MPHASE TECHNOLOGIES INC
Form 10-K/A
January 28, 2004

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Amendment No. 1 to
FORM 10-K/A

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 (NO FEE REQUIRED) FOR THE YEAR ENDED JUNE 30, 2002

COMMISSION FILE NO.000-24969

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mPHASE TECHNOLOGIES, INC.
(Name of issuer in its charter)

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK, NO PAR VALUE

(Title of Class)

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

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

As of August 26, 2002, there were 60,807,508 shares of common stock, no par value, stated value $.01, outstanding and the aggregate market price of shares held by non-affiliates was approximately $9,836,701 (Based upon a closing common stock price of $.28 on August 26, 2002) (solely for the purpose of calculating the preceding amount, all directors and officers of the registrant are deemed to be affiliates.)

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mPHASE TECHNOLOGIES, INC.

ANNUAL REPORT ON FORM 10-K/A
FOR THE YEAR ENDED JUNE 30, 2002

TABLE OF CONTENTS

PART I

ABOUT THIS AMENDMENT

Management has reevaluated the clarity and completeness of the Form 10K as amended by Form 10K/A filed on July 28, 2003 and certain disclosures in the accompanying consolidated financial statements including Schedule II (Valuation and Qualifying Accounts, Item 14B). As a result of this reevaluation, management has reissued the Form 10K and the June 30, 2002 consolidated financial statements.

This amendment includes expanded and clarified disclosure in the Consolidated Financial Statements, primarily note 10 and note 11, which begin on page F-1, technical and clerical edits, expanded and clarified disclosure in "Risk Factors", which begin on page 11, and "Management's Discussion and Analysis", which begin on page 17 in addition to expanding information relating to the Company's equity and related parties discussed elsewhere in this amendment to the Form 10K/A as well as updated certifications by the certifying officers' of the Company.

The aforementioned changes to the consolidated financial statements have no effect on the financial position and results of operations for the year ended June 30, 2002 or the results of operations and loss per share for the years ended June 30, 2000, 2001 and 2002.

ITEM 1. BUSINESS

GENERAL DESCRIPTION OF THE BUSINESS

mPhase Technologies, Inc. ("mPhase" or the "Company") is a development stage technology company headquartered in Norwalk, Connecticut. The Company is a developer of broadband communications products, specifically, digital subscriber line ("DSL") products for telecommunications service providers around the world. mPhase shares common office space and common management with Microphase Corporation, a privately-held corporation. Microphase is a seller of radio frequency and filtering technologies to the defense industry. Microphase has been in operation for almost 50 years and supports mPhase with engineering, administrative and financial resources, as needed.

Since our inception in 1996, mPhase has been a development-stage company. Our primary activities have consisted of designing, manufacturing and testing our flagship product designed to deliver digital quality broadcast television over DSL, the Traverser(TM) Digital Video and Data Delivery System ("DVDDS"). The TRAVERSER(TM) is a patented end to end system that enables a telecommunications service provider to deliver up to 384 channels of motion picture entertainment group two ("MPEG-2") standard broadcast digital quality television, high speed internet and voice over copper telephone lines between a central office facility of the provider and a customer's premises. mPhase has not as yet derived any material revenues from sales of the Traverser(TM).

The Traverser(TM) is a proprietary technology involving digital compression developed in conjunction with Georgia Tech Research Corporation which allows for the delivery of any channel to all users at any given time without any dilution in quality. The Traverser(TM) consists of an Access Shelf located at a central office and an Intelligent Network Interface set top box located in a telephone customer's home. Because it is an end to end system, the Traverser(TM) does not operate with other manufacturer's DSL central office equipment or customer premises equipment modems. The Traverser(TM) utilizes Asymmetric ("DSL") that allows for significantly more downstream than upstream bandwidth for transmission which is well suited for delivery of broadcast television. The system is the only system on the market that utilizes non-Internet Protocol ("IP") transmission.

