, mPhase has recently entered into a new Development Agreement, dated as of September 15, 2003, with Lucent to continue development of new features and enhanced capabilities for its TV+ platform at a cost of $1,190,000.

Market

Currently, mPhase's target market for its television over DSL solutions include telephone companies and telecommunications service providers worldwide. By deploying converged voice, video and data over their existing copper 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. There are over 1 billion telephone lines serving consumers around the globe compared to only 586.9 (source: Kagan World Media) million homes passed by cable. In today's competitive telecommunications landscape, both the Traverser&#153 and the mPhaseTV+ platform have now become necessary solutions for all telecommunications service providers to compete effectively in today's marketplace.

We estimate that on average, a typical telco using either mPhase's end-to-end system, the Traverser&#153 DVDDS, or it's mPhaseTV+ platform utilizing the Lucent Stinger 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 video over DSL platforms are such that, for example, when charging as little as $7 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 achieved a significantly higher rate of return on its investment in either of our TV platforms 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 mPhaseTV+ television over DSL platform, developed in conjunction with Lucent Technologies, for a number of reasons:

1. The platform has been designed to achieve maximum cost efficiencies. Initial versions of this product will be cost-competitive with the mPhase Traverser&#153 DVDDS. However, because this solution utilizes the Lucent Stinger for transport, continued price reductions are expected. It is anticipated that as Lucent continues to drive down the cost of the Stinger and as further engineering efforts are completed in the Stinger to better and more efficiently support broadcast video services, we believe the total per port cost of the mPhaseTV+ platform will be the most cost-effective solution available on the market.

2. mPhase believes its business partnership with Lucent will help validate our products and result in greater sales. mPhase will be able to leverage Lucent's relationships with its estimated 250 business partners around the globe, thereby increasing exposure for its mPhaseTV+ product set significantly.

3. The mPhaseTV+ platform more effectively supports the delivery of data services than the Traverser&#153 DVDDS. Therefore, in markets where large-scale data deployments will be required, the mPhaseTV+ platform brings to mPhase a new competitive advantage. By contrast, the Traverser&#153 DVDDS is better suited for deployments where the support of television services is the primary and long-term objective, such as in commercial settings.

mPhase is currently targeting international incumbent telephone companies and rural independent domestic local exchange carriers for sale of its TV over DSL platforms. The Company expects to derive the majority of its system sales abroad, specifically from telephone service providers in Europe, Latin America, Asia and Africa. Additionally, the modular video elements of mPhase's mPhaseTV+ platform (i.e., the BTS and INI) can be retrofitted to existing Lucent Stinger deployments. mPhase, through the support of

Lucent, anticipates targeting many of the customers of Lucent that currently have deployed over 4 million ports of the Stinger data and voice delivery product in over 20 countries around the globe.

mPhase believes that foreign telco markets will adopt its TV over DSL product solutions more rapidly than domestic service providers since there is not generally the demand outside of the United States for robust cable features (such as simultaneous delivery of 3 different TV channels through one set top box) as there is in the United States. Therefore, the Company has placed much of its initial emphasis on targeting the international telco market.

The demand for alternative television options is high in Europe, Asia and Latin America. According to the Yankee Group, European countries have been early adopters of video-over-DSL and alternative video delivery technologies, deploying and testing services more aggressively than North America. These markets possess pockets of moderate to high-income households willing and able to purchase advanced digital services, but very few alternatives exist. According to the Gartner Group, another industry analyst, the number of carriers in the Europe, Middle East and African regions planning on deploying video over DSL services has "leapt from 40 percent to almost 75% in 2002." Analysts from the Gartner Group commented that, "This is a clear sign that carriers realize they need to move upstream with broadband value-added services."

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.

Parts of the world representing the largest opportunities for mPhase include Latin America, Eastern Europe and parts of Africa. For instance, multichannel television service providers in Latin America have only penetrated 18.3% of the 94.7 million television-owning households (source: Kagan World Media). In Latin American telecommunications service providers deploying one of mPhase's solutions for TV over DSL will be able to offer television services at very competitive rates. Currently, multichannel television services are only available to the top-tier consumers in Latin America as well as in other developing parts of the world. mPhase's return on investment models indicate that telecommunications service providers charging as little as $7 a month for basic services can anticipate a return on investment within a very short period of time. This attractive business model will help make digital multichannel television service available to a large number of potential new users.

The U.S. multichannel television market is highly competitive, because the penetration of cable services in North America is much higher than the rest of the world and there are numerous service options for multichannel pay TV customers, telecommunications service providers must provide incentives for cable television subscribers to switch service providers. However, in foreign markets, where (a) there is a high penetration of television sets, a very limited number of broadcast television channels are received using antennas from "through-the-air" broadcast and (b) direct-to-home satellite providers cannot currently support the delivery of reliable, two-way data services. In such markets we believe that a telephone company is much better positioned to be the initial and primary provider of bundled converged services.

The following table represents the estimated number of television viewers in select countries.

	TV Households	*Multichannel Subscribers
		(in millions)
Worldwide	994	430.55
Asia	519.3	207.6
Europe	233.3	94.8
Latin America	118.7	24
North America	112.7	104.15

*

Multichannel subscribers includes cable and DBS subscribers
Source: Global Multichannel Markets 2002: Performance and Projections for 59 countries. Kagan World Media.

Competition in the telco 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.

Domestic telecommunications service providers face difficulty in maintaining market share and revenue. Price declines in traditional voice services and the proliferation of Internet telephony are impacting operating margins. mPhase believes that the independent, rural domestic telco is the especially vulnerable to these competitive threats and has a need to develop new product delivery capabilities to increase revenues and margins. However, independent telecommunications service providers are not as well capitalized as the larger domestic regional bell operating companies and other large incumbent service providers and therefore tend to be very cost conscious in equipment deployment.

In areas where there is sparse cable deployment, or the cable infrastructure is antiquated, there is an increasing demand for better quality of service, more programming channels and additional services. The independent telecommunications service providers operating in these areas can benefit from the incremental revenue generated by services offered through mPhase's TV-over-DSL platforms.

Beyond selling its solution to telephone companies, mPhase believes it will eventually experience success in serving the global multi-dwelling unit (MDU) market. This market consists of large residential or multi-office complexes, hotels, and campus environments. The MDU can effectively become its own multichannel television content distributor using either the Traverser&#153 or the mPhaseTV+ solution by building a digital video head-end to downlink broadcast television programming and installing mPhase's equipment.

mPhase is in the process of evaluating market opportunities in North America and around the world to address commercial applications of the Traverser&#153 DVDDS and TV+ platforms. However, the Company believes that commercial sales to manufacturing or enterprise customers will only represent a marginal source of revenue because of the limited scope and demand for internal broadcasting networks in the commercial market.

Sales Strategy

TV over DSL products

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's most recent product offering, the mPhaseTV+ was designed to utilize Lucent Technologies' Stinger for transport. By adding an mPhase BTS at the central office and mPhase's standards-based digital set top box at the customer premises, mPhaseTV+ services can be added anywhere the Stinger is or going to be deployed. The Lucent Stinger is an already proven solution with over 4 million ports deployed in 20 countries around the globe. In parts of the world lacking cable infrastructure where the Stinger is deployed represents an opportunity to retrofit these deployments with television services. And for new deployment opportunities,

mPhase will be able to leverage the Lucent brand and the reputation of the Stinger as a highly scaleable and cost-effective transport medium.

mPhase has also established a reseller agreement with Lucent, making it a part of Lucent's Global Business Partner organization. As a result of this agreement, mPhase can sell carriers a complete solution by reselling the Lucent Stinger along with mPhase's BTS and Traverser&#153 INI Set Top Box. In addition, mPhase and Lucent are developing a joint marketing program. As part of this program, the two companies will identify target markets where their combined television, voice and data over DSL solution is most competitive. Together, Lucent and mPhase will approach Lucent's established global business partners with the mPhaseTV+ solution for further marketing to targeted telecommunications service providers. This partnership represents a tremendous opportunity for mPhase, as Lucent has over 250 business partners in more than 40 countries around the globe.

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 television over DSL system, yet recognize the potential business opportunity for such a platform.

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 is pursuing a JV in Turkey where the funding partners include companies that own newspapers and television stations that are looking to expand their revenues. 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 equipment sales, but would benefit from the recurring revenues from a JV engaged in being a broadcast television service provider.

DSL Component Products

mPhase also sells a line of DSL component products including: POTS Splitter Shelves *i*POTS Splitters, 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 current depressed market conditions that pervade the telecommunications equipment industry. However, the Company has begun to experience a rebound in the market and anticipates sales to increase in the second half of calendar year 2003.

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

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&#153 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&#153 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 Traverser&#153 DVDDS platform.

The licensed patented and patent-pending technology developed at Georgia Tech covers the capabilities of the Traverser&#153 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 digital intellectual property that we license provides several unique aspects of the Traverser&#153 DVDDS. Among these is the backplane design, which provides every subscriber the ability to view any channel available. All subscribers in a given system could be watching the same channel, or could be watching different channels with no degradation of service. The proprietary design, which does not incorporate a Digital Subscriber Line Access Multiplexer architecture, makes the Traverser&#153 DVDDS a true broadcast system rather than a mere video delivery system.

The patent issued on March 27, 2001 to the Georgia Tech Research Corporation for the System and Method for Maintaining Timing Synchronization in a Digital Video Network covers the development of the Framer and the Framer chip. The Framer is an Integrated Circuit which gives the Traverser&#153 the capability of allocating both the downstream and upstream bandwidth into virtually any application required. This feature allows the Traverser&#153 to deliver both MPEG-2 Digital Video and Internet data simultaneously and also allows for future applications of the Traverser&#153. This technology is exclusively licensed worldwide to mPhase Technologies, Inc.The patent issued on November 27, 2001 to the Georgia Tech Research Corporation for the Method and Apparatus for Combining a Plurality of 8B/10B Encoded Data Streams addresses video data transport between digital headends and the access network serving subscribers. A further patent is pending covering other methods of video program transport.

We also have patents pending that protect:

the software management and control of the individual Traverser&#153 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&#153 DVDDS.

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&#153 technology, our future operations could be adversely affected.

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 DSL and/or video over DSL equipment. 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 television platforms are attractive to a broader range of customers of telecommunication service providers. The following sections outline the competitive landscape for mPhase.

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.

Cable Television Network Operators

Although the cable industry is our indirect competitor, the Company believes that two-way cable service provides incentive to telecommunications service providers to explore additional services. Cable companies pose a serious competitive threat to telephone company market share. However, in order for cable companies to compete for high-speed Internet and telephony customers, the cable plant must be upgraded to two-way digital cable. Cable companies have invested large amounts of capital to upgrade dense service population areas in the US. However, cable operators typically underserved less densely populated regions with antiquated analog cable systems. Outside of the U.S., very little two-way cable plants have been installed.

Telecommunications service providers around the world have the incentive to deploy TV-over-DSL solutions either because of the threat of the cable companies, or because of the lack of cable infrastructure. The Company believes that its TV over DSL platforms are the most cost effective and robust video delivery technology deployable by our primary target market of international telecommunications service providers. Installing our platforms will facilitate telephone companies in retaining and capturing market share, as well as generating incremental revenue. mPhase's Traverser&#153 DVDDS and mPhaseTV+ solutions enable telecommunications service providers to compete effectively in a converging services market with a "triple play" of services-digital television, high-speed data and voice services in an attractive bundled package.

Other DSL and Video over Copper (VoC) Equipment Manufacturers

mPhase competes with vendors of DSL equipment and system software. Companies that supply DSL technology including 2Wire, ADC telecom, Advanced Fiber Communications, Alcatel, Broadcom, Copper Mountain, Corning Cable System, Ericson, Fujutsu, Motorola, Minerva, ECI Telecom, Turnstone, Westell, Teradyne, TuT Systems, Marconi Communications, NEC, Nokia, Paradyne, Samsung, Texas Instruments, DVTel, Inc. Pace Micro Tech., Net to Net, and Myrio.

Other Video-over-DSL technologies compete with the Traverser&#153 DVDDS and TV+ platforms are summarized below.

Differentiating Factors

mPhase believes that it offers the most reliable, scaleable and cost effective television over copper solutions. The mPhase TV over DSL solutions were designed specifically to enable delivery of broadcast television over DSL. Both the Traverser&#153 DVDDS and the mPhaseTV+ platform are basic solutions for delivery of digital broadcast television over DSL without expensive features such as interactive television, video-on-demand

and simultaneous multi channel delivery over a copper telephone line. Such features can be added to our platforms depending upon demand. mPhase television products are solutions for parts of the world that are in need of "just TV" rather than costly, feature rich solutions. We believe there is a significant market that is not currently serviced world wide for delivery of broadcast television programming on a cost-effective basis. mPhase's streamlined solutions are designed to be the most cost-effective in emerging international markets.

There are a number of telecommunications equipment providers competing in the television over DSL space. For instance, a new division of Motorola (formerly known as Next Level Communications) has secured over 100 customers predominantly in the United States. The majority of their video deployments utilize a specific form of DSL known as VDSL (very fast digital subscriber line). VDSL requires that telecommunications service providers install fiber optics into the neighborhood, or close to the customer premises because signals can only travel up to 3-4,000 feet over copper telephone wires. As a result, compared to the mPhase solutions, the platform is significantly more capital intensive and therefore expensive due to the cost of the infrastructure upgrade (i.e., installing fiber optics closer to the customer premises). Motorola has also introduced an ADSL version of its equipment, which has a serviceable distance radius of approximately 8,000 feet. This newer product could compete more directly with both of mPhase's TV over DSL solutions. Motorola's Television over DSL products tend to be more feature rich and expensive than mPhase's solutions. Motorola concentrates the majority of its sales efforts within the US market where consumers demand a robust viewing experience due to the penetration of fiber and cable.

Another company that sells equipment similar to mPhase is Alcatel. Alcatel is the leading supplier of DSLAMS (digital subscriber line access multiplexers) around the globe. Alcatel has deployed several video over DSL trials although its largest, with Aliant Telecom in Canada, was discontinued. Historically, Alcatel has worked with multiple equipment vendors to create a complete, end-to-end video solution, including software providers and set top box provider, Pace. Recently Alcatel acquired iMagicTV, adding to its product line for delivery of television over DSL. Alcatel recently announced upgrades to its DSLAM line or products to better support the delivery of converged voice, video and data.

Other major competition in the DSLAM market include UT Starcom and HUWAEI Company.

Lucent also offers another video-over-DSL solution currently deployed at SakTel in Canada. This solution, similar to Motorola's products, offers greater functionality and features, however is more costly in terms of per port equipment cost than the mPhaseTV+ platform. Finally, other smaller vendors are emerging, partnering with third party equipment vendors to create a video-over-DSL platform. Equipment providers such as Net to Net and Paradyne are modifying their data platforms to support the delivery of television services. However, mPhase believes it has certain cost of equipment advantages over other vendors making its system more economically viable for potential customers. The Company believes that the strength of the video-centric BTS coupled with the strength of the data-centric Lucent Stinger make its solution extremely competitive in its target markets.

Headend Equipment Providers

As discussed earlier, mPhase does not manufacturer digital head end gear. All customers interested in deploying an mPhase video over DSL system 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.

Employees

We presently have thirteen (13) 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 an office and research facility at Georgia Tech in Atlanta, Georgia as part of our basic ordering agreement with Georgia Tech.

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 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.

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 June 30, 2003, are as follows:

Name	Age	Position(s)
Necdet F. Ergul	80	Chairman of the Board and Director
Ronald A. Durando	46	President, Chief Executive Officer And Director
Gustave T. Dotoli (2)	68	Chief Operating Officer and Director
Martin S. Smiley	56	Executive Vice President, Chief Financial Officer and General Counsel
David L. Klimek	50	Chief Technology Officer and Director
Anthony H. Guerino, Esq. (1)(2)	58	Director
Abraham Biderman (1)(2)	55	Director
Michael P. McInerney	48	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 a co-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.

David Klimek

is a co-founder of mPhase Technologies, Inc. and has served as our Chief Technology Officer since June 1997 and as Director of Engineering since its inception in October 1996. Mr. Klimek joined our Board of Directors in October 1996. From 1990- 1996, Mr. Klimek owned and operated Mashiyach Design, Inc., an engineering consulting firm. He has more than 18 years of technical engineering and design expertise and presently holds 14 individual or co-authored U.S. patents. From 1982 to 1990, Mr. Klimek was the R&D manager of Digital Controls, Inc. Mr. Klimek holds a B.S. in Electrical Engineering from Milwaukee School of Engineering, Milwaukee, Wisconsin.

Michael P. Mcinerney

is President of Lintel, Inc. subsidiaries; Hart Telephone Company, a 10,000-line local exchange carrier in Northeast Georgia, Hart Communications, a telecommunication company, Hart Cable, a cable television company and Diversified Golf. Mr. McInerney was Vice President of Lintel, Inc. from 1994 until he became President in 2001. >From 1991 to 1994, Mr. McInerney was Executive Director of Standard Telephone Company. In the period from 1980-1991, Mr. McInerney was a regional manager, state manager and an account executive with AT&T. Mr. McInerney earned a Masters of Business Administration degree at Winthrop college and a B.S. degree at the University of Vermont.

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.

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.

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, 2003 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, 2003 was greater than $100,000 for services rendered to us in all capacities during such year.

Summary Compensation Table

		Annual Compensation		Long-Term Compensation	
Name And Principal Position	Year	Salary	Bonus	Securities Underlying Options/Sars Award(s) (Shares)	Restricted Stock (Shares)
Ronald A. Durando(1)(2)	2003	$234,504	-	-	450,000
Chief Executive Officer	2002	388,504	-	-	1,850,000
and President	2001	395,004	-	-	1,225,000
Gustave T. Dotoli(1)(2)	2003	193,254	-	-	350,000
Chief Operating Officer	2002	313,504	-	-	1,225,000
	2001	342,917	-	-	860,000
David L. Klimek(1)	2003	90,958	-	-	75,000
Chief Technology Officer	2002	106,606	-	-	162,500
	2001	175,577	-	-	110,000
Martin S. Smiley	2003	109,583	-	-	200,000
Executive VP, Chief	2002	158,712	-	-	540,000
Financial Officer	2001	163,435	-	-	670,000
& General Counsel					

1. Includes $7,500 stipend as a director for fiscal years ended June 30, 2001 and June 30, 2002.
2. 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. 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. No other executive officer received compensation and bonuses that exceeded $100,000 during any year.

STOCK OPTIONS

The following table contains information regarding options granted in the fiscal year ended June 30, 2003 to the executive officers named in the summary compensation table above. For the fiscal year ended June 30, 2003, mPhase granted options to acquire up to an aggregate of 1,615,000 shares to employees and directors.

Option Grants in Last Fiscal Year
(Individual Grants)

Name	Number of Securities Underlying Options/SARS Granted (#)	% of Total Options/SARS Granted to Employees in Fiscal Year	Weighted Average Exercise or Base Price ($/Share)	Weighted Average Market Price on Grant Date	Expiration Date	Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for 5 Year Option Term 0%	5%	10%
Ronald A. Durando	450,000	27.9	$.40	$.31	2008	$0	$0	$44,665
Gustave T. Dotoli	350,000	21.7	.40	.31	2008	0	$0	$34,740
David Klimek	75,000	4.6	.40	.31	2008	0	$0	$7,445
Martin Smiley	200,000	12.4	.40	.31	2008	0	$0	$19,850

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, 2003. During the fiscal year ended June 30, 2002, 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, 2003, and the exercise price of the options.

Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized $	Number of Securities Underlying Unexercised Options at year end (#) Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at Year-End ($) Exercisable	Unexercisable
Ronald A. Durando	-	-	4,225,000	-	$59,000	$-
Gustave T. Dotoli	-	-	2,860,000	-	39,000	-
David Klimek	-	-	547,500	-	4,650	-
Martin Smiley	-	-	1,285,000	-	18,400	-

Employment Agreements

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

Long-Term Stock Incentive Plan

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

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

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

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

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

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

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

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

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

Participation in the 2001 Plan will be open to all of our employees, officers, directors and other individuals providing bona fide services to us or any of our affiliates, as the administrator may select from time to time. All three (3) non-employee directors and approximately ten (10) employees will be eligible to participate in the 2001 Plan.