mPhase believes the Traverser(TM) is best suited for markets outside of the United States where fiber-optic infrastructure necessary for cable TV does not exist. Nevertheless, to facilitate sales of the Traverser(TM) in the United States, mPhase has established a joint venture, mPhaseTelevision.Net, Inc. ("mPhaseTV") with Alphastar International, Inc. ("Alphastar"). mPhaseTV has entered into licensing agreements with content originators for upwards of 80 channels of television content. mPhaseTV can provide a single source of licensing agreements for service providers interested in entering into the business of television over telephone

3

wires. By being able to offer this service to potential customers, the Company believes it eliminates a potential barrier to purchase and/or speeds the time to market for its customers.

mPhase also has designed and markets a line of DSL component products ranging from commodity items such as Plain Old Telephone Service ("POTS") splitters to innovative loop management products. From our inception in 1996 to date virtually all of mPhase's revenue have been derived from sales of our commodity DSL products such as POTS splitters and low pass filters.

Our most recent innovation in our suite of DSL component products is the recently introduced iPOTS OR intelligent POTS Splitter product. The iPOTS product is designed to allow a telecommunications service provider to remotely trouble-shoot and maintain both their narrowband voice and wideband DSL services over the copper loop. This streamlines the process of rolling-out and deploying DSL services. Prior to the introduction of this product, telephone service providers had to deploy personnel to manually intervene so that test signals could be passed through the loop network. This product marks an advancement in automating loop management and should reduce the cost of a telephone service provider to deploy DSL services.

mPhase has recently established a worldwide distribution agreement with Corning Cable Systems for the sale of the iPOTS product. Utilizing Corning as a distribution channel expands exposure for this product, as Corning is one of the largest vendors of central office DSL filtering equipment.

Business Development, Organization, and Acquisition Activities

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

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

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

On March 26, 1998 the Company entered into a Licensing Agreement with Georgia Tech Research Corporation ("GTRC") in which mPhase became the exclusive licensee of all patents received by GTRC in connection with development of the Traverser(TM), GTRC receives a royalty equal to 5% of gross sales of the Traverser(TM) and 30% of any "lump sum payments" under the terms of its license, as amended.

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

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

On March 14, 2000, mPhase entered into an agreement with BMW Manufacturing Corp., located in South Carolina. Under the agreement, the Company installed version 1.0 of the Traverser(TM) for BMW's telephone transmission network. BMW has agreed that, upon its notice and consent, mPhase 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 the deployment to 48 unique units.

Our flagship installation, Hart Telephone, has completed the building and development of its digital headend during the fourth quarter of 2001. The completion of their digital headend marks the move from beta to commercial deployment of the Traverser(TM) platform. Hart currently has approximately 100 customers receiving about 90 channels of television services.

mPhase has initiated development of Version 2.0 of the Traverser(TM) with a major, experienced research and development organization. Version 2.0 will be a cost-reduced version of Version 1.0, offering similar functionality to version 1.0. We expect Version 2.0 to be commercially available for deployment in Hartwell, as well as other locations, in early 2003. We believe such cost reduced product will increase the competiveness of the Traverser(TM) against other competing technologies in the global marketplace.

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 year ended June 30, 2002, and through the third quarter of our fiscal year 2002 ended March 31, 2002 we generated approximately $2.58 million and $1.95 million in revenue, respectively, from the commercial sale of our component products. These component products, including filters and Central Office POTS Splitter Shelves, are marketed to other DSL equipment vendors. We do not believe that the sales of our Traverser(TM) will be materially impaired by the sale of these component products to these potential competitors.

Products & Services

Traverser(TM) Digital Video and Data Delivery System

mPhase's principal and flagship product, the Traverser(TM) Digital Video and Data Delivery System ("DVDDS"), is a patented end-to-end system enabling the delivery of digital broadcast television, analog voice service and high-speed data, as well as other ancillary services, over a single copper telephone wire.

Telcos using the mPhase Traverser(TM) System need to build a digital video headend or programming and control center ("PCC") to downlink programmers of broadcast television from satellites. 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 at the PCC. The PCC can be co-located with a single central office or ("CO") or remotely located and connected to each Central Office ("CO") via fiber not currently being used, fiber optic broadband loop or networks capable of transporting digital data utilizing standard communications protocol.