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

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

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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee during fiscal 2002 were Messrs. Dotoli, Mr. Biderman and Guerino. Mr. Dotoli is our Chief Operating Officer. Neither Messrs Guerino nor Biderman is not one of our officers or employees. None of our directors or executive officers served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of such committee, the entire board of directors) of another entity during fiscal 2001 that has a director or executive officer serving on our Board of Directors except that Mr. Dotoli is also a member of the Board of Directors of PacketPort.com, Inc., a company in which Mr. Durando serves as Chief Executive Officer. Mr. Ergul is a controlling shareholder and Director of Microphase corporation (which provides certain administrative services to mPhase) and Mr. Dotoli and Mr. Durando are Officers of Microphase., Mr. Dotoli, together with Mr. Durando and Mr. Ergul, are controlling shareholders, officers and directors of Janifast Ltd. Janifast Ltd. has produced components for the Traverser&#153, and is expected to produce a material amount of DSL components for us in the future.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of June 30, 2003, certain information regarding the beneficial ownership of our shares:

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

each of our directors;

by each executive officer named in the Summary Compensation Table; and

by all of our directors and executive officers as a group.

Name and Address of Beneficial Owner(1)	Number of "Shares" of Common Stock Beneficially Owned	Percentage Ownership of Common Stock(2)
Necdet F. Ergul(7)(9)	16,477,451	21.0%
Ronald A. Durando(3)(7)	15,584,548	19.9%
Gustave T. Dotoli(7)(10)	4,596,100	6.1%
J. Lee Barton(4)(6)(7)(8)	3,589,000	5.0%
David Klimek(7)	715,000	1.0%
Lintel, Inc.(6)	4,114,219	5.7%
Abraham Biderman(5)(7)	312,733	*
Anthony Guerino(7)	302,500	*
Michael McInerney(7)(8)	168,900	*
Martin Smiley(11)	3,841,050	5.2%
Microphase Corp,(12)	14,169,535	18.2%(12)
Janifast(13)	8,550,000	11.7%(13)
All executive Officers & Directors as a group (eight people) (8)	49,701,501	53.1%

*

Less than 1%

1. Unless otherwise indicated, the address of each beneficial owner is 587 Connecticut Avenue, Norwalk, Connecticut 06854-1711.
2. Unless otherwise indicated, mPhase believes that all persons named in the table have sole voting and investment power with respect to all shares of the Company shares beneficially owned by them. The percentage for each beneficial owner listed above is based on 72,086,186 shares outstanding on October 27, 2003, and, with respect to each person holding options or warrants to purchase shares that are exercisable within 60 days after October 27, 2003, the number of options and warrants are deemed to be outstanding and beneficially owned by the person for the purpose of computing such person's percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. The number of shares indicated in the table include the following number of shares issuable upon the exercise of warrants or options:

Necdet F. Ergul	6,541,250
Ronald A. Durando	6,142,067
Gustave Dotoli	3,513,067
J. Lee Barton	295,000
Lintel, Inc.	-
David Klimek	322,500
Martin Smiley	2,443,007
Michael McInerney	155,500
Abraham Biderman	307,500
Anthony Guerino	302,500

3. Includes 1,396,148 shares held by Durando Investment LLC, and 7,350,000 shares and 1,200,000 warrants held by Janifast which Mr. Durando controls and 230,000 shares owned by Karen and Ronald Durando Foundation; and 95,000 shares owned by Durando Charitable Remainder Trust.
4. Includes 100,000 shares owned by Kim Barton, his wife and 100,000 shares owned by Betty Barton, his daughter. Mr. Barton resigned from the Board of Directors in March 2002.
5. Includes 5,233 shares of common stock, options and warrants for 272,500 shares of common stock. Does not include 1,103,225 shares held by Lipper & Co, where Mr. Biderman is a director.

6. The address for Lintel, Inc. and J. Lee Barton, who is Chief Executive Officer of Lintel, Inc. is 196 North Forest Avenue, P.O. Box 388, Hartwell, GA 30643.
7. Includes options for 25,000 shares of common stock received as compensation for participation on the Board of Directors.
8. Mr. Michael P. McInerney, President of Lintel, Inc. subsidiaries, was appointed to the Board at the 2002 Annual Shareholders meeting.
9. Includes 200,000 shares owned by Berrin Snyder, his daughter and 150,000 owned by Eda Peterson, his daughter. Also includes 8,244,667 shares and 3,200,000 warrants and 1,200,000 shares and warrants to purchase 1,200,000 shares issuable pursuant to the terms of a convertible note held by Microphase Corporation, a company in which Mr. Ergul is the President and Chief Executive Officer.
10. Includes 195,000 shares owned by Patricia and Gustave Dotoli Foundation; and 30,000 shares owned by Dotoli Charitable Remainder Trust.
11. Includes 333,334 shares and warrants to purchase 333,334 shares issuable pursuant to the terms of a convertible note.
12. Includes 8,244,667 shares and 3,200,000 warrants and 1,200,000 shares and warrants to purchase 1,200,000 shares issuable pursuant to the terms of a convertible note held by Microphase Corporation, the totals of which are included in the total beneficially owned shares of Necdet F. Ergul.
13. Includes 7,350,000 shares and 1,200,000 warrants, the totals of which are included in the total beneficially owned shares of Ronald A. Durando.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Material Related Party Transactions

The Company records material related party transactions. The Company incurs costs for engineering, design and production of prototypes and certain administrative functions from Microphase Corporation and the purchase of finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited. The Company has incurred costs for obtaining transmission rights. This enabled the Company to obtain retransmission accreditation to proprietary television content that the Company plans to provide with its flagship product, the Traverser&#153 within its incorporated joint venture mPhase Television.Net, in which the Company owns a 56.5% interest.

The Company has also incurred charges for beta testing and on-site marketing, including the display of a live working model at Hart Telephone. In addition, the Company has entered into a supply agreement with Hart Telephone, which is scheduled to commence upon the commercial production of the Traverser&#153.

In addition the Company has tested its TV+ platform in July of 2003 with 3 customers of Hart Telephone. A member of mPhase's Board of Directors is employed by Lintel, Inc., the parent corporation of Hart Telephone. Mr. Durando, the President and CEO of mPhase, owns a controlling interest and is a director and COB of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Dotoli is also a shareholder of Janifast Limited. Mr. Ergul, the chairman of the board of mPhase, owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited. Microphase, Janifast, Hart Telephone and Lintel Corporation are significant shareholders of mPhase. Microphase, Janifast and Hart Telephone have converted significant liabilities to equity in fiscal years June 30, 2001, 2002 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.

Transactions with Officers, Directors and their Affiliates

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

On November 11, 2002 and November 12, 2002, the Company issued warrants to purchase 2,491,080 shares of common stock of the Company which were valued at $480,917 or $.193 per share with an exercise price of $.01 per share for the cancellation of unpaid compensation to two officer's of the Company as of October 14, 2002.

In March of 2003, Messrs, Durando, Dotoli and Smiley participated in a private placement of the company investing $20,000, $20,000 and $75,000 respectively, receiving common stock of mPhase at $.30 per share plus 5 year warrants of mPhase to purchase a like amount of common stock at $.30 per share.

In March of 2003, Messrs. Durando the CEO and President and Smiley the CFO and General Counsel of the Company lent the Company $30,000 and $100,000 respectively evidenced by two promissory notes bearing interest at 12% per annum due in September of 2003. As of June 30,2003 the Company prepaid Mr. Durando's promissory note in full together with accrued interest. In June 2003, Mr. Smiley agreed to extend his note until July, 2004. Also in June, 2003, Microphase agreed to convert $360,000 of accounts payable to a note payable, interest at 12%, due in July, 2004. The notes have provisions for prepayment by the Company, and, at the option of the holder, provide for the conversion of unpaid principal and interest into units valued at $.30 each, each unit consisting of one share of the Company's common stock and a one warrant to purchase the Company's common stock at $.30 per share for a period of 5 years.

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

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

Mr. Michael McInerney, an outside Director, is employed by Lintel Inc. and Mr. Abraham Biderman was employed until September 30, 2003 by our former investment banking firm Lipper & Company.

In July 2000, mPhase added a member to the Board of Directors who is employed by an investment-banking firm that has assisted and is expected to continue to assist the Company in raising capital through private financing. During the year ended June 30, 2001, the Company issued 140,350 shares of common stock for investment banking services rendered during the period and recorded an additional $69,000 of fees which is included in accrued expenses at June 30, 2001.

Abraham Biderman became a member of our Board in August 2000. Mr. Biderman is the Executive Vice President of Lipper & Company, L.P., which received a total of 265,125 shares of common stock for its services as a placement agent for our May 2000, September 2000 and January 2001 private placements. In July, 2001 and November, 2001 Lipper and Company received 138,000 shares and 300,000 shares in additional common stock in mPhase for services rendered to the Company as placement agent in a Private Placement and for general investment banking and financial advice services.

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

For consulting services rendered in connection with the joint venture, the Company agreed to pay two officers of the Company and a related party $412,400, which was included on the June 30, 2000 consolidated balance sheet of the Company. This amount was paid by the Company during the year ended June 30, 2001.

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

Transactions with Microphase Corporation

mPhase's President and Chairman of the Board of the Company are also employees of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase, whereby it will use office space as well as the administrative services of Microphase, including the use of accounting personnel. This agreement was for $5,000 per month and was on a month-to-month basis. In July 1998, the office space agreement was revised to increase the rent to $10,000 and in January 2000 to $11,050 per month. In July 2002, such amount was increased to $12,200 per month, and as of January 1, 2003 such rent was reduced to $10,000 per month. Additionally, in July 1998, mPhase entered into an agreement with Microphase, whereby mPhase reimburses Microphase $40,000 per month for technical research and development assistance. Such agreement was amended as of January 1, 2002 to reduce such payment to $20,000 per month. Such amount was reduced to $6,000 per month starting January 1, 2003. Microphase also charges fees for specific projects on a project-by-project basis. During the years ended June 30, 2001, 2002 and 2003 and for the period from inception (October 2, 1996) to June 30, 2003, $2,128,983, $1,212,594, $648,102, and $7,224,526, respectively, have been charged to expense or inventory under these Agreements and is included in operating expenses in the accompanying consolidated statements of operations. Management believes that amounts charged to the Company by Microphase are commensurate to amounts that would be incurred if outside third parties were used.

On February 15, 1997, mPhase entered into a Technology, Patent and Trademark License Agreement (the "Agreement") with MicroTel (Note 4). The Agreement permits the Company to utilize the patent and trademark technology of MicroTel under a licensing arrangement. The Company made payments of $37,500 per month, commencing June 1, 1997 for technology development. During the period ended June 30, 1997 and 1998, $37,500 and $450,000 had been charged to expense under this Agreement and is included in licensing fees in the consolidated statement of operations. As of June 25, 1998, the Company acquired MicroTel and as of that date this Agreement was no longer in effect.

During the fiscal year ended June 30, 2000, $2,600,000 was advanced to Microphase in the form of a note, which was repaid by Microphase during the year. mPhase recorded $39,000 of interest income on this note for the year ended June 30, 2000.

The Company is obligated to pay a 3% royalty to Microphase on revenues from its proprietary Traverser&#153 Digital Video and Data Delivery System and DSL component products. During the years ended June 30, 2001, 2002 and 2003 mPhase recorded royalties to Microphase totaling $297,793, $78,762 and $47,304, respectively.

Pursuant to a debt conversion agreement between the Company and Microphase for the year ended June 30, 2001, Microphase received 1,278,000 shares of mPhase common stock. For the year ended June 30, 2002, in consideration for a direct investment of $100,000 and pursuant to debt conversion agreements, Microphase received 2,900,000 shares of mPhase common stock and warrants to purchase 2,200,000 mPhase common stock.

During the fiscal year ended June 30, 2003 Microphase received 4,033,333 shares of common stock plus five year warrants to purchase 1,000,000 shares of common stock of mPhase at $.30 per share in exchange for the cancellation of accounts payable totaling $920,000. As of June 30, 2002, the Company had $92,405 included in other liabilities-related parties in the accompanying consolidated balance sheet and as of June 30, 2003 $360,000 in notes payable-related parties. Additionally, at June 30, 2003, approximately $142,000 of undelivered purchase orders remain outstanding with Microphase.

Transactions with Janifast

Janifast Ltd., a Hong Kong corporation manufacturer, which has produced components for our prototype Traverser&#153 DVDDS product, and may produce such components for us in the future. Necdet F. Ergul, Ronald A. Durando and Gustave T. Dotoli are controlling shareholders of Janifast Ltd. with an aggregate ownership interest of greater than 75% of Janifast Ltd. Mr. Durando is Chairman of the Board of Directors and Mr. Ergul is a Director of Janifast.

During the year ended June 30, 2000, mPhase advanced money to Janifast Limited, which is a related party of which three directors of mPhase are significant shareholders, in connection with the manufacturing of POTS Splitter Shelves and DSL component products. As of June 30, 2000 the amount advanced to Janifast was approximately $1,106,000, which is included in production advances-related parties on the accompanying balance sheet. There were no such advances as of June 30, 2001 and June 30, 2002.

Pursuant to a debt conversion agreement between the Company and Janifast Ltd., for the year ended June 30, 2001, Janifast Ltd. received 1,200,000 shares of the Company's common stock. For the year ended June 30, 2002 pursuant to debt conversion agreements, Janifast Ltd. received 3,450,000 shares of mPhase common stock and 1,200,000 warrants to purchase mPhase common stock. During the year ended June 30,2003 Janifast Ltd. was issued 1,500,000 shares of mPhase common stock in connection with the cancellation of $360,000 of outstanding liabilities of mPhase, the value of which was based upon the price of the Company's common stock on the effective date of the settlement. No gain or loss was recognized in connection with conversions by Janifast Ltd. for the fiscal year ended June 30, 2003. During the years ended June 30, 2001, 2002 and 2003 and the period from inception (October 2, 1996) to June 30, 2003 $8,932,378, $1,759,308 and $10,691,686 respectively, of invoices for products and services have been charged to inventory or expense- other liabilities-related parties as long term liabilities in the consolidated balance sheet and as of June 30, 2003 no amounts remain payable to Janifast Ltd. Additionally, at June 30, 2003, approximately $1,435,000 of undelivered purchase orders remain outstanding with Janifast Ltd.

Transactions with Lintel, Inc and Affiliates

A member of mPhase's Board of Directors is employed by Lintel, Inc., the parent corporation of Hart Telephone. The Company has installed its prototype product and commenced beta testing at Hart Telephone. In addition, the Company has entered into a supply agreement with Hart Telephone upon the completion of beta testing and the commencement of production of the Traverser&#153. As consideration for the execution of the agreement with Hart Telephone, in May 2000, mPhase issued Hart Telephone 125,000 options each to purchase one share of common stock at an exercise price of $1.00 (valued at $1,010,375), which is included in research and development expenses in the accompanying statement of operations as of June 30, 2000. Mr. J. Lee Barton, the president and chief executive officer of Lintel Inc., (Lintel is the parent of Hart Telephone Company), and at that time Mr. Barton was a Director of the Company, received a $285,000 bonus, a stock award of 140,000 shares and 100,000 options in addition to the 125,000 granted to Hart for Beta testing services in the year ended June 30, 2000 and 120,000 options for services as a Director for the year ended June 30, 2001.

Michael McInerney, one of our directors, is the president of Lintel, Inc. Prior to becoming a Director of mPhase, Mr. McInerney received options to purchase 25,000 shares of mPhase common stock for the fiscal year ended June 30, 1999, of which 5,000 options were exercised during the fiscal year ended June 30, 2000. Mr. McInerney received options for 23,000 shares of common stock in the fiscal year ended June 30, 2001 and 15,000 options for consulting and beta testing services in the fiscal year ended June 30, 2002. In addition for the fiscal years ended June 30, 2002 and June 30, 2003 Mr. McInerney received options and warrants to purchase a total of 62,500 shares and for 35,000 shares of mPhase common stock, respectively.

Transactions with Other Related Parties

In March 2000, mPhase acquired a 50% interest in mPhaseTelevision.Net (formerly Telco Television Network, Inc.), an incorporated joint venture, for $20,000. The agreement provided for the grant of warrants to the joint venture partner, in consideration of the execution of the Joint Venture Agreement, to purchase 200,000 shares of the Company's common stock for $4.00 per share (valued at $2,633,400). This non-cash charge was included in general and administrative expenses in the statement of operations for the year ended June 30, 2000. The fair value of the warrants granted to the joint venture partner as of the date of grant was based on the Black-

Scholes stock option pricing model, using the following weighted average assumptions: annual expected rate of return of 0%, annual volatility of 115%, risk free interest rate of 5.85% and an expected option life of 3 years.

The agreement stipulated for mPhase's joint venture partner, AlphaStar International, Inc., ("Alphastar"), to provide mPhaseTelevision.Net right of first transmission for its transmissions of MPEG-2 digital satellite television. In addition, in March 2000, mPhase loaned the joint venture $1,000,000 at 8% interest per annum. The loan is repayable to the Company from equity infusions to the subsidiary, no later than such time that mPhaseTelevision.Net qualifies for a NASDAQ Small Cap Market Listing. During April 2000, the Company acquired an additional 6.5% interest in mPhaseTelevision.Net for $1,500,000. As of June 30, 2003 mPhase owns a 56.5% interest in mPhaseTelevision.net. The Company terminated the lease of the earth station for business reasons, and there was no material impact on mPhaseTelevision.net's operating activities.

Pursuant to an agreement dated as of June 18, 2002, mPhaseTelevision.Net has terminated its lease of the earth station and Alphastar and its affiliated entity have converted certain accounts payable into shares of the Company's common stock.

Additionally, under this Agreement, mPhase is obligated to pay Alphastar and its affiliates $35,000, which is included in amounts due to related parties in the consolidated balance sheet as of June 30, 2003.

During the fiscal years ended June 30, 2001, 2002 and 2003, the joint venture was charged $1,009,420, $64,039 and $0, respectively for fees and costs by its joint venture partner and its affiliates.

Transactions with Strategic Vendors

Effective March 31, 2002, the Company converted $420,872 of liabilities due to Piper Rudnick LLP, outside legal counsel to mPhase into a warrant to purchase up to a total of 1,683,490 shares of the Company's common stock which pursuant to EITF 96-18, has an approximate value of $.30 per share; and a warrant to purchase 550,000 shares of the Company's common stock at an exercise price of $.30 per share pursuant to the terms of payment agreement. In addition, Piper agreed to accept a Promissory Note for $420,872 of current payables at an interest rate of 8% with payments of $5,000 per month commencing June 1, 2002 and continuing through December 1, 2003, with a final payment of principal plus accrued interest due at maturity on December 31, 2003. As of August 11, 2003 the Company is $35,000 in arrears with respect to the $5,000 per month payment of the Promissory Note. On December 31, 2003, the Company became in arrears with respect to $420,872 of a balloon payment on a Note payable to its outside Law Firm, Piper & Rudnick LLC. The Company is in discussion with respect to such law firm to extend and/or cancel all or portions of this debt. It should be noted that Piper & Rudnick hold warrants received in March of 2001 in exchange for cancellation of certain payables. Such warrants have conversion rights into our common stock for 2,233,490 shares that are being registered hereunder (see Selling Shareholders list-page 65 hereof) and are cashless. Such warrants could be exercised shares of our common stock which could then be sold in the open market upon the effectiveness of this Registration Statement on Form S-1 in the open market to recover our outstanding payable. See also Risk Factor Section on Page 8 hereof.

On October 14, 2002, the Company entered into a memorandum on intention with Georgia Tech Research Corporation (GTRC) and its affiliate, Georgia Tech Applied Research Corporation (GTARC), which memorandum was revised on November 12, 2002 and in October of 2003 and is subject to the approval of the respective board of directors of the parties thereto and the exchange of mutual releases. The memorandum provides for the settlement of any and all amounts outstanding to GTRC and GTARC in consideration of the issuance of warrants to purchase 5,069,242 shares of the Company's common stock at $.01 per share (with a cashless exercise right) in exchange for cancellation of an approximately $1.3 million portion of the Company's accounts payable. In addition the Company would issue a term promissory note in the principal amount of $674,235 with interest at prime+1% and varied payments through 2008 in exchange for cancellation of an account payable by the Company in an same amount. The non-current amount of two promissory notes plus two warrants that were part of the proposed transaction as originally negotiated and as reflected in the memorandum of November 12, 2002 are reflected on the balance sheet dated June 30, 2003 as long-term debt and other liabilities for the amounts that were expected on June 30, 2003 to be converted to the two promissory notes payable and the warrants respectively. As of February 12, 2004 we are finalizing an agreement to convert all of such payables, approximating $1.8 million and including amounts reflected as Notes Payable as of June 30, 2003 and September 30, 2003, into a warrant convertible into our Common Stock on a cashless basis of approximately $.35 per share. This agreement is still subject to final execution of legal documentation by GTRC.

Effective June 30, 2001 the Company converted $2,420,039 of liabilities due to directors and related parties into 4,840,077 shares of the Company's common stock pursuant to debt conversion agreements. During the fiscal year ended June 30, 2002 certain strategic vendors and related parties converted approximately $2.7 million of accounts payable and accrued expenses into 7,492,996 shares of the Company's common stock and 5,953,490 warrants. During the twelve months ending June 30, 2003, certain strategic vendors and related parties converted approximately $1.9 million of accounts payable and accrued expenses into 5,923,333 shares of the

Company's common stock and warrants to purchase 3,706,800 shares of common stock of mPhase. . Such vendors include Microphase Corporation, Janifast, Ltd., and Strategic Vendors including Piper Rudnick LLP, mPhase's outside counsel. Conversions with related parties only consisted of the following:

	For the Years Ended June 30,			For the Six Months Ended December 31, (Unaudited)	
Equity Conversions of Debt and Other Financial Instruments with Related Parties	2001	2002	2003	2002	2003
Janifast					
Number of shares	2,400,000	3,450,000	1,500,000	1,500,000	0
Number of warrants	0	1,200,000	0	0	0
Amount converted to equity	$1,200,000	$720,000	$360,000	$360,000	$0
Microphase Corporation					
Number of shares	1,278,000	2,700,000	4,033,333	3,033,333	0
Number of warrants	0	2,200,000	1,000,000	0	0
Amount converted to equity	$639,000	$740,000	$920,000	$620,000	$0
Lintel Corporation and Affiliates					
Number of shares (A)	954,000	0	0	0	0
Number of warrants	0	0	0	0	0
Amount converted to equity	$477,000	$0	$0	$0	$0
Officers					
Number of shares	0	333,334	0	0	0
Number of warrants (B)	0	333,334	2,491,800	4,491,800	0
Amount converted to equity	$0	$103,000	$480,967	$480,967	$0
Joint Venture Partner and					

Affiliates					
Number of shares	208,077	63,216	0	0	0
Number of warrants	0	0	0	0	0
Amount converted to equity	$104,038	$31,628	$0	$0	$0
Total Related Party Conversions					
Number of shares	4,840,077	6,546,550	5,533,333	4,533,333	0
Number of warrants	0	3,733,334	3,491,800	4,491,800	0
Amount converted to equity	$2,420,038	$1,594,628	$1,760,967	$1,460,967	$0

(A) Includes Mr. L. Barton in Fiscal 2001, a former Director of the Company.

(B) Includes $12,206 settlement expense incurred to the Company's President and Vice President in connection with the exchange of warrants to purchase the company's common stock to cancel unpaid compensation, which is included as a reduction to gain on Settlements in fiscal 2003.

SELLING STOCKHOLDERS

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

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

NAME	Beneficial Shares	Maximum Number of Shares Being Offered	Note	
ALEXANDER HASENFIELD	57,144	57,144	A-1	
ALEXANDER HASENFIELD INC. PROFIT SHARING AND RETIREMENT PLAN	219,050	85,716	A-2	
ANNESE, DAVID E.	600,000	600,000	A-3	
ASPIOTES, NICHOLAS & ASPIOTES, NANCY	400,000	400,000	A-4	
BETH MAYER ASSOCIATES	1,359,986	253,652	A-5	
BIDERMAN, ABRAHAM	407,500	100,000	A-6	*
CHENG, TOMMY	573,250	200,000	A-7	
CONGREGATION OF NEW SQUARE	400,000	400,000	A-8	
CONGREGATION SHAREI CHAIM	1,338,387	1,200,000	A-9	
CONGREGATION SHARIT HAPLETA	150,000	75,000	A-10	
DAVID FARBER & DEBORAH FARBER JTWROS	600,000	600,000	A-11	
DEVELIN, MICHAEL	125,000	125,000	A-12	
DOTOLI, FRANKLIN	50,000	50,000	A-13	
ERGUL, NECDET	1,516,250	100,000	A-14	**
F&N ASSOCIATES	250,269	57,144	A-15	
FENMORE HOLDINGS LLC	1,428,572	1,428,572	A-16	
FIRST MEDIA GROUP	75,000	75,000	A-17	
FISHER, MAYER	40,000	40,000	A-18	
FRIEDMAN, MORRIS	1,200,000	600,000	A-19	
GASPARINI, PETER	466,000	97,500	A-20	
GIDAS, PETER & GIDAS, CINDY	300,000	300,000	A-21	
GOLDENBURG, LEON	600,000	600,000	A-22	
GTRC	5,069,242	5,069,242	A-23	
GUERINO, ANTHONY	402,500	100,000	A-24	*
HAA, INC.	666,668	333,334	A-25	
HASENFIELD-STEIN, INC. PENSION TRUST	142,858	142,858	A-26	
IBER INTERNATIONAL LTD.	2,742,858	1,142,858	A-27	
	57,144	57,144	A-28	

KENTUCKY NATIONAL INSURANCE COMPANY				
KLIMEK, DAVID	1,122,500	100,000	A-29	*
LALIBERTE, EMILE	50,000	50,000	A-30	
LEVITANSKY, RIVKAH	600,000	600,000	A-31	
MARY PARK PROPERTIES	2,943,526	1,382,858	A-32	
MCINERNY, MICHAEL	255,500	100,000	A-33	*
MEDEIROS, ANA CLAUDIA	300,000	300,000	A-34	
MOISHE, BAIS YAAKON	600,000	600,000	A-35	
NEUBART, GARRETT S.	50,000	50,000	A-36	
REB EPHRAIM CHAIM & MIRIAM RACHEL KLEIN CHARITABLE FOUNDATION	925,000	800,000	A-37	
ROOZ, MAYER	4,000	4,000	A-38	
ROSENTHAL, ELIEZER M.	600,000	600,000	A-39	
ROSENTHAL, JUDY	400,000	400,000	A-40	
RUTGERS CASUALTY INSURANCE COMPANY	210,716	85,716	A-41	
RUTGERS ENHANCED INSURANCE COMPANY	285,716	285,716	A-42	
SIMON, STEVE	150,000	150,000	A-43	
STEIN, NACHUM	1,018,365	228,572	A-44	
STEIN, S.	50,000	50,000	A-45	
TANNENBAUM, ELLONA	100,000	100,000	A-46	
TENNENHAUS, EDMUND	2,000,000	2,000,000	A-47	
THOMPSON, PHIL	100,000	100,000	A-48	
TOWER 50 PARTNERS L.P.	3,000,000	3,000,000	A-49	
TURCHAN, THEODORE & TURCHAN, EILEEN	400,000	400,000	A-50	
WEINBERGER, GEORGE	2,450,000	2,000,000	A-51	
WERDIGER FAMILY FOUNDATION INC.	600,000	600,000	A-52	
WESTROCK ADVISORS	750,000	750,000	A-53	
Grand Total	40,203,001	29,027,026		

* Mr. Biderman, Mr. Guerino, Mr. Klimek, and Mr. McInerny are directors of our Company.

** Mr. Ergul, Chairman of the Board of the Company, is a majority shareholder of Microphase Corporation.

(A-1) Includes warrants to purchase up to 28,572 shares of common stock.
(A-2) Includes warrants to purchase up to 42,858 shares of common stock.
(A-3) Includes warrants to purchase up to 300,000 shares of common stock.
(A-4) Includes warrants to purchase up to 200,000 shares of common stock.
(A-5) Includes warrants to purchase up to 126,826 shares of common stock.
(A-6) Includes options to purchase up to 100,000 shares of common stock.
(A-7) Includes options to purchase up to 200,000 shares of common stock.
(A-8) Includes warrants to purchase up to 200,000 shares of common stock.
(A-9) Includes warrants to purchase up to 600,000 shares of common stock.
(A-10) Includes warrants to purchase up to 75,000 shares of common stock.
(A-11) Includes warrants to purchase up to 300,000 shares of common stock.
(A-12) Includes options to purchase up to 125,000 shares of common stock.
(A-13) Includes options to purchase up to 50,000 shares of common stock.
(A-14) Includes options to purchase up to 100,000 shares of common stock.
(A-15) Includes warrants to purchase up to 28,572 shares of common stock.
(A-16) Includes warrants to purchase up to 714,286 shares of common stock.
(A-17) Includes no warrants or options.
(A-18) Includes warrants to purchase up to 20,000 shares of common stock.
(A-19) Includes warrants to purchase up to 300,000 shares of common stock.
(A-20) Includes options to purchase up to 97,500 shares of common stock.
(A-21) Includes warrants to purchase up to 150,000 shares of common stock.
(A-22) Includes warrants to purchase up to 300,000 shares of common stock.
(A-23) Includes warrants to purchase up to 5,069,242 shares of common stock.
(A-24) Includes options to purchase up to 100,000 shares of common stock.

(A-25) Includes warrants to purchase up to 333,334 shares of common stock.
(A-26) Includes warrants to purchase up to 71,429 shares of common stock.
(A-27) Includes warrants to purchase up to 571,429 shares of common stock.
(A-28) Includes warrants to purchase up to 28,572 shares of common stock.
(A-29) Includes options to purchase up to 100,000 shares of common stock.
(A-30) Includes options to purchase up to 50,000 shares of common stock.
(A-31) Includes warrants to purchase up to 300,000 shares of common stock.
(A-32) Includes warrants to purchase up to 691,429 shares of common stock.
(A-33) Includes options to purchase up to 100,000 shares of common stock.
(A-34) Includes warrants to purchase up to 150,000 shares of common stock.
(A-35) Includes warrants to purchase up to 300,000 shares of common stock.
(A-36) Includes warrants to purchase up to 25,000 shares of common stock.
(A-37) Includes warrants to purchase up to 400,000 shares of common stock.
(A-38) Includes warrants to purchase up to 2,000 shares of common stock.
(A-39) Includes warrants to purchase up to 300,000 shares of common stock.
(A-40) Includes warrants to purchase up to 200,000 shares of common stock.
(A-41) Includes warrants to purchase up to 42,858 shares of common stock.
(A-42) Includes warrants to purchase up to 142,858 shares of common stock.
(A-43) Includes options to purchase up to 150,000 shares of common stock.
(A-44) Includes warrants to purchase up to 114,286 shares of common stock.
(A-45) Includes options to purchase up to 50,000 shares of common stock.
(A-46) Includes no warrants or options.
(A-47) Includes warrants to purchase up to 1,000,000 shares of common stock.
(A-48) Includes options to purchase up to 100,000 shares of common stock.
(A-49) Includes warrants to purchase up to 1,500,000 shares of common stock.
(A-50) Includes warrants to purchase up to 200,000 shares of common stock.
(A-51) Includes warrants to purchase up to 1,000,000 shares of common stock.
(A-52) Includes warrants to purchase up to 300,000 shares of common stock.
(A-53) Includes warrants to purchase up to 750,000 shares of common stock.

PLAN OF DISTRIBUTION

We are registering for resale by the selling stockholders and certain transferees a total of shares of common stock, of which shares are issued and outstanding and up to shares are issuable upon exercise of warrants. We will not receive any of the proceeds from the sale by the selling stockholders of the shares of common stock, although we may receive up to approximately $$4,546,741 upon the conversion of convertible notes and the exercise of all of the warrants and options by the selling stockholders. We will bear all fees and expenses incident to our obligation to register the shares of common stock. If the shares of common stock are sold through broker-dealers or agents, the selling stockholder will be responsible for any compensation to such broker-dealers or agents.

The selling stockholders may pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus.

The selling stockholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders will sell their shares of common stock subject to the following:

i. all or a portion of the shares of common stock beneficially owned by the selling stockholders or their respective pledgees, donees, transferees or successors in interest, may be sold on the OTC Bulletin Board Market, any national securities exchange or quotation service on which the shares of our common stock may be listed or quoted at the time of sale, in the over-the-counter market, in privately negotiated transactions, through the writing of options, whether such options are listed on an options exchange or otherwise, short sales or in a combination of such transactions;

ii. each sale may be made at market prices prevailing at the time of such sale, at negotiated prices, at fixed prices, or at varying prices determined at the time of sale;

iii. some or all of the shares of common stock may be sold through one or more broker-dealers or agents and may involve crosses, block transactions, or hedging transactions. The selling stockholders may enter into hedging transactions with broker-dealers or agents, which may in turn engage in short sales of the common stock in the course of hedging in positions they assume. The selling stockholders may also sell shares of common stock short and deliver shares of common stock to close out short positions, or loan or pledge shares of common stock to broker-dealers or agent that in turn may sell such shares; and

iv. in connection with such sales through one or more broker-dealers or agents, such broker-dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and may receive commissions from the purchasers of the shares of common stock for whom they act as broker-dealer or agent or to whom they sell as principal (which discounts, concessions or commissions as to particular broker-dealers or agents may be in excess of those customary in the types of transactions involved). Any broker-dealer or agent participating in any such sale may be deemed to be an "underwriter" within the meaning of the Securities Act and will be required to deliver a copy of this prospectus to any person who purchases any share of common stock from or through such broker-dealer or agent. We have been advised that, as of the date hereof, none of the selling stockholders have made any arrangements with any broker-dealer or agent for the sale of their shares of common stock.

The selling stockholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any profits realized by the selling stockholders and any commissions paid, or any discounts or concessions allowed to any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. In addition, any shares of common stock covered by this prospectus which qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than pursuant to this prospectus.

If required at the time a particular offering of the shares of common stock is made, a prospectus supplement or, if appropriate, a post-effective amendment to the shelf registration statement of which this prospectus is a part, will be distributed which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholder and any discounts, commissions or concessions allowed or reallowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with. There can be no assurance that any selling stockholder will sell any or all of the shares of common stock registered pursuant to the shelf registration statement, of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will bear all expenses of the registration of the shares of common stock including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws. The selling stockholders will pay all underwriting discounts and selling commissions and expenses, brokerage fees and transfer taxes, as well as the fees and disbursements of counsel to and experts for the selling stockholders, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreement or the selling stockholders will be entitled to contribution. We will be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling stockholders for use in this prospectus, in accordance with the related registration rights agreement or will be entitled to contribution. Once sold under this shelf registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 150,000,000 shares of common stock, without par value. As of April 23, 2004, approximately 85 million shares of our common stock are issued and outstanding and held by approximately 11,000 stockholders of record. Of the shares of our issued and outstanding common stock, shares are covered by this prospectus. In addition shares or our common stock authorized but unissued as of the date of this prospectus will be issued on exercise of warrants held by certain selling stockholders.

The following description of our capital stock is a summary of the material terms of such stock. It does not purport to be complete and is subject in all respects to the provisions of our Certificate of Incorporation and our Bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part and to applicable New Jersey law.

Common Stock

Each holder of our common stock is entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Cumulative voting for the election of Directors is not provided for in our Certificate of Incorporation, which means that the holders of a majority of the shares of common stock voted elects the Directors then standing for election. The holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available for dividends, at such appropriate times and in such amounts as our Board of Directors decides. The common stock is not entitled to preemptive rights or other subscription rights and is not subject to conversion or redemption. Upon liquidation, dissolution or winding up of our affairs, the holders of common stock will be entitled to share ratably in all assets remaining after the payment of liabilities. Shares of common stock shall be transferred only on our books upon surrender to us or a duly appointed transfer agent of the certificate or certificates properly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer.

Common Stock Warrants

This prospectus also covers shares of common stock purchasable pursuant to outstanding warrants and options. The exercise price of these warrants range from $.01 to $1.05. These warrants and options have expiration terms ranging from 2005 to 2008.

Filling Vacancies on the Board

The Certificate of Incorporation provides that any vacancy on the Board that results from an increase in the number of Directors during the interim between annual meetings or special meetings of shareholders may be filled by the Board. These provisions could temporarily prevent any shareholder from obtaining majority representation on the Board by enlarging the Board and filling the new directorships with its own nominees.

New Jersey Shareholders Protection Act

There are provisions of New Jersey law, and our Certificate of Incorporation and Bylaws, that may have an anti-takeover effect. These provisions are designed to protect shareholders against coercive, unfair or inadequate tender offers and other abusive tactics and to encourage any person contemplating a business combination with us to negotiate with our Board of Directors for the fair and equitable treatment of all shareholders.

New Jersey has adopted a type of anti-takeover statute known as the New Jersey Shareholders Protection Act. Subject to numerous qualifications and exceptions, the statute prohibits an interested shareholder of a corporation from effecting a business combination with the corporation for a period of five years unless the corporation's board approved the combination prior to the shareholder becoming an interested shareholder. In addition, but not in limitation of the five-year restriction, if applicable, corporations covered by the New Jersey statute may not engage at any time in a business combination with any interested shareholder of that corporation unless the combination is approved by the board prior to the interested shareholder's stock acquisition date, the combination receives the approval of two-thirds of the voting stock of the corporation not beneficially owned by the interested shareholder, or the combination meets minimum financial terms specified by the statute. An "interested shareholder" is defined to include any beneficial owner of 10% or more of the voting power of the outstanding voting stock of the corporation and any affiliate or associate of the corporation who within the prior five year period has at any time owned 10% or more of the voting power. The term "business combination" is defined broadly to include, among other things:

the merger or consolidation of the corporation with the interested shareholder or any corporation that after the merger or consolidation would be an affiliate or associate of the interested shareholder,

the sale, lease, exchange, mortgage, pledge, transfer or other disposition to an interested shareholder or any affiliate or associate of the interested shareholder of 10% or more of the corporation's assets, or

the issuance or transfer to an interested shareholder or any affiliate or associate of the interested shareholder of 5% or more of the aggregate market value of the stock of the corporation.

The effect of the statute is to protect non-tendering, post-acquisition minority shareholders from mergers in which they will be "squeezed out" after the merger, by prohibiting transactions in which an acquirer could favor itself at the expense of minority shareholders. The New Jersey statute generally applies to corporations that are organized under New Jersey law, have either their principal executive offices or significant business operations located in New Jersey, and have a class of stock registered or traded on a national securities exchange or registered with the Securities and Exchange Commission pursuant to Section 12(g) of the Securities Exchange Act of 1934.

LEGAL MATTERS

The validity of the common stock we are offering pursuant to this prospectus will be passed upon by Martin S. Smiley General Counsel to the Company. Mr. Smiley beneficially owns an aggregate of 3,841,050 shares of common stock and 0 shares are being registered as part of this prospectus.