The Traverser(TM) CO equipment, known as the mPhase Universal Access Shelf, integrates video signals from the PCC with Internet and voice signals. The output of the Universal Access Shelf consists of DSL "lines" capable of carrying a single digital quality broadcast television channel, high-speed data and POTS ("Plain Old Telephone Service") to subscribers over existing telephone lines.

Upon reaching the home or business, the DSL line is fed into the mPhase intelligent network interface INI(TM), or digital set top box. The INI(TM) separates the three signals and routes them to the television, PC and telephone.

The Company believes its product is unique and offers distinct competitive advantages for a number of reasons. Foremost, the patented bus architecture utilized by the Traverser(TM) allows a plurality of channels to be delivered to a plurality of users all of the time ensuring unequivocal system reliability. Additionally, because the Traverser(TM) does not utilize IP transport, it does not require potentially costly equipment associated with IP-based television delivery such as Asynchronous Transfer Mode ("ATM") switches, servers or routers, as well as other ancillary equipment. Instead, the Traverser(TM) offers a cost-effective method to deliver realtime broadcast television over copper phone wires. Additionally, the Traverser(TM) does not require an upgrade of the existing infrastructure thereby avoiding the capital expense required to support certain competing video over DSL platforms.

Relative to other platforms that deliver voice, broadcast TV and data, we believe the Traverser(TM) is the most comprehensive solution on the market by virtue of its unique patented design focused on the most efficient delivery of Television. Our platform does not currently support some of the features that some of our DSL competitors have such as access to the Internet through a Television set, or being able to support

multiple channels of television service over a single DSL line. In addition, our system does not currently support "video on demand" such as many cable competitors. Nevertheless for the delivery of single-channel broadcast TV, we believe our system is the most cost-effective, secure and highest quality delivery currently on the market. For our targeted markets where fiber-optic infrastructure does not exist, we believe the lack of advanced robust features is outweighed by the reliability, simplicity and cost-effectiveness of the Traverser(TM).

To date, Next Level Communications appears to have the lead among our competitors in terms of the number of deployments of broadcast television over DSL. However, this solution requires very fast DSL ("VDSL") as opposed to our Asynametric DSL ("ADSL") solution which has a much shorter reach from its source and requires Fiber to the Neighborhood infrastructure. We believe the cost of such solution is prohibitive to many telecommunications service providers in the developing international markets where such an upgrade to such infrastructure is not economic.

The Traverser(TM) utilizes technology that mPhase licenses exclusively from Georgia Tech Research Corporation ("GTRC") and DSL semiconductor chip technology purchased from GlobeSpan Semiconductor, Inc. Georgia Tech Applied Research Corporation ("GTARC") provides a significant portion of the engineering research and design to develop the Traverser(TM). The Traverser(TM) also utilizes component technology developed by Microphase Corporation.

The Traverser(TM) is currently deployed with only two customers, BMW Manfacturing in Spartanburg, South Carolina and Hart Telephone in Hartwell, Georgia and has not, as yet, generated material revenues for the Company.

Other Products

POTS Splitter Shelves

A Plain Old Telephone Service ("POTS") Splitter Shelf is a low pass/high pass filter that separates voice and data transmissions. POTS Splitter Shelves, are necessary to permit simultaneous voice and data transmissions over the same twisted copper wire pair. POTS Splitter Shelves and the individual cards that populate the shelf, separate and re-combine traffic traveling along each copper wire into the analog voice portion of a transmission and the digital data portion, so that each signal can travel independent of the other. This product allows for increased clarity of both voice and data information and decreased "cross talk", or interference.

Our POTS Splitter products are available in a domestic and an European Harmonized version to service the international market as well as in a version that can support ADSL over ISDN lines.

Intelligent POTS Splitter (iPOTS(TM)) and Universal Bypass

We believe the mPhase iPOTS(TM) offers a much needed solution for the DSL industry; the iPOTS(TM) enables telcos to remotely and cost-effectively perform loop management and maintenance including line testing, qualification and troubleshooting from a telecommunication service provider from a CO. Prior to the introduction of the iPOTS(TM), 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 direct current blocking capacitors in traditional POTS splitters, as required by regulatory standards. The (patent pending) iPOTS(TM) circuit allows test heads to perform both narrow and wideband testing of a local telephone loop for DSL data capabilities necessary to deploy DSL. This is done through the central office POTS Splitter without having to manually intervene, thereby eliminating the need to dispatch personnel from the telephone company to the field thus reducing the cost of deploying DSL.