EXPERTS

The financial statements and schedules included in this prospectus and elsewhere in the registration statement, to the extent and for the periods indicated in their reports, have been audited or reviewed, as the case may be, by Rosenberg Rich Baker Berman & Company and audited or reviewed, as the case may be, by Arthur Andersen, LLP and Schuhalter, Coughlin & Suozzo, PC, independent public accountants, and are included in reliance upon the authority of said firms as experts in giving said reports. Prior to the date of this prospectus, Arthur Andersen was indicted in connection with its rendering of services to another company. Therefore, Arthur Andersen withdrew from practice before the SEC effective prior to the date hereof and many of the accountants at Arthur Andersen have left their current jobs or have been searching for a new place of employment. Based on these factors, after reasonable efforts, including numerous phone calls, we were unable to contact our former audit partner at Arthur Andersen and therefore were unable to obtain Arthur Andersen's consent to the inclusion of their report dated October 12, 2001. Accordingly, we have dispensed with the requirement to file their consent in reliance upon Rule 437a of the securities act. Because Arthur Andersen has not consented to the inclusion of their report in this prospectus, you will not be able to recover against Arthur Andersen under Section 11 of the securities act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen or any omissions to state a material fact required to be stated therein. As of June 30, 2003, Schuhalter, Coughlin & Suozzo, PC, owns approximately 417,600 shares of common stock directly and indirectly; options to purchase 245,000 shares of common stock and warrants to purchase 315,800 shares of common stock, of which of such shares are being registered pursuant to this prospectus. All of such securities owned by Schuhalter, Coughlin & Suozzo, PC, other than 146,800 shares of common stock which it has acquired on the open market subsequent to April 2001, were issued to Schuhalter, Coughlin & Suozzo, PC in consideration for non-audit consulting services and/or satisfaction of payables related to non-audit consulting services and were issued after Schuhalter, Coughlin & Suozzo, PC was no longer our independent public accountants.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In accordance with the Exchange Act, we file reports, proxy statements and other information with the Securities and Exchange Commission. Our reports, proxy statements and other information filed with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Copies of such material also may be obtained at prescribed rates from the Public Reference Branch of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549-1004. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC maintains a web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

You may request a copy of these filings, at no cost by writing or telephoning us at the following address:

mPhase Technologies, Inc.
587 Connecticut Avenue
Norwalk, Connecticut 06854-0566
Attention: General Counsel
(203) 831-2242

You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with different information. The selling security holders will not make an offer of the shares of our common stock in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.

mPHASE TECHNOLOGIES, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
mPhase Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of mPhase Technologies, Inc. (a New Jersey corporation in the development stage) and subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity (deficit), cash flows and Schedule II (Valuation and Qualifying Accounts, Item 14B) for each of the two years in the period ended June 30, 2003 and for the period from inception (October 2, 1996) to June 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of mPhase Technologies, Inc. for the period from inception to June 30, 2001. Such amounts are included in the cumulative from inception to June 30, 2003 totals of the statements of operations, changes in stockholders' equity (deficit) and cash flows and reflect total net loss of 83 percent of the related cumulative totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts for the period from inception to June 30, 2001, included in the cumulative totals, is based solely upon the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of mPhase Technologies, Inc. and subsidiaries as of June 30, 2003 and 2002 and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2003 and for the period from inception to June 30, 2003, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations and is in a stockholders deficit position that raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Rosenberg Rich Baker Berman & Company
Bridgewater, NJ

September 10, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
mPhase Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of mPhase Technologies, Inc. (a New Jersey corporation in the development stage) and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2001 and for the period from inception (October 2, 1996) to June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of mPhase Technologies, Inc. for the period from inception to June 30, 1998. Such amounts are included in the cumulative from inception to June 30, 2001 totals of the statements of operations, changes in stockholders' equity and cash flows and reflect total net loss of 6 percent of the related cumulative totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts for the period from inception to June 30, 1998, included in the cumulative totals, is based solely upon the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of mPhase Technologies, Inc. and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001 and for the period from inception to June 30, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations and is in a working capital deficit position that raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Arthur Andersen LLP
Stamford, Connecticut

October 12, 2001

PURSUANT TO SEC RELEASE NO. 33-8070 AND RULE 437A UNDER THE SECURITIES ACT OF 1933, AS AMENDED, mPHASE TECHNOLOGIES, INC. HAS NOT RECEIVED WRITTEN CONSENT AFTER REASONABLE EFFORT TO USE THIS REPORT. THIS REPORT IS A COPY OF A PREVIOUSLY ISSUED ARTHUR ANDERSEN LLP REPORT. THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. WITH RESPECT TO THIS INSTANT 10K/A, YOU WILL NOT BE ABLE TO RECOVER AGAINST ARTHUR ANDERSEN LLP UNDER SECTION 11 OF THE SECURITIES ACT FOR ANY UNTRUE STATEMENTS OF A MATERIAL FACT CONTAINED IN THE FINANCIAL STATEMENTS AUDITED BY ARTHUR ANDERSEN LLP OR ANY OMISSIONS TO STATE A MATERIAL FACT REQUIRED TO BE STATED THEREIN.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
mPhase Technologies, Inc.:

We have audited the statements of operations, changes in stockholders's equity, and cash flows for the period October 2, 1996 (date of inception) through June 30, 1998 of mPhase Technologies, Inc. (a development stage company). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the results of its operations and its cash flows for the period of October 2, 1996 (date of inception) through June 30, 1998 in conformity with generally accepted accounting principles.

Schuhalter, Coughlin & Suozzo, PC
Raritan, New Jersey

January 28, 1999

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS

	June 30, 2002	June 30, 2003	December 31, 2003 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$47,065	$396,860	$319,923
Accounts receivable, net of bad debt reserve of $2,906 and $0, respectively	273,780	287,135	182,136
Stock subscription receivable	-	110,000	175,000
Inventory	3,342,716	2,103,328	1,488,451
Prepaid expenses and other current assets	830,589	100,329	69,911
Total current assets	4,494,150	2,997,652	2,235,421
Property and equipment, net	1,742,186	581,890	240,067
Patents and licenses, net	685,349	184,857	129,924
Other assets	20,830	17,250	17,250
Total assets	$6,942,515	$3,781,649	$2,622,661
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$2,819,245	$2,352,961	$2,731,266
Accrued expenses	673,065	885,735	430,016
Due to related parties	35,000	187,372	584,902
Notes payable, current	353,339	762,735	822,804
Deferred revenue	214,180	214,180	214,180
Notes payable, related parties	-	-	460,000
Total current liabilities	4,094,829	4,402,983	5,243,169
Notes payable, net of current portion	1,014,218	586,303	-
Other liabilities	1,211,249	1,561,249	2,085,484
Other liabilities, related parties	665,068	-	-
Notes payable, related parties	-	460,000	-
COMMITMENTS AND CONTINGENCIES (Note 13)			
STOCKHOLDERS' EQUITY (DEFICIT):			
Common Stock, stated value $.01, 150,000,000 shares authorized; 60,807,508, 71,453,521 and 71,961,525 (unaudited), shares issued and outstanding, respectively	608,075	714,535	748,615
Additional paid-in capital	100,751,284	104,081,049	105,135,240
Deferred compensation	(23,923)	-	-
Deficit accumulated during development stage	(101,366,286)	(108,016,497)	(110,581,874)
Unrecognized capital losses	(4,026)	-	-
Less-treasury stock, 13,750 shares, at cost	(7,973)	(7,973)	(7,973)
Total stockholders' equity (deficit)	(42,849)	(3,228,886)	(4,705,992)
	$6,942,515	$3,781,649	$2,622,661

Total liabilities and stockholders' equity	

The accompanying notes are an integral part of these consolidated balance sheets.

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended June 30,			From Inception (October 2, 1996) to June 30, 2003
	2001	2002	2003	
TOTAL NET REVENUES	$10,524,134	$2,582,446	$1,581,639	$14,967,695
COSTS AND EXPENSES:				
Cost of Sales (See also Note 11 Related Party Transactions)	5,804,673	2,415,129	1,493,394	9,844,952
Research and development (including non-cash stock related charges of $0, $267,338, $385,495 and $2,045,669, respectively) (See also Note 11 Related Party Transactions)	10,779,570	3,819,583	3,538,305	34,347,079
General and administrative (including non-cash stock related charges of $7,398,455, $2,994,111, $748,840 and $46,090,349, respectively)(See also Note 11 Related Party Transactions)	17,321,614	7,038,923	2,683,534	74,877,136
Depreciation and amortization	660,372	670,183	515,417	2,767,029
Total costs and expenses	34,566,229	13,943,818	8,230,650	121,836,196
Loss from operations	(24,042,095)	(11,361,372)	(6,649,011)	(106,868,501)
OTHER INCOME (EXPENSE):				
Gain on extinguishments	-	142,236	61,226	203,462
Minority interest loss in consolidated subsidiary	-	-	-	20,000
Loss from unconsolidated subsidiary	-	-	-	(1,466,467)
Loss on sale of securities	-	-	(11,258)	(11,258)

Interest income (expense), net	43,361	(26,225)	(51,168)	106,267
Total other income (expense)	43,361	116,011	(1,200)	(1,147,966)
NET LOSS	$(23,998,734)	$(11,245,361)	$(6,650,211)	$(108,016,497)
Unrealized holding (loss) gain on securities	-	(4,026)	4,026	-
COMPREHENSIVE LOSS	$(23,998,734)	$(11,249,387)	$(6,646,185)	$(108,016,497)
LOSS PER COMMON SHARE, basic and diluted	$(0.72)	$(.23)	$(.10)	
WEIGHTED AVERAGE COMMON SHARES				
OUTSTANDING, basic and diluted	33,436,641	49,617,280	65,217,088	

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended December 31, 2002	Six Months Ended December 31, 2003	October 2, 1996 (Date of Inception) to December 31, 2003
REVENUES	$771,837	$3,780,137	$18,747,831
COSTS AND EXPENSES			
Cost of Sales	744,030	3,289,937	13,134,889
Research and development including non-cash stock related charges of $262,500, $0 and $2,045,669, respectively)	1,556,142	1,454,899	35,801,977
General and Administrative (including non-cash stock related charges of $484,358, $307,245 and $46,172,894, respectively)	1,624,178	1,518,411	76,395,547
Depreciation and amortization	259,381	74,082	2,841,111
TOTAL COSTS AND EXPENSES	4,183,731	6,337,329	128,173,524
LOSS FROM OPERATIONS	(3,411,894)	(2,557,192)	(109,425,693)
OTHER INCOME (EXPENSE)			
Gain on extinguishments	40,724	23,087	226,549
Minority interest loss in consolidated subsidiary	-	-	20,000
Capital losses	(16,077)	-	(1,466,467)
Loss from unconsolidated subsidiary	-	-	(11,258)
Interest Income (expense), net	(34,149)	(31,272)	74,995
TOTAL OTHER INCOME (EXPENSE)	(9,502)	(8,185)	(1,156,181)
NET LOSS	$(3,421,396)	$(2,565,377)	$(110,581,874)
LOSS PER COMMON SHARE, basic and diluted	$(.06)	$(.04))	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted	63,397,799	72,251,251	

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

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996) TO JUNE 30, 1997 AND FOR EACH OF THE SIX YEARS IN THE PERIOD ENDED JUNE 30, 2003

	Common Stock						TOTAL
		$ .01		Additional			STOCKHOLDERS'
		Stated	Treasury	Paid-In	Deferred	Accumulated	EQUITY
	Shares	Value	Stock	Capital	Compensation	Deficit	(DEFICIT)
BALANCE, OCTOBER 2, 1996 (date of inception)	1,140,427	$11,404	$-	$459,753	$-	$(537,707)	$(66,550)
Issuance of common stock of Tecma Laboratories, Inc., for 100% of the Company	6,600,000	66,000	-	(537,157)	-	537,707	66,550
Issuance of common stock, in private placement, net of offering costs of $138,931	594,270	5,943	-	752,531	-	-	758,474
Net loss	-	-	-	-	-	(781,246)	(781,246)
BALANCE, JUNE 30, 1997	8,334,697	$83,347	$-	$675,127	$-	$(781,246)	$(22,772)
Issuance of common stock with warrants, in private placement, net of offering costs of $84,065	999,502	9,995	-	791,874	-	-	801,869
Issuance of common stock for services	300,000	3,000	-	147,000	-	-	150,000
Issuance of common stock in connection with investment in unconsolidated subsidiary	250,000	2,500	-	122,500	-	-	125,000
Repurchase of 13,750 shares of common stock	-	-	(7,973)	-	-	-	(7,973)
Issuance of common stock with warrants	1,095,512	10,955	-	659,191	-	-	670,146

in private placement, net of offering costs of $121,138							
Issuance of common stock for financing services	100,000	1,000	-	(1,000)	-	-	-
Issuance of common stock in consideration for 100% of the common stock of Microphase Telecommunications, Inc.	2,500,000	25,000	-	1,685,000	-	-	1,710,000
Net loss	-	-	-	-	-	(4,341,059)	(4,341,059)
BALANCE, JUNE 30, 1998	13,579,711	$135,797	$(7,973)	$4,079,692	$-	$(5,122,305)	$(914,789)

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

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996) TO JUNE 30, 1997 AND FOR EACH OF THE SIX YEARS IN THE PERIOD ENDED JUNE 30, 2003

	Common Stock						TOTAL
		$ .01		Additional			STOCKHOLDERS'
		Stated	Treasury	Paid-In	Deferred	Accumulated	EQUITY
	Shares	Value	Stock	Capital	Compensation	Deficit	(DEFICIT)
BALANCE, JUNE 30, 1998	13,579,711	$135,797	$(7,973)	$4,079,692	$-	$(5,122,305)	$(914,789)
Issuance of common stock with warrants in private placements, net of offering costs of $107,000	3,120,000	31,200	-	2,981,800	-	-	3,013,000
Issuance of common stock for services	1,599,332	15,993	-	8,744,873	-	-	8,760,866
Issuance of common stock with warrants in private placement, net of offering costs of $45,353	642,000	6,420	-	1,553,227	-	-	1,559,647
Issuance of common stock in private placement, net of offering costs of $679,311	4,426,698	44,267	-	10,343,167	-	-	10,387,434
Issuance of stock options for services	-	-	-	7,129,890	-	-	7,129,890
Issuance of warrants for services	-	-	-	16,302	-	-	16,302

Deferred employee stock option compensation	-	-	-	-	(140,000)	-	(140,000)
Net loss	-	-	-	-	-	(22,838,344)	(22,838,344)
BALANCE, JUNE 30, 1999	23,367,741	$233,677	$(7,973)	$34,848,951	$(140,000)	$(27,960,649)	$6,974,006

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

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996) TO JUNE 30, 1997 AND FOR EACH OF THE SIX YEARS IN THE PERIOD ENDED JUNE 30, 2003

	Common Stock Shares	$ .01 Stated Value	Treasury Stock	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
BALANCE, JUNE 30, 1999	23,367,741	$233,677	$(7,973)	$34,848,951	$(140,000)	$(27,960,649)	$6,974,006
Issuance of common stock and options in settlement	75,000	750	-	971,711	-	-	972,461
Issuance of common stock upon exercise of warrants and options	4,632,084	46,321	-	5,406,938	-	-	5,453,259
Issuance of common stock in private placement, net of cash offering costs of $200,000	1,000,000	10,000	-	3,790,000	-	-	3,800,000
Issuance of common stock in private placement, net of cash offering costs of $466,480	1,165,500	11,655	-	9,654,951	-	-	9,666,606
Issuance of common stock for	1,164,215	11,642	-	8,612,265	-	-	8,623,907

services							
Issuance of options for services	-	-	-	9,448,100	-	-	9,448,100
Deferred employee stock option compensation	-	-	-	1,637,375	(1,637,375)	-	-
Amortization of deferred employee stock option compensation	-	-	-	-	551,707	-	551,707
Net loss	-	-	-	-	-	(38,161,542)	(38,161,542)
BALANCE, JUNE 30, 2000	31,404,540	$314,045	$(7,973)	$74,370,291	$(1,225,668)	$(66,122,191)	$7,328,504

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

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996) TO JUNE 30, 1997 AND FOR EACH OF THE SIX YEARS IN THE PERIOD ENDED JUNE 30, 2003

	Common Stock						TOTAL
		$ .01		Additional			STOCKHOLDERS'
		Stated	Treasury	Paid-In	Deferred	Accumulated	EQUITY
	Shares	Value	Stock	Capital	Compensation	Deficit	(DEFICIT)
BALANCE, JUNE 30, 2000	31,404,540	$314,045	$(7,973)	$74,370,291)	$(1,225,668)	$(66,122,191)	$7,328,504
Issuance of common stock upon exercise of options	320,000	3,200	-	324,300	-	-	327,500
Issuance of common stock with warrants in private placements, net of cash offering costs of $512,195	4,329,850	43,298	-	7,766,547	-	-	7,809,845
Issuance of common stock for services	450,000	4,500	-	1,003,125	-	-	1,007,625
Issuance of options and warrants for services	-	-	-	5,849,585	-	-	5,849,585
Deferred employee stock option compensation	-	-	-	607,885	(607,885)	-	-
Amortization of deferred employee stock option compensation	-	-	-	-	1,120,278	-	1,120,278
Issuance of common stock in	4,840,077	48,402	-	2,371,637	-	-	2,420,039

settlement of debt to directors and related parties							
Net Loss	-	-	-	-	-	(23,998,734)	(23,998,734)
BALANCE, JUNE 30, 2001	41,344,467	$413,445	$(7,973)	$92,293,370	$(713,275)	$(90,120,925)	$1,864,642

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

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996) TO JUNE 30, 1997 AND FOR EACH OF THE SIX YEARS IN THE PERIOD ENDED JUNE 30, 2003

	Shares	$ .01 Stated Value	Treasury Stock	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Comprehensive Loss	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
BALANCE JUNE 30, 2001	41,344,467	$413,445	$(7,973)	$92,293,370	$(713,275)	$(90,120,925)	$-	$1,864,642
Sale of Common stock with warrants in private placement	6,980,643	69,807	-	1,903,943	-	-	-	1,973,750
Issuance of Common stock for services	2,976,068	29,760	-	1,169,241	-	-	-	1,199,001
Issuance of options and warrants for services	-	-	-	1,877,937	-	-	-	1,877,937
Cancellation of unearned options to former employees	-	-	-	(140,802)	140,802	-	-	-
Amortization of deferred employee stock option compensation	-	-	-	-	548,550	-	-	548,550
Issuance of common stock and warrants in settlement of	7,492,996	74,930	-	2,663,728	-	-	-	2,738,658

debt to related parties and

strategic vendors								
Sale of Common stock to certain Officers and Directors in private placement	2,000,000	20,000	-	980,000	-	-	-	1,000,000
Issuance of Common stock upon exercise of options	13,334	133	-	3,867	-	-	-	4,000
Net Loss	-	-	-	-	-	(11,245,361)	-	(11,245,361)
Other comprehensive loss	-	-	-	-	-	-	(4,026)	(4,026)
BALANCE, JUNE 30, 2002	60,807,508	$608,075	$(7,973)	$100,751,284	$(23,923)	$(101,366,286)	$(4,026)	$(42,849)

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

mPHASE TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996) TO JUNE 30, 1997 AND FOR EACH OF THE SIX YEARS IN THE PERIOD ENDED JUNE 30, 2003

	Shares	$ .01 Stated Value	Treasury Stock	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Comprehensive Loss	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
BALANCE JUNE 30, 2002	60,807,508	$608,075	$(7,973)	$100,751,284	$(23,923)	$(101,366,286)	$(4,026)	$(42,849)
Issuance of common stock with warrants in private placement	4,296,680	42,967	-	1,121,351	-	-	-	1,164,318
Issuance of common stock for services	426,000	4,260	-	107,985	-	-	-	112,245
Issuance of options and warrants for services	-	-	-	274,100	-	-	-	274,100
Amortization of deferred employee stock option compensation	-	-	-	-	23,923	-	-	23,923
Issuance of common stock and warrants in settlement of debt to related parties and strategic vendors	5,923,333	59,233	-	1,826,329	-	-	-	1,885,562
Net loss	-	-	-	-	-	(6,650,211)	-	(6,650,211)
Other comprehensive income	-	-	-	-	-	-	4,026	4,026
BALANCE, JUNE 30, 2003	71,453,521	$714,535	$(7,973)	$104,081,049	$-	$(108,016,497)	$-	$(3,228,886)

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

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT (UNAUDITED)

	Shares	$.01 Stated Value	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders (Deficit) Equity
Balance June 30, 2003	71,453,521	$714,535	$(7,973)	$104,081,049	$(108,016,497)	$(3,228,886)
Issuance of common stock with warrants in private placements	1,983,337	19,834	-	611,194	-	631,028
Issuance of common stock for services	924,667	9,246	-	238,154	-	247,400
Issuance of common stock pursuant to exercise of warrants	500,000	5,000	-	145,000	-	150,000
Issuance of warrants to purchase common stock for services	-	-	-	59,843	-	59,843
Net loss	-	-	-	-	(2,565,377)	(2,565,377)
Balance, December 31, 2003	74,861,525	$748,615	$(7,973)	$105,135,240	$(110,581,874)	$(4,705,992)