The iPOTS is a complete solution which includes a POTS Splitter as well as the bypass or "intelligent" functionality and mPhases's UniversalBypass product is a module containing the intelligent functionality which can be used with any vendor's POTS Splitter.

mPhase has recently entered into a distribution agreement with Corning Cable Systems for its line of intelligent products. mPhase has granted Corning, one of the world's leading suppliers of Central Office DSL components, the exclusive worldwide distribution of its intelligent line. This agreement significantly increases

6

the potential exposure of this product line, as Corning has a global salesforce and established relationships with the largest telephone companies in the world.

mPhaseStretch

mPhase has recently developed a new product known as the mPhaseStretch. This product is a digital loop extender that enhances the performance of the Traverser(TM) System by extending the transmission distance for the delivery of voice, video and data up to 30,000 feet. The mPhaseStretch is a powered device that is placed on the line at approximately 9,000 feet or before the signal begins to degrade. We believe, once additional testing is completed, the addition of the Stretch will give mPhase the greatest serviceable distance radius for the delivery of converged services over copper telephone wires. A universal version of the Stretch(TM), or a version interoperable with other vendor's DSLAM equipment is scheduled to be released later this year.

Microfilters

We have developed a complete line of microfilters, including a 2 and 4 pole filter for use in single and multi-phone households, as well as a Network Interface Device Splitter. These products, similar to POTS Splitters, ensure clear and reliable service of voice and high-speed data when these two services reside on the same line.

Target Market

mPhase's primary target market for the Traverser(TM) System includes international and rural, domestic telephone companies. Specifically, we believe the Traverser(TM) is the most competitive in markets that currently have limited access to multi-channel television services, such as many parts of Eastern Europe, Latin America and the Middle East, as well as parts of the rural United States.

Our primary business is to develop and market the Traverser(TM) to domestic and international telephone companies and other communications service providers. We position the Traverser(TM) to be the most cost-effective, reliable, scaleable and easiest to operate TV-over-ADSL solution on the market.

mPhase also markets its products in the U.S. to small, independent telephone companies. We believe our product is best suited in markets where the population is dispersed with relatively long loop lengths due to our advantage of having the longest serviceable distance radius. Additionally, smaller telcos tend to be more nimble and faster in their decision-making process. Also, many of these telcos are located in areas where the competition for television services is less intense than larger telcos located in urban markets.

mPhase primarily markets the Traverser(TM) System to international telephone companies. Telephone companies around the world are experiencing negative pressures on their calling revenues, encroaching competition from technologies which were at one time complimentary (e.g., cable) and a need to increase their per subscriber revenue. Outside of the United States, telcos are particularly reliant on their copper infrastructure, as few countries have upgraded their infrastructure to optics. Beyond that, the options for pay-tv services outside the U.S. are, for the most part, limited. Consumers living abroad have less access to digital television, leaving international telcos well-positioned to capture a large percentage of the market. Hence, we believe the market conditions that exist abroad are stronger for our product than those that exist domestically.

While mPhase believes it will experience some success in the U.S., it anticipates greater success in the international community. mPhase is focused over the next several quarters on securing 1 to 2 large international telephone companies as customers. To that end, it has several trials scheduled with major international incumbent telcos, including one currently underway in Ankara, Turkey.

mPhase is in the process of building reliable, reputable and productive distributors and resellers and finalizing its certification process for distributors and resellers. The Company then intends to aggressively pursue relationships with distributors and resellers abroad that have telecommunications experience and existing telephone company customers. We believe that by capitalizing upon these kinds of relationships, mPhase will be able to reach a greater international audience faster. An example of such a relationship is

7

mPhase's recently established agreement with Corning Cable Systems for the worldwide distribution of its intelligent line of products.

mPhase Television.Net, Inc.

mPhaseTV provides contracts, licensing agreements, marketing and legal support to service providers interested in deploying television over DSL. mPhaseTV has established licensing agreements and partnerships with content originators of broadcast TV thus allowing service providers to offer its subscribers a full complement of television programming. 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 to downlink various broadcast programming from satellite delivery systems. A head-end includes 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 targeted to providing the licenses as opposed to offering an aggregated content transport solution. Telephone companies purchasing content through mPhaseTV are thus required to build a full-scale digital headend.

We contributed the initial funding in March of 2000 for the 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 to purchase 200,000 shares of our stock for $4.00 per share. The agreement requires Alphastar to provide mPhaseTV the right to transmit television broadcasts over Alphastar's digital satellite network. On May 1, 2000, we acquired an additional 6.5% interest in mPhaseTV for an additional $1,500,000 in cash. We report mPhaseTV as a consolidated subsidiary.

As part of its cost reduction efforts, mPhase has renegotiated its joint venture relationship with Alphastar International, Inc. that established mPhaseTV. Under the original arrangement, mPhaseTV leased the rights to use Alphastar's earth station satellite uplink and downlink facility in Oxford, CT. Pursuant to an agreement dated as of June 18, 2002, mPhaseTV has terminated its lease of the earth station and Alphstar and its affiliated entity have converted certain accounts payable into shares of the Company's common stock.

mPhaseTV continues to serve as a strategic asset for selling the

Traverser(TM) by having secured the rights to transmit over DSL over 80 television channels directly from the content providers eliminating the need for a U.S. telco purchasing the Traverser(TM) from having to assemble such rights itself from each of the content providers. mPhase currently owns a 56% controlling interest in mPhaseTV.

Competitive Business Conditions

The telecommunications sector overall has experienced a significant global downturn in spending over the past year. A number of once seemingly powerhouses of the industry have faltered resulting in devasting effects across the industry. The dramatic pull back in spending among service providers, coupled with the malaise of the capital markets has halted the growth of the sector. While the Company remains optimistic about the future of broadband, we don't anticipate an upturn of events until service providers in general are able to emerge from their current financial challenges.

In addition to the shifting economic climate, the telecommunications equipment market is also characterized by swift technological change. Currently, communications service providers have the option to offer several broadband solutions in the last mile, including the existing ISDN or T-1 technologies, fiber optic or hybrid coaxial cable and wireless and satellite delivery methods. Communications service providers may use these other technologies instead of DSL to offer their subscribers broadband access. There is currently a bill in Congress that, if passed, could have positive effects on the telecommunications industry overall and mPhase in particular. The Tauzin-Dingell bill basically reduces the regulatory pressures on the larger incumbent telephone companies in the U.S. It is speculated that this reduced pressure on the RBOCs could result in greater spending among these companies and potentially more funding available for the Company's products.

8

Based upon current telecommunications industry standards and deployment methodologies, mPhase believes that DSL can compete favorably with these other technologies, especially outside of the United States. In particular, telephone companies and other copper-wire based service providers, which are interested in maximizing the installed copper wire infrastructure from the standpoint of cost effectiveness and ease of development, will favor DSL or other copper-based broadband technologies.

mPhase's competitors that sell DSL systems like the Traverser(TM) or other technologies, which incorporate broadband solutions over copper wire include: ADC, Alcatel S.A., Copper Mountain, Advanced Fiber Communications, Innovia, Ericsson, Fujistsu, Lucent Technologies, Marconi, NEC, Next Level Communications, Nortel, Huawei Technologies Corporation Limited, Nokia, DVTel, Inc., Turnstone, Paradyne Networks, Samsung, 2Wire, Siemens, TUT Systems, Motorola, and Westell. In addition, we also compete with ImagicTV, Minerva and Myrio Corporation, which provide infrastructure software products to deliver multi-channel digital television over telephone networks by using Internet Protocol.

Relative to other platforms that deliver voice, video and data over DSL, we believe that mPhase has the only non-Internet-Protocol platform that we are aware of on the market. However, there are other IP-based platforms, such as the system offered by Alcatel and Lucent and Innovia that enable the same suite of services to be delivered using IP.