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

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,			Inception (October 2, 1996) to June 30,
	2001	2002	2003	2003
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(23,998,734)	$(11,245,361)	$(6,650,211)	$(108,016,497)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	1,235,213	1,653,346	1,425,952	5,594,140
Book value of fixed assets disposed	61,414	-	-	74,272
Loss on unconsolidated subsidiary	-	-	-	1,466,467
Provision for doubtful accounts	29,218	2,906	-	32,124
Impairment of note receivable	212,500	20,250	-	232,750
Loss on securities	-	-	11,258	11,258
Gain on Extinguishments	-	(142,236)	(61,226)	(203,462)
Non-cash common stock, common stock option and warrant expense	7,398,455	3,261,449	1,134,335	48,144,097
Changes in operating assets and liabilities:				
Accounts receivable	(170,466)	15,748	(13,355)	(319,259)
Inventory	(4,303,895)	961,179	1,449,628	(1,893,088)
Prepaid expenses and other current assets	88,280	173,649	(29,652)	(596,449)
Production advances-related parties	1,109,641	-		
Other assets	(150,000)	146,420	3,580	-
Receivables from subsidiary	-	-	-	(150,000)
Due from officer	(100,000)	100,000	-	-
Accounts payable	2,802,008	(340,057)	174,939	4,157,395
Accrued expenses	(5,394)	332,819	273,986	1,812,571
Deferred revenue	-	214,180	-	214,180
Due to related parties:				
Microphase	709,832	864,555	721,544	2,295,949
Janifast	1,272,709	907,450	99,841	2,280,000
Officers	(412,400)	312,504	246,835	559,339
Accrued expense, Lintel	477,000	-	-	477,000
Due to Others	59,566	25,794	-	211,972
Net cash used in operating activities	(13,685,053)	(2,735,405)	(1,212,546)	(43,615,241)

CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment in patents and licensing rights	(148,127)	(74,649)	-	(375,720)
Purchase of property and equipment	(705,577)	(31,445)	(73,305)	(2,537,105)
Net cash used in investing activities	(853,704)	(106,094)	(73,305)	(2,912,825)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from private placement of common stock and exercise of options and warrants	8,137,345	2,977,750	1,090,474	46,507,918
Repurchase of treasury stock at cost	-	-	-	(7,973)
Advances from Microphase	-	-	527,840	527,840
Proceeds from notes payable officers	-	-	130,000	130,000
Repayment of notes payable - officers	-	-	(30,000)	(30,000)
Repayment of notes payable	-	(120,191)	(82,668)	(202,859)
Net cash provided by financing activities	8,137,345	2,857,559	1,635,646	46,924,926
Net increase (decrease) in cash	(6,401,412)	16,060	349,795	396,860
CASH AND CASH EQUIVALENTS, beginning of period	6,432,417	31,005	47,065	-
CASH AND CASH EQUIVALENTS, end of period	$31,005	$47,065	$396,860	$396,860

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

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31,		October 2, 1996 (Date of Inception) to December 31,
	2002	2003	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Loss	$(3,421,396)	$(2,565,377)	$(110,581,874)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	753,433	402,257	5,996,397
Book Value of fixed assets disposed	16,077	-	74,272
Provision for doubtful accounts	-	-	32,124
Gain on debt extinguishments	(40,725)	(23,087)	(226,549)
Loss on unconsolidated subsidiary	-	-	1,466,467
Impairment of note receivable	-	-	232,750
Loss on securities	-	-	11,258
Non-cash charges relating to issuance of common stock, common stock options and Warrants	790,608	307,245	48,451,342
Changes in assets and liabilities:			
Accounts receivable	(68,859)	104,999	(214,260)
Inventories	630,237	614,876	(1,278,212)
Prepaid expenses and other current assets	69,324	30,418	(566,203)
Other non-current assets	2,695	-	-
Accounts payable	-	401,394	4,558,788
Accrued expenses	(15,229)	(419,559)	1,393,184
Due to/from related parties			
Microphase	495,566	313,226	2,609,175
Janifast	107,204	534,887	2,814,888
Officers	60,048	(450,583)	108,756
Lintel	-	-	477,000
Others	-	-	211,972
Receivables from Subsidiary	-	-	(150,000)
Deferred revenue	-	-	214,180
Net cash used in operating activities	(621,017)	(749,304)	(44,364,545)
CASH FLOW FROM INVESTING ACTIVITIES:			
Payments related to patents and licensing rights	-	-	(375,720)
Purchase of fixed assets	-	(5,500)	(2,542,605)
	-	(5,500)	(2,918,325)

Net Cash (used)/provided by investing activities			
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock and exercises of options and warrants	-	679,867	47,187,785
Payments of notes payable	(39,425)	(2,000)	(204,859)
Advances from related party	623,290	-	627,840
Repurchase of treasury stock at cost	-	-	(7,973)
Net cash provided by financing activities	583,865	677,867	47,602,793
Net increase (decrease) in cash	(37,152)	(76,937)	319,923
CASH AND CASH EQUIVALENTS, beginning of period	47,065	396,860	-
CASH AND CASH EQUIVALENTS, end of period	$9,913	$319,923	$319,923

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

mPHASE TECHNOLOGIES, INC.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2003
(Unaudited for the Periods Ended December 31, 2002 and 2003)

1. Organization and Nature of Business

mPhase Technologies, Inc. ("mPhase or the "Company") was organized on October 2, 1996. The primary business of mPhase is to design, develop, manufacture and market high-bandwidth telecommunications products incorporating digital subscriber line ("DSL") technology. The present activities of the Company are focused on the deployment of its proprietary Traverser&#153 System, which delivers MPEG2, non-Internet Protocol-based television, high-speed Internet and voice over copper wire. Additionally, the Company sells a line of DSL component products.

On February 17, 1997, mPhase acquired Tecma Laboratories, Inc., ("Tecma") in a transaction accounted for as a reverse merger.

On June 25, 1998, the Company acquired Microphase Telecommunications, Inc. ("MicroTel") a Delaware corporation, through the issuance of 2,500,000 shares of its common stock in exchange for all the issued and outstanding shares of MicroTel (Note 4). The assets acquired in this acquisition were patents and patent applications utilized in the Company's proprietary Traverser&#153 Digital Video and Data Deliver System ("Traverser&#153").

On August 21, 1998, the Company incorporated a 100% wholly-owned subsidiary called mPhaseTV.net, Inc., a Delaware corporation, to market interactive television and e-commerce revenue opportunities. This subsidiary is dissolved.

On March 2, 2000 the Company acquired a 50% interest in mPhaseTelevision.Net, Inc., an incorporated joint venture with AlphaStar International, Inc. (Note 8) for $20,000. The Company acquired an additional interest in the joint venture of 6.5% in April of 2000 for $20,000. Based on its controlling interest in mPhaseTelevision.Net, the operating results of mPhaseTelevision.Net are included in the consolidated results of the Company since March 2, 2000.

The Company is in the development stage and its present activities are focused on the commercial deployment of its legacy Traverser&#153 DVDDS and TV+ products for delivery of broadcast television over ADSL and associated DSL component products which include POTS splitters and a line of intelligent POTS splitter products. Since mPhase is in the development stage, the accompanying consolidated financial statements should not be regarded as typical for normal operating periods.

2. Losses During the Development Stage and Management's Plans

Through June 30, 2003, the Company had incurred development stage losses totaling $108,016,497, and at June 30, 2003 had a stockholders' deficit of $3,228,886. At June 30, 2003, the Company had $396,860 of cash and cash equivalents and $287,135 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.

The Company believes that it will be able to complete the necessary steps in order to meet its cash flow requirements throughout fiscal 2004 and continue its development and commercialization efforts. Management's plans in this regard include, but are not limited to, the following:

During the fiscal year ended June 30, 2003, the Company converted certain payables and accrued expenses with officers, related parties and strategic vendors aggregating approximately $1.9 million into 5,923,333 restricted shares of the Company's common stock and 5 year warrants to purchase an additional 3,706,800 restricted shares of the Company's common stock.

In addition, in October of 2002, GTRC, a Company research and development vendor, executed a Memorandum of Intention to convert a total of approximately $1.8 million in payables to promissory notes and equity.

Management estimates that the Company will need additional minimum capital of $2.0 million by June 30, 2004 to continue its operations either through revenues from sales, external independent or related party funding, further expense reductions or some combination thereof. The Company presently has ongoing discussions and negotiations with a number of additional financing alternatives, one or more of which it believes will be able to successfully close to provide necessary working capital, while maintaining sensitivity to shareholder dilution issues. However, the Company has no definitive agreements to provide funding at this time. In addition to the above financing activities, the following business initiatives are also ongoing and are expected to provide additional working capital to the Company.

The Company is currently negotiating with several organizations for the commencement of field trials which would lead to commercial sales of its broadcast television platform products. The Company has had an upturn in sales of its POTS splitter products since the close of its fiscal year ended June 30, 2003, including sales to one customer of approximately $1.6 million through August 21, 2003.

Management believes that actions presently being taken to complete the Company's development stage through the commercial roll-out of its broadcast television platforms will be successful. However, there can be no assurance that mPhase will generate sufficient revenues to provide positive cash flows from operations or that sufficient capital will be available, when required, to permit the Company to realize its plans. The accompanying financial statements does not include any adjustments that might result from the outcome of this uncertainty.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of mPhase, and its wholly-owned and majority owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made in the prior period consolidated financial statements to conform to the current period presentation.

Cash and Cash Equivalents

mPhase considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

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. The Company has chosen to continue to account for stock-based compensation 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 has 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.

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.

During the second quarter of fiscal 2004, the Company adopted the fair value recognition provisions of FASB Statement No. 123,

Accounting for Stock-Based Compensation, for stock-based employee compensation, effective as of the beginning of the fiscal year. Under the modified prospective method of adoption selected by the Company, stock-based employee compensation cost recognized in 2003 is the same as that which would have been recognized had the fair value recognition provisions of Statement 123 been applied to all awards granted after October 1, 1995. The following table illustrates the effect on net income and earnings per share as if the fair value based method has been applied to all outstanding and unvested awards in each period.

	Six months ended December 31, 2003	2002
Net loss, as reported	$(2,565,377)	$(3,421,396)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	-	23,923
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-	(204,885)
Pro forma net loss	$(2,565,337)	$(3,602,358)
Loss per share:		
Basic and diluted-as reported	$(.04)	$(.06)
Basic and diluted-pro forma	$(.04)	$(.06)

Property and Equipment

Property and equipment is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of three to five years.

Short-term Investments

Short-term investments principally consist of highly-liquid shares of corporate securities. The Company classifies all these short-term investments as available-for-sale securities. These securities are included in Prepaid Expenses and Other Current Assets for presentation purposes. Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income (loss) as a separate component of shareholders' equity. Any decline in market value judged to be other than temporary is recognized in determining net income. Realized gains and losses from the sale of these investments are included in determining net income (loss).

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 principles to revenue recognition based on 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.

Shipping and Handling Charges

The Company includes costs of shipping and handling billed to customers in revenue and the related expense of shipping and handling costs is included in cost of sales.

Business Concentrations and Credit Risk

To date the Company's products have been sold to a limited number of customers, primarily in the telecommunications industry. The Company had revenues from two customers representing 64% and 19% of total revenues during the year ended June 30, 2001. The Company had revenues from two customers representing 39% and 21% of total revenues during the year ended June 30, 2002. The Company had revenue from two customers of 31% and 25% during the fiscal year ended June 30, 2003.

Advertising Costs

Advertising costs are expensed as incurred.

Comprehensive Income (Loss)

In addition to net loss, comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by and distributions to owners. Generally items of comprehensive income include foreign currency exchanges and unrealized gains and losses on investments classified as available for sale.

In 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income, which establishes rules for the Reporting of Comprehensive Income and its components. For the year ended June 30, 2001, there was no difference between the Company's net income and comprehensive income. For the years ended June 30, 2002 and 2003 the items of comprehensive income include unrealized gains and losses on investments the Company had classified as available for sale.

Long-lived Assets

The Company accounted for long-lived assets for the years ended June 30, 2001 and 2002 in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the Company reviewed its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such changes in circumstances may include, among other factors, a significant change in technology that may render an asset or an asset group obsolete or noncompetitive, a significant change in the extent or manner in which an asset is used, evidence of a physical defect in an asset or asset group or an operating loss.

In August 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," ("FAS 144"), which became effective for the Company July 1, 2002 for the fiscal year ended June 30, 2003. The Company assesses long-term assets for impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Under SFAS No. 144, the Company reviews long-term assets for impairment whenever events or circumstances indicate that the carrying amount of those assets may not be recoverable. The Company also assesses these assets for impairment based on their estimated future cash flows.

Patents and Licenses

Patents and licenses are capitalized when mPhase determines there will be a future benefit derived from such assets, and are stated at cost. Amortization is computed using the straight-line method over the estimated useful life of the asset, generally five years.

Amortization expense was $460,121, $471,629 and $468,495 for the years ended June 30, 2001, 2002, and 2003, and amortization expense (unaudited) for the six months ended December 31, 2002 and 2003 was $275,385 and $54,934, respectively.

The impairment test for the Company's patents and license rights resulted in the Company concluding that no impairment in addition to amortization previously recorded was necessary during the year ended June 30, 2003.

Inventories

Inventory consists mainly of the Company's POTS Splitter Shelf and Filters. Inventory is comprised of the following:

	June 30,		December 21,
	2002	2003	2003
			(unaudited)
Raw materials	$266,748	$131,797	$121,991
Work in Progress	1,045,679	728,537	672,634
Finished goods	3,273,644	1,729,344	1,180,176
Total	4,586,071	2,589,678	1,974,801
Less: Reserve for obsolescence	(1,243,355)	(486,350)	(486,350)
	$3,342,716	$2,103,328	$1,488,451

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for mPhase's cash, accounts receivable, accounts payable, and accrued expenses approximate their fair values due to the short maturities of these financial instruments.

The carrying amounts reported in the consolidated balance sheets for mPhase's notes payable, long-term debt, amounts due to related parties approximate their fair values, and the amounts recorded as other liabilities

and other liabilities-related parties approximate their fair values based on current rates at which the Company could borrow funds with similar maturities.

Loss Per Common Share, Basic and Diluted

mPhase accounts for net loss per common share in accordance with the provisions of SFAS No. 128, "Earnings per Share" ("EPS"). SFAS No. 128 requires the disclosure of the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Common equivalent shares have been excluded from the computation of diluted EPS since their effect is anti-dilutive.

Warranty Reserve

The Company warrants that all equipment manufactured by it will be free from defects in material and workmanship under normal use for a period of one year from the date of shipment. Through June 30, 2003, substantially all sales by the Company have been from component telephone equipment parts, primarily the Company's POTS Splitter Shelves. The Company's actual experience for cost and expenses in connection with such warranties have been nominal and through June 30, 2003, an additional amount of $10,000 has been added to reserve for future warranty costs which the Company estimates aggregate $40,000 at this time.

Recent Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement, SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement amends SFAS No. 13, "Accounting for Leases," to eliminate inconsistencies between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Also, this statement amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Provisions of SFAS No. 145 related to the rescission of SFAS No. 4 were effective for the Company on November 1, 2002 and provisions affecting SFAS No. 13 were effective for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 did not have a material impact on our financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement covers restructuring type activities beginning with plans initiated after December 31, 2002. Activities covered by this standard that are entered into after that date will be recorded in accordance with the provisions of SFAS No. 146. The adoption of SFAS No. 146 did not have a significant impact on our consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation- Transition and Disclosure," which provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation as prescribed in SFAS 123, "Accounting for Stock-Based Compensation." Additionally, SFAS 148 required more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this Statement are effective for fiscal years ending after December 15, 2002, with early application permitted in certain circumstances. The Company has adopted the disclosure provisions in our consolidated financial statements as disclosed above under Stock Based Compensation.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002 and adoption of the disclosure requirements are effective for the Company during the first quarter ending January 31, 2003. The adoption of FIN 45 did not have a significant impact on our consolidated financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual

period beginning after June 15, 2003. The adoption of FIN 46 did not have a significant impact on our consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities, if applicable. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. The adoption of this statement is not expected to have a significant impact on the Company's results of operations or financial position.

Statement of Cash Flow Supplemental Information

	Year Ending June 30,		6 Months Ending December 31	
	2002	2003	2002	2003
			(unaudited)	
Interest paid	$21,760	$14,512	$6,684	$6,000
Taxes paid	$-	$-	$-	$250
Schedule of Non-Cash Investing and Financing Activities:				
Conversion of accounts payable and accrued expenses to equity	$2,738,658	$1,931,788	$1,133,756	$-
Conversion of accounts payable and accrued expenses to notes payable	$1,487,747	$360,000	$-	$-
Research and development fixed assets transferred to work in process inventory	$-	$210,239	$-	$-
Investments in Patents and Licenses paid with equity	$43,750	$-	$-	$-

4. Acquisition of Microtel

In June 1998, mPhase issued 2,500,000 shares of common stock in exchange for all of the issued and outstanding shares of MicroTel, a wholly-owned subsidiary of Microphase, Inc. ("Microphase"). The transaction was accounted for as a purchase pursuant to APB Opinion No. 16 "Accounting for Business Combinations". The total purchase price of approximately $1,870,000, which was based on the fair market value of the shares issued, was allocated to the patents acquired and is being amortized over an estimated useful life of five years. Pursuant to the agreement of merger, MicroTel has become a wholly-owned subsidiary of mPhase.

5. Note Receivable

As consideration for a letter of settlement with a former consultant of mPhase, the Company had loaned the former consultant $250,000 in the form of a Note (the "Note") secured by 75,000 shares of the former consultants common stock of mPhase. The Note was due April 7, 2001. The Company decreased the Note to $37,500, representing the estimated value of the underlying stock at June 30, 2001. The Company charged $212,500 to administrative expense as a result of this impairment. The Company had included the $37,500 in long-term assets for the year ended June 30, 2001. The Company decreased the Note to $17,250, representing the estimated value of the underlying stock at June 30, 2002. The Company charged $20,250 to administrative expenses as a result of the further impairment of the underlying stock value at June 30, 2002 and has maintained the same balance for the Note throughout the fiscal year ended June 30, 2003. The Company has included the $17,250 in long-term assets in the accompanying consolidated balance sheets for the years ended June 30, 2002 and 2003.

6. Property and Equipment

Property and equipment, at cost, consist of the following:

	June 30, 2002	June 30, 2003	December 31, 2003 (unaudited)
Equipment	$3,593,418	$2,572,031	$2,577,531
Office and marketing equipment	482,464	482,464	482,464
	4,075,882	3,054,495	3,059,995
Less-Accumulated depreciation	(2,333,696)	(2,472,605)	(2,819,928)
	$1,742,186	$581,890	$240,067

Depreciation expense for the years ended June 30, 2001, 2002, and 2003, was $775,092, $1,181,717, and $957,457, respectively, of which $501,676, $983,163 and $442,040, respectively, is included in research and development expense. Depreciation expense for the six months ended December 30, 2002 and 2003 (unaudited) was $703,640 and $347,323 respectively, of which $49,052 and $328,175, respectively, is included in research and development expense.

7. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2002	June 30, 2003	December 31, 2003 (unaudited)
Lucent Projects (Note 13)	$81,250	$370,795	$-
Other General Expenses	591,815	514,940	430,016
	$673,065	$885,735	$430,016

Accrued expenses representing accrued general and administrative expenditures were $430,016 at December 31, 2003. At December 31, 2003 unpaid invoices for expenses for research and development expenses incurred with Lucent Technologies, Inc. totaling $420,000 were included in accounts payable.

8. Joint Venture

In March 2000, mPhase acquired a 50% interest in mPhaseTelevision.Net (formerly Telco Television Network, Inc.), an incorporated joint venture, for $20,000. The agreement provided for the grant of warrants to the joint venture partner, in consideration of the execution of the Joint Venture Agreement, to purchase 200,000 shares of the Company's common stock for $4.00 per share (valued at $2,633,400). This non-cash charge was included in general and administrative expenses in the accompanying statement of operations for the year ended June 30, 2000. The fair value of the warrants granted to the joint venture partner as of the date of grant was based on the Black-Scholes stock option pricing model, using the following weighted average assumptions: annual expected rate of return of 0%, annual volatility of 115%, risk free interest rate of 5.85% and an expected option life of 3 years.

The agreement stipulated for mPhase's joint venture partner, AlphaStar International, Inc., ("Alphastar"), to provide mPhaseTelevision.Net right of first transmission for its transmissions of MPEG-2 digital satellite television. In addition, in March 2000, mPhase loaned the joint venture $1,000,000 at 8% interest per annum. The loan is repayable to the Company from equity infusions to the subsidiary, no later than such time that mPhaseTelevision.Net qualifies for a NASDAQ Small Cap Market Listing. During April 2000, the Company acquired an additional 6.5% interest in mPhaseTelevision.Net for $1,500,000.

As of June 30, 2003 mPhase owns a 56.5% interest in mPhaseTelevision.net. The Company terminated the lease of the earth station for business reasons, and there was no material impact on mPhaseTelevision.net's operating activities.