Next Level Communications, among others, offers a VDSL platform enabling the delivery of voice, video and data over copper telephone wires. However, because its platform is based on VDSL, it requires telcos to have a fiber-to-the-neighborhood infrastructure. For some telcos the cost of this type of infrastructure upgrade is prohibitive. Other equipment manufacturers offer fiber-to-the-home solutions. While fiber in the home is an extremely robust transmission medium, it is time and capital intensive to deploy.

Hybrid Fiber Coaxial Cable

Cable television providers are also competing in the space for converged services using analog and digital cable connections that have been upgraded for digital two-way services. In the United States, the majority of cable connections have already been upgraded and can support the delivery of television and high-speed Internet, and in may cases, cable telephony. In fact, the imposing threat that cable companies present has created a catalyst among telephone companies to expand their service offering to include advanced services such as digital television.

Importantly, telephone companies have certain infrastructure advantages compared to cable companies. A coaxial cable network is based on a shared platform, with individual users sharing a common pipe or link between a central node back to the Internet point-of-presence. Therefore, despite the large bandwidth capacity of a coaxial cable infrastructure, the ultimate bandwidth for individual users is negatively affected as more users access the Internet simultaneously. In contrast, DSL is a point-to-point exclusive connection. No matter how many users are accessing the Internet at the same time, subscribers will not experience slowed data rates in the last mile due to congestion in the pipe.

Satellite

Satellite providers are at a distinct disadvantage with regard to competing in the converged services arena. While satellite delivered television services in the U.S. have experienced significant growth over the past several years, the ability for satellite providers to offer reliable, consistent and cost-effective high speed data is still in its infancy and too expensive to commercially deploy. Furthermore, satellite providers are not typically equipped to offer telephony services, unless they were to partner with a wireless telephony provider. Beyond that, particularly outside of the U.S., the direct-to-home satellite options are limited due to either low channel counts or unreliable quality. Satellite signals are often affected by weather events such as severe snow or rain, unlike DSL-delivered services which remain largely stable regardless of the weather pattern.

Manufacturing

In late 1999, mPhase contracted with Flextronics, a major third party contract manufacturer, to manufacture a prototype of its Traverser(TM) central office equipment and Intelligent Network Interfaces(TM) Set

Top-Box. The Company terminated its relationship with Flextronics in March 2002. In general, mPhase subcontracts all of the manufacturing of our products to outside sources including related parties such as Janifast Ltd.

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 outsources digital engineering development for the Traverser(TM) System to GTARC. It also outsources analog engineering development and certain administrative functions to Microphase Corporation. With regard to manufacturing, mPhase is targeting leading contract manufacturing companies with strategically located facilities in North America, Mexico and Asia 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. Additionally, mPhase has just recently entered an outsourcing arrangement for the sales and marketing of its intelligent line of component products with Corning Cable Systems. Corning will be exclusively reselling mPhase's intelligent component products worldwide.

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

The intellectual property owned and licensed by the Company falls into two general categories, analog and digital intellectual property.

mPhase owns the analog intellectual property which can be characterized as filter technology. This intellectual property includes:

- o Low pass filter shelves and POTS Splitters, which combine the Traverser(TM)DSL spectrum from the traditional voice service;

- o ADSL filters, which are filters that conform to the worldwide DSL standard and are utilized in the transmission of data and voice service; and

- o Bypass for telephone Splitter System, which enables an automated and remote bypass of the POTS Splitter so full metallic testing can be performed.

We have a pending patent application which was filed in June 1999 claiming priority to three provisional patent applications for the analog portion of our technology.

mPhase exclusively licenses our digital intellectual property from GTRC. We also have an exclusive, worldwide license to manufacture and market products using the technology developed by GTARC under our contract with them. The exclusive license with GTRC is applicable for the duration of their patent protecting the system design and other technology related to the Traverser(TM). The digital intellectual property that we license provides several unique aspects of the Traverser(TM). Among them is the backplane design, which

10

provides every subscriber the ability to view any channel available. All subscribers in a given system could be watching the same channel at the same time. The intellectual property licensed exclusively to mPhase by GTRC includes the below mentioned patents.

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.