Pursuant to an agreement dated as of June 18, 2002, mPhaseTelevision.Net has terminated its lease of the earth station and Alphastar and its affiliated entity have converted certain accounts payable into shares of the Company's common stock. Additionally, under this Agreement, mPhase is obligated to pay Alphastar andits affiliates $35,000, which is included in amounts due to related parties in the accompanying consolidated balance sheet.

During the fiscal years ended June 30, 2001, 2002 and 2003, the joint venture was charged $1,009,420, $64,039 and $0, respectively for fees and costs by its joint venture partner and its affiliates.

9. Long Term Debt

Long-debt is comprised of the following:

	June 30, 2002	2003	December 31, 2003 (unaudited)
Settlement Agreements:			
Accounts payable expected to be converted to Note payable to GTRC bearing 7% interest, amortized in equal monthly payments of $4,167 and a lump sum payment of $75,000 due twelve months from issuance (see also - Note 13-Commitments and Contingencies)	150,000	150,000	100,000
Accounts payable expected to be converted to Note payable to GTRC bearing 7% interest, amortized in average monthly payments totaling $0 in 2004, $39,568 in 2005, $56,085 in 2006 $60,140 in 2007, $64,488 in 2008, and a lump sum payment of $253,954 due at maturity in September 2008 (see also - Note 13-Commitments and Contingencies)	474,235	474,235	-
Note payable to law firm bearing 8% interest, monthly installments of	415,887	405,022	405,022

$5,000 per month commencing in June 2002 and continuing through December 1, 2003 with a final payment of principal plus accrued interest due at maturity on December 31, 2003			
Note payable to vendor bearing 8% interest due in weekly payments of $5,000 including accrued interest. These payments commenced in January 2002 and continue until June 2004	237,169	210,558	210,558
Note payable to vendor non interest bearing average monthly payments of $4,167 in 2003 and $3,660 in 2004. These payments commenced in April 2002 and continue until May 2004	90,266	79,765	79,765
Note payable, vendor, interest at 8%, with average monthly payments of $2,000 through March, 2004	-	29,458	27,459
Total	1,367,557	1,349,038	822,804
Less: Current portion	(353,339)	(762,735)	(822,804)
Long-term Debt, non-current portion	$1,014,218	$586,303	$0

At June 30, 2003 total maturities of long-term debt are as follows:

2004	$762,735
2005	151,637
2006	56,085
2007	60,140
2008	64,487
2009 and thereafter	253,954
Total	$1,349,038

10. Stockholders' Equity

mPhase initially authorized capital of 50,000,000 shares of common stock with no par value. On February 23, 2000, the Board of Directors proposed and on May 22, 2000 the shareholders approved an increase in the authorized capital to 150,000,000 shares of common stock.

On January 26, 2000 the Board of Directors of mPhase resolved that the stated value of the common stock was $.01 for accounting purposes and, as such, the financial statements have been retroactively restated to reflect this change.

Tecma issued 6,600,000 shares of common stock for all of the issued and outstanding shares of the Company in the reverse acquisition (Note 1).

In October 1997, mPhase issued 250,000 shares of its common stock in connection with its investment in Complete Telecommunications Inc.

During the year ended June 30, 1998, mPhase issued, pursuant to private placements, 2,095,014 shares of its common stock together with 1,745,179 warrants for proceeds to the Company of $1,472,015, net of offering costs of $205,203. The warrants were issued to purchase one share each of common stock at an exercise price of $0.75, and exercised during the year ended June 30, 2000 generating proceeds to the Company of $1,308,884. Included in offering costs are 100,000 shares of common stock issued for services provided by a third party valued at $0.50 per share, the fair market value on the date of grant.

During the year ended June 30, 1998, mPhase issued 300,000 shares of common stock to consultants for services at $0.50 per share, its fair market value. The Company recorded a charge to operations of $150,000 included in the cumulative loss from inception in the accompanying consolidated statement of operations.

On June 25, 1998, mPhase issued 2,500,000 shares of its common stock for all of the outstanding stock of MicroTel (Note 4) for approximately $1,870,000, the fair market value.

In November 1998, mPhase issued 3,120,000 shares of its common stock at $1.00 per share, together with 1,000,000 warrants, with an exercise price of $1.00 per share, for $3,013,000 net of offering costs of approximately $107,000 in private transactions pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, with accredited investors. On June 2, 2000 these warrants were exercised, generating proceeds to the Company of $1,000,000.

During the year ended June 30, 1999, mPhase issued 1,599,332 shares of common stock to employees and consultants for services performed. The Company recognized a charge to operations of $8,760,866, based upon the fair market value of the shares.

In April, May and June of 1999, mPhase issued a total of 642,000 shares of common stock at $2.50 per share, together with 642,000 warrants for $1,559,647, net of offering costs of $45,353 in private transactions pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, with accredited investors. The warrants expire in June 2004. By June 30, 2000, 148,000 of these warrants were exercised, generating proceeds to the Company of $370,000.

In June 1999, mPhase issued 4,426,698 shares of its common stock at a price of $2.50 per share for $10,387,434, net of offering costs of $679,311, in private transactions pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, with accredited investors.

In December 1999 and January 2000, mPhase issued, pursuant to private placements, 1,000,000 shares of common stock at a price of $4.00 per share, net of cash offering costs of $200,000, generating net proceeds to the Company of $3,800,000 in private transactions pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, with accredited investors. In connection with the private placements, the Company issued 200,000 and 50,000 warrants to purchase common stock to the respective investors. The warrants had an exercise price of $4.00 and $5.00, respectively. During February 2000, these warrants were exercised, generating $1,050,000 of proceeds to the Company.

In March 2000, mPhase issued 832,500 shares of common stock at a price of $10.00 per share, net of cash offering costs of $466,480, and issued 124,875 shares to a transaction advisor for services, generating net proceeds to the Company of $7,858,520 in private transactions pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, with accredited investors. On May 5, 2000 the Company issued an additional 208,125 shares to these investors due to a market value adjustment. These shares were valued at $1,808,086, which is included in general and administrative expenses in the statement of operations for the year ended June 30, 2000.

During the year ended June 30, 2000, mPhase issued 1,164,215 shares of common stock to employees and consultants for services performed. The Company recognized a charge to operations of $8,623,907, based upon the fair market value of the common stock on the dates of grant.

In September 2000, mPhase issued 510,000 shares of its common stock, generating net proceeds of $2,532,120, net of cash offering costs of $17,880 in private transactions pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, with accredited investors. In connection with the private placement, the Company issued 105,750 shares of its common stock to transaction advisors.

In February 2001, mPhase issued 2,342,500 shares of its common stock and a like amount of warrants to purchase one share each of the Company's common stock generating gross proceeds of $4,685,000 in private transactions pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended with accredited investors. The attached warrants permit the investor to purchase one share each of common stock at an exercise price of $3.00 per share. The Company incurred cash offering costs of $425,315 and also issued 284,600 shares of its common stock and 162,600 warrants to purchase one share each at an exercise price of $3.00 to transaction advisors.

In May and June 2001, mPhase issued 1,087,000 shares of its common stock and a like amount of warrants to purchase one share each of the Company's common stock generating gross proceeds of $1,087,000 in private transactions pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended with accredited investors. The attached warrants permit the investor to purchase one share each of common stock at an exercise price of $3.00. The Company incurred offering costs of $69,000.

During the year ended June 30, 2001, the Company issued 450,000 shares of common stock to consultants for services performed and to be performed. The Company recognized a charge to operations of $886,534 and deferred $121,091 for services to be performed in the fiscal year ending June 30, 2002. Total expense amounted to $1,007,625 and the balance of $121,091 was based upon the fair market value of the common stock on the date of the grant, and was charged to operations for the year ended June 30, 2002.

Effective June 30, 2001 the Company issued 4,840,077 shares of the Company's common stock in settlement of debt totaling $2,420,039 to directors and related parties, based upon the fair market value of the common stock issued which approximated the debt settled on the measurement date of September 6, 2001, such date was determined pursuant to EITF00-1 as to when all contingent terms of the conversion agreement were met. These shares are reflected as outstanding as of June 30, 2001, pursuant to AV560 and SFAS128.

In July 2001, the Company issued 75,000 shares of its common stock and a like amount of warrants to purchase one share each of the Company's common stock at an exercise price of $3.00 generating proceeds of $75,000 in a private transaction with accredited investors.

In December 2001, the Company issued 3,474,671 shares of its common stock and a like amount of warrants to purchase one share each of the Company's common stock at an exercise price of $.30 generating gross proceeds of $1,042,000 in a private transaction pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended with accredited investors, which included a subscription receivable of $440,200, which was collected in January 2002.

In January 2002, the Company issued 2,754,503 shares of its common stock and a like amount of warrants to purchase one share each at an exercise price of $.30 generating gross proceeds of $826,351 and in June 2002, the Company issued 100,000 shares of its common stock and a like amount of warrants to purchase one share each at an exercise price of $.30, generating gross proceeds of $30,000 in a private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, with accredited investors.

In connection with the December 2001, January 2002, and June 2002, private placements, the Company issued 576,469 shares of its common stock and a like amount of warrants to purchase one share each at an exercise price of $.30 to finders and consultants whom assisted in the transaction.

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

Conversions Concurrent with Private Placements

Included in this total for the year ended June 30, 2002, related parties and strategic vendors converted debt aggregating approximately $1,020,000 and $96,000 respectively into:

a. 3,400,000 shares and of common stock plus warrants to purchase another 3,400,000 shares of common stock at $.30 for a term of 5 years (2,200,000 units with Microphase for $660,000 and 1,200,000 units with Janifast for $360,000); and

- 320,000 shares of common stock plus warrants to purchase another 320,000 shares of common stock at $.30 for a term of 5 years, respectively, were issued to strategic vendors.

Such conversions were upon the same terms of a concurrent private placement of common stock by the Company of approximately $1.8 million in cash received for 6 million shares of common stock plus warrants to purchase another 6 million shares of the Company's common stock for 5 years at $.30 per share. No gain or loss was recognized in connection with conversions by related parties and strategic vendors of the above total of $1,116,000 of debt.

Conversions, Settlements and Gain on Extinguishments

In addition this total for the year ended June 30, 2003 includes 4,873,333 shares of common stock and warrants to purchase 2,656,800 shares of the Company's common stock which were issued as follows;

a. 2,750,000 shares of common stock were issued to related parties, the value of which was based upon the price of the Company's common stock on the measurement date, such date was determined pursuant to EITF00-1 as to when all contingent terms of conversion agreements were met, in which no gain or loss was recognized on the conversion of $440,000 of debt; and

- 1,022,996 shares of common stock were issued to strategic vendors, the value of which was based upon the price of the Company's common stock on the effective date of settlement with each party, and, two warrants to purchase 2,233,490 shares of the Company's common stock were issued the Company's outside counsel to settle outstanding indebtedness of approximately $450,000 as of March 15, 2002. The aggregate value of such warrants was estimated using the Black Scholes options pricing model, assuming an annual expected return of 0%, annual Beta volatility of 125.4 and a risk free interest rate of 5.9% pursuant to EITF 96-18, for the conversion of $1,182,658 of such liabilities which, together with gains from cash settlements of $27,960 resulted in an aggregate gain on extinguishments of $142,236.

During the year ended June 30, 2002, certain officers, directors and related parties were issued 2,000,000 and 6,150,000 shares of mPhase common stock and 3,400,000 warrants in consideration of the investment of $1,000,000 cash and the conversion of $1,460,000 accounts payable (see Note 11).

Also, during the fiscal year ended June 30, 2002, the Company granted 2,923,000 shares of its common stock and 1,675,000 warrants to consultants for services performed valued at $504,657 based upon the fair market value of the Company's common stock on the date of the grant using the Black-Scholes option premium model. These totalled $1,703,658 and the Company recorded a charge to operations of $955,668 for the year ended June 30, 2002 and the balance of $747,990 was charged to operations for the year ended June 30, 2003.

During the year ended June 30, 2003, the Company issued 426,000 valued at 112,245 and warrants, valued at $203,150 based upon the fair market value of the Company's common stock on the date of the grant using the Black-Scholes option pricing model. The Company recorded these changes, totaling $318,395, to operations for the year ended June 30, 2003.

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

Conversions Concurrent with Private Placements

Included in this total for the year ended June 30, 2003, related parties and strategic vendors converted debt aggregating approximately $300,000 and $15,000 respectively into:

a. 1,000,000 shares and 5 year warrants to purchase at $.30 a share 1,000,000 shares of mPhase common stock by Microphase, a related party, which converted $300,000 of

- 50,000 shares and 5 year warrants to purchase at $.30 a share 50,000 shares of mPhase common stock by a strategic vendor which converted $15,000 of Such conversions were upon the same terms of a concurrent private placement of common stock by the Company and no gain or loss was recognized in connection with these conversions.

Conversions, Settlements and Gain on Extinguishments

In addition, this total for the year ended June 30, 2003 includes 4,873,333 shares of common stock and warrants to purchase 2,656,800 shares of the Company's common stock which were issued as follows;

a. During the year ended June 30, 2003, these included transactions with related parties whereby the Company and the counter parties respective board of director's approved, entering into an agreement in principle with the Company's officers and affiliates, including Janifast Ltd. and Microphase Corporation, to convert up to an amount equal to accounts payable through September 30, 2002. Such approval was received by the respective boards of directors authorizing conversions of such payables effective September 30, 2002 resulting in the conversion of $620,000 on and $360,000 on of liabilities due to Microphase corporation, and Janifast Ltd into 3,033,000 shares and 1,500,000 shares of stock, respectively. The value attributable to the shares was based upon the market price of the Company's common stock on the measurement date, such date was determined pursuant to EITF00-1, as to when all the contingent terms of the conversion agreements were met, in which no gain or loss was recognized on the conversion of $980,000 of debt, and

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

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

As a result of the preceding, during the three years ended June 30, 2003, extinguishments, cancellations and conversions of debt for issuance of the Company's common stock to related parties is summarized in Note 11 and amounts relating to strategic investors is summarized as follows:

Equity Conversions of Debt with Strategic Vendors

	For the Years Ended June 30,			For the Six Months Ended December 31,	
	2001	2002	2003	2002	2003
				(Unaudited)	
Strategic Vendors					
Number of shares	0	999,662	390,000	340,000	0
Number of warrants	0	870,000	215,000	0	0
Amount converted to equity	$0	$529,503	$198,032	$117,486	$0
Gain on Extinguishment of Debt	$0	$142,236	$73,432	$40,125	$0

The Company has no commitments from affiliates or related parties to provide additional financings. The Company has, from time to time, been able to obtain financings 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.

(see also - Note 11 - Related Party Transactions)

During the six months ending December 31, 2003, the Company granted 924,667 shares of its common stock and warrants to purchase 249,667 shares of its common stock to consultants for services performed valued at $307,243. During the six months ended December 31, 2003, the Company issued 333,337 shares of its common stock together with a like amount of 5 year warrants, at an exercise price $.30 per share, in a private placement and 500,000 shares of its common stock pursuant to the exercise of warrants generating net proceeds to Company of $250,000. In December of 2003, the Company issued 1,550,000 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of $.35 per share, in a private placement generating net proceeds of $517,500, $175,000 of which was collected in January, 2004. An advisor of the Company was issued 100,000 shares for assisting in this transaction.

Additionally, during the six months ending December 31, 2003, a note payable in the amount of $360,000 to Microphase Corporation was executed in exchange for the cancellation of a like amount of accounts payable to Microphase on September 25, 2003 which matures on July 25, 2004. Additionally, a note payable to Martin Smiley, CFO and

General Counsel of mPhase, in the amount of $100,000 was extended from September 25, 2003 to July 24, 2004. Both liabilities carry an interest rate of 12% payable quarterly in arrears. Each note is convertible into Common Stock of mPhase at the rate of $.30 per share through July 25, 2004. Upon conversion, each note holder will be granted warrants to purchase an equivalent amount of mPhase Common Stock at $.30 per share for a period of five years from the date of conversion.

Stock Incentive Plans

On August 15, 1997, mPhase established its Long Term Stock Incentive Plan. Included as part of the Long Term Stock Incentive Plan, is the Stock Option Plan (the "Plan"), in which incentive stock options and nonqualified stock options may be granted to officers, employees and consultants of the Company. On February 23, 2000 the Board of Directors proposed and on May 22, 2000 the stockholders approved an increase in the total shares eligible under this plan to 15,000,000 shares. Vesting terms of the options range from immediately to two years and generally expire in five years.

On May 30, 2001, mPhase established the 2001 Stock Incentive Plan (the "2001 Plan"), in which incentive stock options and non-qualified stock options may be granted to officers, employees and consultants of the Company. The total shares eligible under the 2001 Plan is 20,000,000 shares, in addition to the shares previously authorized for issuance under the prior plan. Vesting terms of the options range from immediately to two years and options generally expire in five years. The maximum number of shares that may be granted during any one fiscal year to any one individual under the 2001 Plan is limited to 2,500,000 shares.

A summary of the stock option activity for the years ended June 30, 2001, 2002, 2003 pursuant to the terms of both plans, which include incentive stock options and non-qualified stock options, is set forth on the below:

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2001	12,580,500	$1.94
Granted	6,570,000	.43
Exercised	-	-
Canceled	(43,500)	(4.26)
Outstanding at June 30, 2002	19,107,000	1.27
Granted	625,000	.30
Exercised	-	-
Canceled/Expired	(2,565,000)	(1.00)
Outstanding at June 30, 2003	17,167,000	$1.24
Exercisable at June 30, 2003	17,092,006	$1.28
Granted (unaudited)	-	-
Exercised (unaudited)	-	-
Cancelled/Expired (unaudited)	(2,726,000)	$(3.27)
Outstanding at December 31, 2003 (unaudited)	14,441,000	$.94
Exercisable at December 31, 2003 (unaudited)	14,441,000	$.94

The fair value of options granted in 2001 and 2002 and options and compensatory warrants granted in 2003 was estimated as of the date of grant using the Black-Scholes stock option pricing model, based on the following weighted average assumptions: annual expected return of 0%, annual volatility of 113% in 2001, 125.4% in 2002 and 144.4% in 2003 based upon a risk-free interest rate ranging from 2.4% to 5.8% and expected option life of 3 years.

The per share weighted average fair value of stock options granted during 2001, 2002 and 2003 was $1.16, $.26, and $.21, respectively. The per share weighted average remaining life of the options outstanding at June 30, 2001, 2002, and 2003 is 3.66, 3.29 and 2.80 years, respectively.

mPhase has elected to continue to account for stock-based compensation under APB Opinion No. 25, under which no compensation expense has been recognized for stock options and certain compensating warrants granted to employees at fair market value. Had compensation expense for stock options granted under the Plan and certain warrants granted to employees in 2003, been determined based on fair value at the grant dates, mPhase's net loss for the years ended June 30, 2001, 2002 and 2003.

	June 30		
	2001	2002	2003
Net Loss:			
As reported	$23,998,734	$11,245,361	$6,650,211
Proforma	$25,243,270	$11,673,091	$6,866,271
Net Loss Per Share:			
As reported	$(.72)	$(.23)	$(.10)
Pro forma	$(.75)	$(.24)	$(.11)

For the year ended June 30, 2001, mPhase recorded non-cash charges and deferred compensation totaling $2,955,964 and $607,885, respectively, in connection with the grant of 5,618,000 options to employees and options to consultants for services rendered or to be rendered.

For the year ended June 30, 2002, the Company recorded non-cash charges and deferred compensation totaling $927,420 and $0, respectively, in connection the grant of 1,505,000 options and 48,068 shares of its common stock and 48,068 warrants to employees and 5,065,000 options to consultants services rendered or to be rendered. Such charges are the result of the differences between the quoted market value of the Company's common stock on the date of grant and the exercise price for options issued to employees and Black-Scholes stock option pricing calculations for options issued to consultants.

For the year ended June 30, 2003, the Company recorded non-cash charges and deferred compensation totaling $70,950 and $0, respectively, in connection with the grant of 625,000 options to employees and consultants and the Company recorded non-cash charges of $203,150 in connection with the grant of 1,690,000 compensating warrants to employees and consultants for services rendered or to be rendered. Such charges are the result of the differences between the quoted market value of the Company's common stock on the date of grant and the exercise price for option and warrants issued to employees and Black-Scholes stock option pricing calculations for options and warrants issued to consultants.