A patent was 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. This patent covers the development of the Framer and the Framer chip. The Framer is an Integrated Circuit which gives the Traverser(TM) the capability of allocating both the downstream and upstream bandwidth into virtually any application required. This feature allows the Traverser(TM) to deliver both MPEG-2 digital video and Internet data simultaneously and also allows for future applications of the Traverser(TM).

A patent was 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.

Another patent was recently issued on August 13, 2002 covering what mPhase calls the System Management Workstation (SMW). Specifically, this patent entitled, "Computer System and Method for Providing Digital Video and Data Over a Communication Channel" addresses the means by which the computer system and method manages the already patented bus or broadcast backplane, for the delivery of converged voice, video and data. The management system covered by this patent performs functions such as monitoring the health of the Traverser(TM) system, managing a database of user information, as well as linking multiple central offices to a master system control station.

Georgia Tech also has patents pending that protect:

- apparatus and methods of remote control of the Intelligent Network Interface(TM); and,
- systems and methods to provide subscribers means to playback previously recorded video content.

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(TM) technology, our future operations would likely be adversely affected.

Government Regulation

The Federal Communication Commission, or FCC, and various state public utility and service commissions, regulate most of mPhase's 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 the Company's potential penetration into certain markets. In addition, its business and results of operations may also be adversely affected by the imposition of certain tariffs, duties and other import restrictions on components, which mPhase obtains from non-domestic component suppliers. Changes in current or future laws or regulations, in the U.S. or elsewhere, could materially adversely affect the Company's business.

To the best of our knowledge, there are no state or local laws to which we are subject that are relevant to our system from a regulation and certification standpoint. At the Federal level, we are subject to Federal Communications Commission (FCC) Regulations Under the Code of Federal Regulations, Title 47, Chapter 1, Part 15-RADIO FREQUENCY DEVICES, and Part 68-CONNECTION OF TERMINAL EQUIPMENT TO THE TELEPHONE NETWORK. Part 15 sets out the requirements to obtain a license for operating a radiator of electromagnetic energy, and the technical and administrative specifications relating to the marketing of such radiators. Part 68 sets out the rules and regulations to provide for uniform standards for the protection of the telephone network from harms caused by the connection of terminal equipment and associated wiring thereto, and for the compatibility of hearing aids and telephones so as to ensure that persons with hearing aids have reasonable access to the telephone network.

11

Our products and equipment were designed to comply with the aforementioned rules and regulations. The POTS splitter and filter products were already certified with FCC Part 68. The Traverser(TM) is still undergoing FCC Part 15 certification process.

Compliance with FCC rules and regulations allows our equipment to be marketed and sold in the United States. While the certification process and costs associated have no material effect on mPhase's financial condition, failure to comply with FCC rules and regulations would result in loss of revenue and additional costs on product revision and/or redesign.

Research and Development

mPhase has designed the Traverser(TM) and its ancillary component parts in conjunction with multiple research and development partners. GTARC conducts the majority of our digital research and development for the Traverser(TM). Microphase Corporation contributed the analog technology incorporated in the design of the Traverser(TM), as well as providing ongoing development of analog DSL components. mPhase has initiated negotiations for the development of Version 2.0 with a well-established research and development organization to compliment GTARC. Version 2.0 will be a cost-reduced version of Version 1.0, offering similar functionality at a significantly reduced cost. We anticipate that GTARC will be involved in a reduced role with the development efforts of Version 2.0.

As of June 30, 2002, we had been billed approximately $13,424,300 for research and development conducted by GTARC.

On March 26, 1998, we entered into a license agreement with GTRC which has the patent on the Digital Video and Data Delivery System technology. GTRC has granted us the exclusive license to use and re-sell this technology in the Traverser(TM). We are required to pay GTRC royalties of 5% on the sales of the Traverser(TM). The agreement expires automatically when the patents covering the invention expire.

Employees

mPhase presently has approximately 12 full-time employees, two of whom are also employed by Microphase Corporation. See the description in the section entitled "Certain Relationships and Related Transactions."

12

RISK FACTORS

RISKS RELATED TO FINANCIAL ASPECTS OF OUR BUSINESS

mPhase's Stock Price Has Suffered Significant Declines During the Past 18 Months and Remains Volatile.