The following summarizes information about stock options outstanding at June 30, 2003:

Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0 - $.50	6,947,500	3.7	$.37	6,872,506	$.37
$.51 - $1.50	6,075,500	2.4	$.89	6,075,500	$.89
$1.50 - $16.38	4,144,000	1.9	$3.59	4,144,000	$3.59

Warrants

In January and April 1998, mPhase issued 25,000 and 50,000 warrants, respectively, each to purchase one share of common stock at an exercise price of $1.06 and $2.44, respectively, for consulting services. The warrants expire five years from the date of issuance. At any time after the date of issuance, the Company may, at its option, elect to redeem all of these warrants at $0.01, subject to adjustment, as defined, per warrant, provided that the average closing price of the common stock for 20 business days within any period of 30 consecutive business days exceeds $5.00 per share. As of June 30, 2001, none of these warrants remain outstanding.

In July 1998, in connection with the private placements, mPhase issued 400,000 warrants, each to purchase one share of common stock at an exercise price of $1.00 per share. The Company allocated the net proceeds from the sale of the common stock to the common stock and the warrants. On July 26, 1999, pursuant to the warrant agreement these 400,000 warrants were converted into 352,239 shares of common stock. In accordance with the warrant agreement, the warrant holder had the right to initiate a cashless exercise to convert the warrants into shares of common stock in lieu of exchanging cash. The number of shares received was determined by dividing the aggregate fair market value of the shares minus the aggregate exercise price of the warrants by the fair market value of one share.

In September 1998, mPhase issued 6,666 warrants for services, each to purchase one share of common stock at an exercise price of $0.75 per share. The warrants expire five years from the date of grant. The Company determined the fair market value of the warrants issued under the Black-Scholes Option Pricing Model to be $16,302. This amount is included in the Company's general and administrative expenses in the accompanying consolidated statement of operations as of June 30, 1999. These warrants were exercised during the year ended June 30, 2000 generating proceeds to the Company of $5,000.

In June 1999, in connection with the private placements, mPhase issued warrants to purchase 400,000 shares of common stock at an exercise price of $1.00 per share. The warrants were to expire five years from the date of grant. These warrants were exercised during the year ended June 30, 2000 generating proceeds to the Company of $400,000.

In January 2000, in connection with private placements, mPhase issued 200,000 and 50,000 warrants, each to purchase one share of common stock, at an exercise price of $4.00 and $5.00, respectively. The net proceeds of the private placement were allocated to the warrants and the common stock based on their respective fair values. The warrants were to expire five years from the date of issuance. These warrants were exercised in February 2000.

During the year ended June 30, 2001, mPhase issued 4,980,125 warrants to investors including 1,550,625 warrants to existing investors as compensation which resulted in a charge of $1,249,804 to operations based upon the fair value of the warrants issued as determined under the Black-Scholes option pricing model, and 162,600 to finders, consultants and investment banking firms, each of these warrants to purchase one share each of the Company's common stock at $3.00, for five years, in connection with private placements.

During the year ended June 30, 2001, mPhase granted 1,180,000 warrants to consultants for services performed and for services to be performed at prices ranging from $1.25 to $5.00, which resulted in a charge of $1,185,874 to operations and deferred $457,942 for services to be performed in the fiscal year to end June 30, 2002, totaling $1,643,816 based upon the fair value of the warrants issued as determined under the Black-Scholes option pricing model.

As of June 30, 2001, 6,816,725 warrants were outstanding with a weighted average exercise price of $2.93.

During the year ended June 30, 2002, the Company issued 75,000 and 6,797,643 warrants to investors and to finders, consultants and investment banking firms, each of these warrants to purchase one share each of the Company's common stock at $3.00 and $.30, for five years, in connection with private placements. The Company also issued 13,334 shares of its common stock following the exercise of warrants resulting in gross proceeds $4,000. Also, during the year ended June 30, 2002, the Company granted 1,675,000 warrants to consultants for services performed and 6,043,490 warrants to creditors, including related parties, in connection with the conversion of outstanding liabilities.

As of June 30, 2002, 21,965,260 warrants were outstanding with a weighted average exercise price of $1.05.

During the year ended June 30, 2003, the Company issued 4,701,696 warrants to investors and to finders, consultants and investment banking firms, each of these warrants to purchase one share each of the Company's common stock at $.30, for five years, in connection with private placements. Also, during the year ended June 30, 2003, the Company granted 1,690,000 5 year warrants to employees and consultants for services performed with an exercise price of $.40 per share of common stock and 3,706,800 warrants to creditors, including related parties (see Note 11), in connection with the conversion of outstanding liabilities.

As of June 30, 2003, 31,777,735 warrants remain outstanding with a weighted average exercise price of $.84.

The following summarizes information about warrants issued pursuant to various financing transactions and for services through June 30, 2003.

Range of Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0 - $.30	22,826,010	4.0	$0.24
$.40 - $.50	2,060,000	4.7	$0.42
$1.25 - $2.50	1,244,000	2.0	$2.00
$1.25 - $2.50	5,647,725	2.7	$3.14

Reserved Shares

The Company has reserved approximately 3,160,000 shares issuable upon provisions of convertible notes to related parties, which provide for, at the option of the holder's of $460,000 of notes payable, the conversion of unpaid principal and interest into units valued at $.30 each, each unit consisting of one share of the Company's common stock and a one warrant to purchase the Company's common stock at $.30 per share for a period of 5 years.

11. Related Party Transactions

The Company records material related party transactions. The Company incurs costs for engineering, design and production of prototypes and certain administrative functions from Microphase Corporation and the purchase of finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited. The Company has incurred costs for obtaining transmission rights. This enabled the Company to obtain retransmission accreditation to proprietary television content that the Company plans to provide with its flagship product, the Traverser&#153 within its incorporated joint venture mPhase Television.net, in which the Company owns a 56.5% interest.

The Company has also incurred charges for beta testing and on-site marketing, including the display of a live working model at Hart Telephone. In addition, the Company has entered into a supply agreement with Hart Telephone, which is scheduled to commence upon the commercial production of the legacy Traverser&#153 DVDDS television platform. A member of mPhase's Board of Directors is employed by Lintel, Inc., the parent corporation of Hart Telephone.

Mr. Durando, the President and CEO of mPhase, and together with Mr. Ergul owns a controlling interest and is a director of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Ergul, the chairman of the board of mPhase, owns a controlling interest and is a director of Microphase Corporation. Microphase, Janifast, Hart Telephone and Lintel Corporation are significant shareholders of mPhase. Microphase, Janifast and Hart Telephone have converted significant liabilities to equity in fiscal years June 30, 2001, 2002 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. mPhase's President, Executive Vice President and Chairman of the Board of the Company are also officers of Microphase (Note 4).

Microphase Corporation

On May 1, 1997, the Company entered into an agreement with Microphase, whereby it will use office space as well as the administrative services of Microphase, including the use of accounting personnel. This agreement was for $5,000 per month and was on a month- to-month basis. In July 1998, the office space agreement was revised to $10,000 and in January 2000 to $11,050 per month. In July 2001, the agreement was revised to $11,340 a month. In July, 2002 this was increased to $12,200 per month and as of January 1, 2003 such rent was reduced to 10,000 per month. Additionally, in July 1998, mPhase entered into an agreement with Microphase, whereby mPhase reimburses Microphase $40,000 per month for technical research and development assistance. Such agreement was amended as of January 1, 2002 to reduce such payment to $20,000 per month. Microphase also charges fees for specific projects on a project-by-project basis. During the years ended June 30, 2001, 2002, and 2003 and for the period from inception (October 2, 1996) to June 30, 2003, $2,128,983, $1,212,594, $648,102 and $7,224,526, respectively, have been charged to expense or inventory under these Agreements and is included in operating expenses in the accompanying consolidated statements of operations.

On February 15, 1997, mPhase entered into a Technology, Patent and Trademark License Agreement (the "Agreement") with MicroTel (Note 4). The Agreement permits the Company to utilize the patent and trademark technology of MicroTel under a licensing arrangement. The Company made payments of $37,500 per month, commencing June 1, 1997 for technology development. During the period ended June 30, 1997 and 1998, $37,500 and $450,000 had been charged to expense under this Agreement and is included in licensing fees in the consolidated statement of operations. As of June 25, 1998, the Company acquired MicroTel and as of that date this Agreement was no longer in effect.

Also, during the fiscal year ended June 30, 2000, $2,600,000 was advanced to Microphase in the form of a note, which was repaid by Microphase during the year. mPhase recorded $39,000 of interest income on this note for the year ended June 30, 2000. The Company is obligated to pay a 3% royalty to Microphase on revenues from its legacy Traverser&#153 Digital Video and Data Delivery System and its DSL component products. During the years ended June 30, 2001, 2002 and 2003 mPhase recorded royalties to Microphase totaling $297,793, $78,762 and $47,304, respectively.

Pursuant to a debt conversion agreement between the Company and Microphase, for the year ended June 30, 2001, Microphase received 1,278,000 shares of mPhase common stock and for the year ended June 30, 2002, in consideration for a direct investment of $100,000 and pursuant to debt conversion agreements canceling $740,000 of liabilities of the Company, Microphase received 2,900,000 shares of mPhase common stock and 2,200,000 warrants to purchase mPhase common stock, as discussed in Note 10. For the fiscal year ended June 30, 2003 Microphase received 4,033,333 shares of common stock, such shares included 3,033,333 shares that the value of which was based upon the price of the Company's common stock on the effective date of settlement, plus 1,000,000 shares and 1,000,000 five year warrants to purchase shares of common stock of mPhase at $.30 per share whereby such conversions were upon the same terms of a concurrent private placement of common stock by the Company. No gain or loss was recognized in connection with conversions by Microphase for fiscal 2003 in exchange for the cancellation of accounts payable totaling $920,000. As of June 30, 2002 and 2003, the Company had $0 and $61,789 current accounts payable to Microphase, which are included in amounts due to related parties as current liabilities in the accompanying consolidated balance sheet. As of June 30, 2002, the Company had $92,405 included in other liabilities-related parties and as of June 30, 2003 had $360,000 included in notes payable-related parties as long term liabilities in the accompanying consolidated balance sheet. Additionally, at June 30, 2003, approximately $142,000 of undelivered purchase orders remain outstanding with Microphase.

Janifast

During the year ended June 30, 2000, mPhase advanced money to Janifast Limited, which is owned by U.S. Janifast Holdings, Ltd, a related party of which three directors of mPhase are significant shareholders, in connection with the manufacturing of POTS Splitter shelves and DSL component products. As of June 30, 2000 the amount advanced to Janifast was approximately $1,106,000, which is included in production advances-related parties on the accompanying balance sheet for that period. There were no such advances during the years ended June 30, 2002 and 2003. Pursuant to debt conversion agreements between the Company and Janifast, for the year ended June 30, 2001 Janifast received 1,200,000 shares of mPhase common stock canceling liabilities of $600,000, and for the year ended June 30, 2002 Janifast received 3,450,000 shares of mPhase common stock and 1,200,000 warrants to purchase mPhase common stock for the cancellation of $720,000 of liabilities, as discussed in Note 10. During the year ended June 30,2003 Janifast was issued 1,500,000 shares of mPhase common stock in connection with the cancellation of $360,000 of outstanding liabilities of mPhase, the value of which was based upon the price of the Company's common stock on the effective date of settlement. No gain or loss was recognized in connection with conversions by Janifast for fiscal 2003. During the years ended June 30, 2001, 2002 and 2003 and the period from inception (October 2, 1996) to June 30, 2003 $8,932,378, $1,759,308, $178,959 and $10,691,686, respectively, of invoices for products and services have been charged to inventory or expense and is included in operating expenses in the accompanying statements of operations. As of June 30, 2002, the Company had $260,159 included in other liabilities-related parties as long term liabilities in the accompanying consolidated balance sheet and as of June 30, 2003 no amounts remain payable to Janifast. Additionally, at June 30, 2003, approximately $1,435,000 of undelivered purchase orders remain outstanding with Janifast.

Other Related Parties

For consulting services rendered in connection with the joint venture (Note 8), the Company agreed to pay two officers of the Company and a related party $412,400, which was included on the June 30, 2000 consolidated balance sheet of the Company. This amount was paid by the Company during the year ended June 30, 2001.

In July 2000, mPhase added a member to the Board of Directors who is employed by an investment-banking firm that has assisted and is expected to continue to assist the Company in raising capital through private financing. During the year ended June 30, 2001, the company issued 140,350 shares of common stock for investment banking services rendered during the period and recorded an additional $69,000 of fees which was included in accrued expenses at June 30, 2001. The Company has installed its prototype product and commenced beta testing at Hart Telephone. In addition, the Company has entered into a supply agreement with Hart Telephone upon the completion of beta testing and the commencement of production of the Traverser&#153. As consideration for the execution of the agreement with Hart Telephone, in May 2000, mPhase issued Hart Telephone 125,000 options each to purchase one share of common stock at an exercise price of $1.00 (valued at $1,010,375), which was included in research and development expenses in the statement of operations for the year ended June 30, 2000. Mr. J. Lee Barton, the president and chief executive officer of Lintel Inc., (Lintel is the parent of Hart Telephone Company), and at that time Mr. Barton was a Director of the Company, received a $285,000 bonus, a stock award of 140,000 shares and 100,000 options in addition to the 125,000 granted to Hart for Beta testing services in the year ended June 30, 2000 and 120,000 options for services as a Director for the year ended June 30, 2001.

A member of mPhase's Board of Directors as of June 30, 2003 is employed by Lintel, Inc, the parent corporation of Hart Telephone. Prior to becoming a director, this individual received 25,000 options during the fiscal year ended June 30, 1999, of which 5,000 options were exercised during the fiscal year ended June 30, 2000; 23,000 options during the fiscal year ended June 30, 2001 and 15,000 options as a consultant for beta testing service during fiscal year ended June 30, 2002. In addition, during the years ended June 30, 2002 and 2003 he received 62,500 options and 35,000 warrants, respectively, for services as a director.

Charges and Expenses with Related Parties

	For the Years Ended June 30,			For the Six Months Ended December 31, (Unaudited)	
	2001	2002	2003	2002	2003
Charges incurred with Janifast included in:					
Cost of sales and ending inventory	$8,932,378	$1,759,308	$178,959	$132,465	$1,816,019
Total Janifast	$8,932,378	$1,759,308	$178,959	$132,465	1,816,019
Charges incurred with Microphase Corp. included in:					
Cost of sales and ending inventory (Including Royalties)	$335,777	$200,440	$86,468	$62,319	$22,948
Research and development	1,660,606	876,074	428,434	240,000	54,000
General and administrative	132,600	136,080	133,200	73,200	15,000
Total Microphase Corp.	$2,128,983	$1,212,594	$648,102	$253,980	$91,948

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	$194,784	$1,838,967
Research and development	2,802,026	940,113	428,434	240,000	54,000
General and administrative	477,600	136,080	133,200	73,200	15,000
Total Charges with Related Parties	$12,547,781	$3,035,941	$827,061	$507,984	$1,907,967

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.

Effective March 31, 2002, the Company converted $420,872 of liabilities due to Piper Rudnick LLP, outside legal counsel to mPhase into a warrant to purchase up to a total of 1,683,490 shares of the Company's common stock which pursuant to EITF 96-18, have an approximate value of $.30 per share; and a warrant to purchase 550,000 shares of the Company's common stock at an exercise price of $.30 per share pursuant to the terms of payment agreement. In addition, Piper agreed to accept a Promissory note for $420,872 of current payables at an interest rate of 8% with payments of $5,000 per month commencing June 1, 2002 and continuing through December 1, 2003, with a final payment of principal plus accrued interest due at maturity on December 31, 2003. As of August 11, 2003 the Company has an arrearage of $35,000 with respect to the payments on the promissory note. As of December 5, 2003 the Company has an arrearage of $50,000 with respect to the payments on the promissory note.

During the year ended June, 30 2003, the Company converted $525,967 of liabilities due for unpaid management compensation and sales commissions due from mPhase, including $480,967 due to the Company's president and vice president and $45,000 due to a sales manager who is also concurrently employed by Microphase, into warrants to purchase up to a total of 2,491,800 shares of the Company's common stock which, pursuant to EITF 96-18, have an approximate value of $.21 per share. The Company recorded a settlement expense of approximately $12,206, which is included as a reduction to gain on settlements in the statements of operations for the year ended June 30, 2003.

In March of 2003, Messrs, Durando, Dotoli and Smiley participated in a private placement of the company investing $20,000, $20,000 and $75,000 respectively, receiving common stock of mPhase at $.30 per share plus 5 year warrants of mPhase to purchase a like amount of common stock at $.30 per share. In March of 2003, Messrs Durando and Smiley lent to mPhase $30,000 and $100,000 respectively at 12% interest pursuant to two promissory notes originally due in September of 2003. In June 2003, Mr. Durando was repaid and Mr. Smiley agreed to extend his note until July, 2004. Also in June, 2003, Microphase agreed to convert $360,000 of accounts payable to a note payable, interest at 12%, due in July, 2004. The notes have provisions for prepayment by the Company and at the option of the holder, provide for the conversion of unpaid principal and interest into units valued at $.30 each, each unit consisting of one share of the Company's common stock and a one warrant to purchase the Company's common stock at $.30 per share for a period of 5 years.

Generally, as summarized below, the Company has offered conversion of debts to related parties on substantially the same terms as concurrent private placements (typically in $.30 units, such units including both shares of common stock and warrants to purchase a like amount of common stock) in addition to conversion of debts pursuant to terms of concurrent private placements financial instruments which, pursuant to EITF 00-19, have been settled with the Company's common stock as conditioned by benchmarks, generally coinciding with the Company's negotiations to settle any and all obligations with Georgia Tech Research and its affiliate (see also Note - 13) as follows:

Equity Conversions of Debt and Other Financial Instruments with Related Parties

	For the Years Ended June 30,			For the Three Months Ended December 31, (Unaudited)	
	2001	2002	2003	2002	2003
Janifast					
Number of shares	2,400,000	3,450,000	1,500,000	1,500,000	0
Number of warrants	0	1,200,000	0	0	0
Amount converted to equity	$1,200,000	$720,000	$360,000	$360,000	$0
Microphase Corporation					
Number of shares	1,278,000	2,700,000	4,033,333	3,033,333	0
Number of warrants	0	2,200,000	1,000,000	0	0
Amount converted to equity	$639,000	$740,000	$920,000	$620,000	$0
Lintel Corporation and Affiliates					
Number of shares **(A)**	954,000	0	0	0	0
	0	0	0	0	0

Number of warrants					
Amount converted to equity	$477,000	$0	$0	$0	$0
Officers					
Number of shares	0	333,334	0	0	0
Number of warrants **(B)**	0	333,334	2,491,800	2,491,800	0
Amount converted to equity	$0	$103,000	$480,967	$480,967	$0
Joint Venture Partner and Affiliates					
Number of shares	208,077	63,216	0	0	0
Number of warrants	0	0	0	0	0
Amount converted to equity	$104,038	$31,628	$0	$0	$0
Total Related Party Conversions					
Number of shares	4,840,077	6,546,550	5,533,333	4,533,333	0
Number of warrants	0	3,733,334	3,491,800	2,491,800	0
Amount converted to equity	$2,420,038	$1,594,628	$1,760,967	$1,460,967	$0

(A) Includes Mr. L. Barton in Fiscal 2001, a former Director of the Company.

(B) Includes $12,206 settlement expense incurred to the Company's President and Vice President in connection with the exchange of warrants to purchase the company's common stock to cancel unpaid compensation, which is included as a reduction to gain on Settlements in fiscal 2003.

12. Income Taxes

No provision has been made for corporate income taxes due to cumulative losses incurred. At June 30, 2003, mPhase has operating loss carryforwards of approximately $61.7 million and $61.2 million to offset future federal and state income taxes respectively, which expire at various times from 2016 through 2023. Certain changes in stock ownership can result in a limitation in the amount of net operating loss and tax credit carryovers that can be utilized each year.

At June 30, 2003 the Company has net deferred income tax assets of approximately $23.6 million comprised principally of the future tax benefit of net operating loss carryforwards, which represents an increase of $1.7 million for the fiscal year ended June 30, 2003. A full valuation reserve has been recorded against such assets due to the uncertainty as to their future realizability.

13. Commitments and Contingencies

mPhase has entered into various agreements with Georgia Tech Research ("GTRC") and its affiliate, Georgia Tech Applied Research Corporation, ("GTARC"), pursuant to which the Company receives technical assistance in developing the commercialization of its Digital Video and Data Delivery System. The amount incurred by the Company for GTRC technical assistance with respect to its research and development activities during the years ended June 30, 2001, 2002, and 2003 totaled $3,814,300, $450,000, and $100,000 respectively, and $13,524,300 from the period from inception through June 30, 2003. During the year ended June 30, 2003, the Company and GTRC and its affiliate, GTARC, on October 14, 2002, entered into a Memorandum of Intention to exchange warrants and promissory notes for all amounts outstanding and to exchange mutual Releases. Such agreement is subject to final documentation approved by the board of directors of both companies.

If and when sales commence utilizing its legacy DVDDS digital broadcast television platform, mPhase will be obligated to pay to GTRC a royalty up to 5% of product sales, as defined.

As of June 30, 2002, mPhase became obligated to pay Lucent Technologies, Inc. $100,000 per month through and including the first of each month from July 1, 2003 through and including November 1, 2003 for the development of its cost-reduced set-top box and TV+ digital broadcast television platform. Additionally, the Company engages Lucent on a project-by-project basis for research and development of technical product related enhancements. The amount incurred by the Company with Lucent for assistance with respect to its research and development activities during the years ended June 30, 2002, and 2003 totaled $156,250 and $1,112,500, respectively, and $1,268,500 from the period from inception through June 30, 2003.

From time to time, mPhase may be involved in various legal proceedings and other matters arising in the normal course of business. The Company currently has no material outstanding legal proceedings, nor does it anticipate any actions which would result in liabilities in excess of amounts recorded in these financial statements.

SCHEDULE II

Item 14B. Valuation and Qualifying Accounts

mPHASE TECHNOLOGIES, INC.
VALUATION AND QUALIFYING ACCOUNTS
Years Ended June 30, 2003, 2002 and 2001
(In Thousands)

Description	Balance at beginning of year	Charged to costs and expenses	Additions Charged to other accounts	Deductions	Balance at end of year
Year ended June 30, 2003					
Allowance for doubtful accounts (deducted from accounts receivable)	$3	0	0	(3)	$0
Allowance for obsolescence (deducted from inventory, at cost)	$1,243	302		(1,059)	$486
Year ended June 30, 2002					
Allowance for doubtful accounts (deducted from accounts receivable)	$29	3	0	(29)	$3
Allowance for obsolescence (deducted from inventory, at cost)	$315	928	0	0	$1,243
Year ended June 30, 2001					
Allowance for doubtful accounts (deducted from accounts receivable)	$0	29	0	0	$29
Allowance for obsolescence (deducted from inventory, at cost)	$0	315	0	0	$315

PURSUANT TO SEC RELEASE NO. 33-8070 AND RULE 437A UNDER THE SECURITIES ACT OF 1933, AS AMENDED, mPHASE

TECHNOLOGIES, INC. HAS NOT RECEIVED WRITTEN CONSENT AFTER REASONABLE EFFORT TO OBTAIN CONFIRMATION OF AUDIT PROCEDURES FOR THE ABOVE SCHEDULES FOR THE YEAR ENDED JUNE 30, 2001. THIS REPORT ON PAGE F-2 IS A COPY OF A PREVIOUSLY ISSUED ARTHUR ANDERSEN LLP REPORT. THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. WITH RESPECT TO THIS INSTANT FORM S-1, YOU WILL NOT BE ABLE TO RECOVER AGAINST ARTHUR ANDERSEN LLP UNDER SECTION 11 OF THE SECURITIES ACT FOR ANY UNTRUE STATEMENTS OF A MATERIAL FACT CONTAINED IN THE FINANCIAL STATEMENTS AUDITED BY ARTHUR ANDERSEN LLP OR ANY OMISSIONS TO STATE A MATERIAL FACT REQUIRED TO BE STATED THEREIN.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following sets forth the estimated expenses payable in connection with the preparation and filing of this Registration Statement:

Securities and Exchange Commission Registration Fee	$1,700
NASD Filing Fee	-
Nasdaq Listing Fee	-
Printing Expenses	$2,000
Accounting Fees and Expenses	$12,500
Legal Fees and Expenses	$25,000
Transfer Agent's and Registrar's Fees and Expenses	-
Miscellaneous Expenses	-
Total	$41,200

Item 14. Indemnification of Directors and Officers

Our Certificate of Incorporation, as amended, and Bylaws provide that we shall indemnify any Director, officer, employee or agent of ours to the full extent permitted by the New Jersey Business Corporations Act.

Under Section 14A:3-5 of the New Jersey Business Corporation Act, we have the power to indemnify any person, against his expenses and liabilities in connection with any proceeding, whether civil or criminal, who is or was a Director, officer, employee or agent, provided that such person acted in good faith and with reasonable business prudence. Should the proceeding involve criminal liability, the Director, officer, employee or agent shall be indemnified if he reasonably believed that his conduct was not unlawful. Should the Director, officer, employee or agent be liable to us, indemnification shall not be provided unless the court in such proceeding determines that, in light of all surrounding circumstances of the case, such Director, officer, employee or agent is reasonably entitled to expenses as the court deems proper. Additionally, we shall indemnify any Director, officer, employee or agent against expenses should such Director, officer, employee or agent be successful on the merits in any proceeding referred to in this paragraph.

Our determination as to whether the Director, officer, employee or agent should be indemnified shall be made:

i. by way of a majority vote of a quorum of the Board of Directors who were not parties to or otherwise involved in the proceeding;

ii. or if such quorum is not obtainable, or, even if obtainable and directed by such quorum or by a majority vote of the disinterested Directors, by independent legal counsel in a written opinion; or

iii. by our stockholders if directed by a resolution of the Board of Directors or of the stockholders.

We shall not indemnify any Director, officer, employee or agent if a judgment or other final adjudication establishes that his acts or omissions (a) were in breach of his duty of loyalty to us or our shareholders, (b) were not in good faith or involved a knowing violation of law, or (c) resulted in receipt by the Director, officer, employee or agent of an improper personal benefit.

We may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of ours, whether or not we would have the power to indemnify such corporate agent against expenses and liabilities under the provisions of Section 14A:3-5 of the New Jersey Business Corporation Act.

Item 15. Recent Sales of Unregistered Securities

The following securities were issued by us within the past three years and were not registered under the Securities Act of 1933, as amended (the "Act"). Each of the transactions is claimed to be exempt from registration under the Act, pursuant to either Rule 506 of Regulation D of the Act in connection with private placements or Section 4(2) of the act in connection with respect to services perfomed.

During the year ended June 30, 1999, we issued 1,599,332 shares of common stock to employees and consultants for services performed. We recognized a charge to operations of $8,760,866, based upon the fair market value of the shares.

In April 1999, we issued 642,000 shares of our common stock and warrants to purchase up to 642,000 shares of our common stock at a combined price of $2.50 per share and warrant pursuant to Rule 506 of Regulation D of the Act for an aggregate of $1,605,000 in cash.

In June and July 1999, we issued 4,426,698 shares of our common stock at $2.50 per share pursuant to Rule 506 of Regulation D of the Act for an aggregate of $11,066,745 in cash.

On July 26, 1999, 400,000 warrants previously issued pursuant to Section 4(2) of the Act for services performed were converted into 352,239 shares of common stock in a cashless exercise.

In June 1999, we also issued 400,000 warrants pursuant to Section 4(2) of the Act for services performed, each to purchase one share of common stock at an exercise price of $1.00 per share which expire in June 2004. During the year ended June 30, 2000 these warrants to purchase 400,000 shares of common stock were exercised generating proceeds of $400,000.

In December 1999 and January 2000, we sold, pursuant to Rule 506 of Regulation D of the Act, 1,000,000 shares of common stock at a price of $4.00 per share, for an aggregate of $4,000,000. In connection with the private placement, we issued 200,000 and 50,000 warrants to purchase common stock for services rendered pursuant to Section 4(2) of the Act. The warrants had an exercise price of $4.00 and $5.00, respectively.

During February 2000, warrants were issued pursuant to Section 4(2) of the Act for services performed to purchase 200,000 and 50,000 shares of common stock and were also exercised, at an exercise price of $4.00 and $5.00, respectively, generating additional proceeds of $1,050,000.

In May 2000, we issued 1,040,625 shares of our common stock at $8.00 per share pursuant to Rule 506 of Regulation D of the Act for an aggregate of $8,325,000 in cash.

In September 2000, we issued 510,000 shares of our common stock at $5.00 per share pursuant to Rule 506 of Regulation D of the Act for an aggregate of $2,550,000 in cash and in connection therewith 38,250 shares of common stock for services rendered pursuant to Section 4(2) of the Act.

During the year ended June 30, 2000, we issued 1,164,215 shares of common stock to employees and consultants pursuant to Section 4(2) of the Act for services performed.

On November 30, 2000, we granted 150,000 shares of common stock for services rendered pursuant to Section 4(2) of the Act.

During the quarter ended December 31, 2000, we granted 30,000 warrants to a consultant for services performed pursuant to Section 4(2) of the Act.

During the six month period ended December 31, 2000, we issued 320,000 shares of our common stock following the exercise of options and warrants resulting in gross proceeds of $327,500 and granted 1,035,000 options to employees and 1,572,000 options to consultants for services performed pursuant to Section 4(2) of the Act.

In January 2001, we granted 102,000 shares of common stock for services rendered pursuant to Section 4(2) of the Act.

In January 2001, we granted 250,000 shares of common stock for services rendered pursuant to Section 4(2) of the Act.

On January 26, 2001 and February 9, 2001 we raised approximately $4,685,000 in cash through the issuance of 2,342,500 shares of our common stock and a like amount of warrants to purchase one share each of our common stock at an exercise price of $3.00 and a term of four years pursuant to Rule 506 of Regulation D of the Act. The Company issued 162,600 warrants to purchase one share each of our common stock at an exercise price of $3.00 and a term of four years to consultants in connection with these private placements.

On April 3, 2001 we issued warrants to purchase 1,550,625 shares of common stock at an exercise price of $3.00 per share expiring on April 3, 2005 to accredited investors, who, as consideration for consent to certain additional issuances, in May 2000, were issued 1,040,625 shares of our common stock at $8.00 per share pursuant to Rule 506 of Regulation D of the Act and in September 2000, were issued 510,000 shares of our common stock at $5.00 per share pursuant to Rule 506 of Regulation D of the Act.

On April 16, 2001, we issued warrants to purchase 250,000, 250,000 and 500,000 shares of common stock at respective exercise prices of $5.00, $2.50 and $1.25 per share in connection with consulting services rendered pursuant to Section 4(2) of the Act.

On May 7, 2001, we issued 300,000 shares of common stock and warrants to purchase 150,000 shares of common stock at an exercise price of $5.00 per share expiring on May

7, 2006 in connection with consulting services rendered pursuant to Section 4(2) of the Act.

On May 25, 2001, we issued 587,000 shares of our common stock and a like amount of warrants at an exercise price of $3.00 per share and a term of five years pursuant to Rule 506 of Regulation D of the Act for approximately $587,000 in cash.

On July 18, 2001, we issued 575,000 shares of our common stock and a like amount of warrants at an exercise price of $3.00 per share and a term of five years pursuant to Rule 506 of Regulation D of the Act for approximately $575,000 in cash.

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 pursuant to Section 3(a)(9) of the Act. These issuances included 2,400,000 shares for the conversion of $1,200,000 of liabilities by Janifast; 1,278,000 shares for the conversion of $639,000 of liabilities by Microphase; 954,000 shares for the conversion of $477,000 of liabilities by Lintel Corporation and its affiliates at that time including Mr. L. Barton, a Director of the Company at that time; and 208,077 shares for the conversion of $104,038 of liabilities by the Company's Joint venture partner-Alpha-Star and Affiliates.

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

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

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

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

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

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

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

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

From August 2001 to June 2002, we issued an aggregate of 2,976,068 shares of common stock to consultants for an aggregate of $1,202,997. We also issued an aggregate of 2,675,000 warrants to consultants for an aggregate of $1,040,000.

During the year ended June 30, 2003, the Company issued 426,000 shares of its common stock valued at $112,245 and 1,690,000 warrants, valued at $203,150 based upon the fair market value of the Company's common stock on the date of the grant using the Black-Scholes option pricing model. The Company recorded these charges, totaling

$318,395 to operations for the year ended June 30, 2003. Each transaction was pursuant to Section 4(2) of the Act.

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

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

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

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

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

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

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

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

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

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

Item 16. Exhibits and Financial Statements

Exhibit Number	Description
2.1*	Exchange of Stock Agreement and Plan of Reorganization dated January 15, 1997 (incorporated by reference to Exhibit 2(a) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).
2.2*	Exchange of Stock Agreement and Plan of Reorganization dated June 25, 1998 (incorporated by reference to Exhibit 2(b) to our registration statement on Form 10SB-12G filed on May 6, 1999 (file no. 000-24969)).
3.1*	Certificate of Incorporation of Tecma Laboratory, Inc. filed December 20, 1979 (incorporated by reference to Exhibit 3(a) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).
3.2*	Certificate of Correction to Certificate of Incorporation of Tecma Laboratory, Inc.

	dated June 19, 1987 (incorporated by reference to Exhibit 3(b) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).

Exhibit Number	Description
3.3*	Certificate of Amendment of Certificate of Incorporation of Tecma Laboratory, Inc. filed August 28, 1987 (incorporated by reference to Exhibit 3(c) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).
3.4*	Certificate of Amendment of Certificate of Incorporation of Tecma Laboratories, Inc. filed April 7, 1997 (incorporated by reference to Exhibit 3(d) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).
3.5*	Certificate of Amendment of Certificate of Incorporation of Lightpaths TP Technologies, Inc. filed June 2, 1997 (incorporated by reference to Exhibit 3(e) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).
3.6*	Certificate of Amendment of Certificate of Incorporation of mPhase Technologies, Inc. filed September 15, 2000 (incorporated by reference to Exhibit 3i to our quarterly report on Form 10Q filed on November 13, 2000 (file no. 000-24969)).
3.7*	Bylaws of the Company (incorporated by reference to Exhibit 3(g) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).
4.1*	Form of Registration Rights Agreement, dated January 26, 2001, by and among the Company and the purchasers listed on Schedule A attached thereto (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
4.2*	Form of Registration Rights Agreement, dated February 9, 2001, by and among the Company and the purchasers listed on Schedule A attached thereto (incorporated by reference to Exhibit 4.2 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
4.3**	Form of Warrant.
4.4**	Warrant issued to Piper Rudnick LLP.
4.5**	Warrant issued to Piper Rudnick LLP.
4.6**	Form of Subscription Agreement, dated December 15, 2001.
5.1	Opinion of Martin S. Smiley, General Counsel to the Company.
10.1*	License Agreement, dated March 26, 1998, between the Company and Georgia Tech Research Corporation (incorporated by reference to Exhibit 10(e) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).

10.2*	First Amendment to the License Agreement, dated January 8, 2001, between the Company and Georgia Tech Research Corporation (incorporated by reference to Exhibit 10.2 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
10.3*	Employment Agreement between Ronald A. Durando and the Company (incorporated by reference to Exhibit 10.8 to our registration statement on Form SB-2 filed on August 13, 1999 (file no. 333-85147)).
10.4*	Employment Agreement between Gustave T. Dotoli and the Company (incorporated by reference to Exhibit 10.9 to our registration statement on Form SB-2 filed on August 13, 1999 (file no. 333-85147)).
10.5*	Employment Agreement between Martin S. Smiley and the Company, dated as of August 15, 2000 (incorporated by reference to Exhibit 10.5 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
10.6*	Employment Agreement between David C. Klimek and the Company, dated as of April 1, 2001 (incorporated by reference to Exhibit 10.6 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
10.7*	Manufacturing Services Agreement, dated March 14, 2001, by and between the Company and Flextronics International USA, Inc (incorporated by reference to Exhibit 10.7 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
10.8*	Supply Agreement by and between the Company and Hart Telephone Company, Inc., date of August 19, 1998 (incorporated by reference to Exhibit 10.8 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).

Exhibit Number	Description
10.9*	Facilities/Services Agreement between the Company and Microphase Corporation, dated as of July 1, 1998. (incorporated by reference to Exhibit 10.9 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
10.10*	Company's 2001 Stock Incentive (incorporated by reference to Exhibit C to our preliminary proxy statement on Form Pre 14A filed on March 21, 2001 (file no.000-30202)).
10.11*	License Agreement, dated July 31, 1996, by and between AT&T Paradyne Corporation and Microphase Corporation. (incorporated by reference to Exhibit 10.11 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
10.12(a)*	

	Assignment Agreement, dated February 17, 1997, by and between the Company and Microphase Corporation. (incorporated by reference to Exhibit 10.12 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33- 63262)).
10.12(b)*	Distribution Agreement effective May 15, 2002 by and between Corning Cable System and the Company.
10.13*	Development Agreement between Lucent Technologies, Inc. and mPhase Technologies, Inc., effective as of December 1, 2002, relating to Video Services Switch and Statement of Work, dated December 9, 2002.***
10.14*	Purchase Order between the Company and Lucent Technologies, Inc., dated December 15, 2002, for cost reduction of the mPhase Traverser INI&#153 set box.***
10.15*	Co-Branding Agreement, dated as of January 21, 2003, between the Company and Lucent Technologies, Inc.
10.16*	Systems Integrator Agreement, dated as of April 4, 2003, between the Company and Lucent Technologies, Inc.***
10.17*	Development Agreement between Lucent Technologies, Inc. and mPhase Technologies, Inc., relating to Broadcast Television Switch (BTS) effective as of September 15, 2003.***
10.18*	Development Agreement effective February 3, 2004 between Lucent Technologies, Inc. and mPhase Technologies, Inc. for development of micro fuel cell NanoTechnology.***
21*	List of Subsidiaries (incorporated by reference to Exhibit 21 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).
23.1*	Consents of Schuhalter, Coughlin & Suozzo, LLC dated August 31, 1998 and Mauriello, Franklin & LoBrace, P.C. dated August 31, 1998 (incorporated by reference to Exhibit 23 to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).
23.2*	Consents of Schuhalter, Coughlin & Suozzo, LLC dated April 23, 1999 and Mauriello, Franklin & LoBrace, P.C. dated April 23, 1999 (incorporated by reference to Exhibit 23 to our registration statement on Form 10SB-12G filed on May 6, 1999 (file no. 000-24969)).
23.3*	Consent of Schuhalter, Coughlin & Suozzo, LLC dated August 13, 1999 (incorporated by reference to Exhibit 23.1 to our registration statement on Form SB-2 filed on August 13, 1999 (file no. 333-85147)).
23.4	Consent of Schuhalter, Coughlin & Suozzo, LLC.
23.5	Consent of Rosenberg Rich Baker Berman and Company.
24.1**	Power of Attorney (included as a part of the signature page of the initial filing of this Registration Statement).

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* Incorporated by reference.
** Previously filed.
*** Portions of such documents have been omitted pursuant to Rule 406 of the Securities Act of 1933, or Rule 424(b) of the Securities Exchange Act of 1934. Omitted portions of documents have been separately filed with the Securities and Exchange Commission.

Item 17. Undertakings.

a. The undersigned registrant hereby undertakes:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

   i. To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

   ii. To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) promulgated under the Securities Act of 1933 if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee" table in this Registration Statement;

   iii. To include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this Registration Statement.

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) shall not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this registration statement.

2. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
3. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

4. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of each issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Norwalk, State of Connecticut, on the 26nd day of April, 2004.

mPHASE TECHNOLOGIES, INC.

By:	/s/ Ronald A. Durando Ronald A. Durando President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
* Necdet F. Ergul	Chairman of the Board of Directors	April 26, 2004
* Ronald A. Durando	President, Chief Executive Officer and Director (Principal Executive Officer)	April 26, 2004
/s/ Martin S. Smiley Martin S. Smiley	Executive Vice President of Finance, Chief Financial Officer, and General Counsel (Principal Financial and Accounting Officer)	April 26, 2004
* Michael P. McInerney	Director	April 26, 2004
* Anthony H. Guerino	Director	April 26, 2004
* Gustave T. Dotoli	Chief Operating Officer and Director	April 26, 2004
* David L. Klimek	Chief Technology Officer and Director	April 26, 2004
* Abraham Biderman	Director	April 26, 2004

By: /s/ Martin S. Smiley

Martin S. Smiley
Attorney-in-fact