The market price of our common stock closed at $2.72 on December 12, 2000 and closed at $.23 on June 30, 2002 Stocks in telecommunications equipment providers of DSL products have been very volatile during such period. Our common stock is a highly speculative investment and is suitable only for such investors with financial resources that enable them to sustain the loss of their entire investment in such stock. Because the price of our common stock is less than $5.00 per share and is not traded on the NASDAQ National or NASDAQ Small Cap exchanges, it is considered to be a "penny stock" limiting the type of customers that broker/dealers can sell to. Such customers consist only of "established customers" and "Accredited Investors" (within the meaning of Rule 501 of Regulation D of the Securities Act of 1933, as amended-generally individuals and entities of substantial net worth) thereby limiting the liquidity of our common stock.

WE HAVE REPORTED NET LOSSES FOR EACH OF OUR FISCAL YEARS FROM OUR INCEPTION IN 1996 AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003 AND MAY NOT BE ABLE TO OPERATE PROFITABILITY IN THE FUTURE.

We have had substantial operating losses since our inception in 1996 (including $11,361,372 and $23,998,734 for the fiscal year ended June 30, 2002 and fiscal year ended June 30, 2001, respectively and cannot be certain when or if we will ever be profitable. We expect to continue to have net losses for the foreseeable future and have a need to raise not less than $2 million in additional cash in the next 12 months through further offerings to continue operations. We have never been profitable from our inception in October 1996 through June 30, 2002 and we have incurred (a)-accumulated losses of $101,370,312 and a stockholder's deficit of $42,849 and (b) cumulative negative cash flow of from operations $42,402,695.

OUR INDEPENDENT AUDITOR'S REPORT EXPRESS DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

The reports of the Company's outside auditors' Rosenberg, Rich, Baker, Berman & Company and Arthur Andersen respectively with respect to our latest audited 10K for the fiscal years ended June 30, 2002 and June 30, 2001 each stated that "there is substantial doubt of the Company's ability to continue as a going concern." We may be unsuccessful in raising additional needed capital necessary to continue our operations in the current capital markets because of the depressed price of our stock as a telecommunications equipment provider.

OUR COMMON STOCK IS SUBJECT TO SIGNIFICANT DILUTION UPON ISSUANCE OF SHARES WE HAVE RESERVED FOR FUTURE ISSUANCE.

As of June 30, 2002, we have warrants and options outstanding convertible into approximately 21,965,260 shares and 19,107 shares of mPhase common stock, which, upon conversion, may adversely affect the future price of our common stock. As of June 30, 2002 we have warrants and options convertible into approximately 14,879,536 and 1,810,000 shares of our common stock at $.30 per share or less that, upon exercise, will result in significant dilution to many of our current shareholders and may adversely affect the future price of our common stock. We may be forced to raise additional cash for operations by selling additional shares of our common stock at depressed prices causing further dilution to our shareholders.

RISK FACTORS RELATED TO OUR OPERATIONS

WE HAVE BEEN A DEVELOPMENT-STAGE COMPANY SINCE OUR INCEPTION IN 1996 AND HAVE NOT TO DATE HAD A SIGNIFICANT DEPLOYMENT OF EITHER OF OUR MAIN PLATFORMS FOR DELIVERY OF TELEVISION OVER DSL.

We have had to date no material revenues derived from sales of our Traverser(TM) Digital Video Data Delivery System (DVDDS) product or our new line of Intelligence POTS Splitters. There have been to date no major deployments of Television over DSL by telephone service providers globally and there currently is uncertainty as to the extent, if at all, that deployments will occur in the future.

WE DEPEND UPON OUTSOURCING OF OUR RESEARCH AND PRODUCT DEVELOPMENT OF OUR TELEVISION PLATFORM TO ONE OUTSIDE ENTITY.

We depend upon GTRC for continued technical assistance in connection with deployment of the Traverser(TM) DVDDS platform and our business would be materially adversely affected if GTRC were to terminate our relationship. We owe GTRC approximately $1.8 million and are attempting to finalize an agreement in principal to convert a portion of such payables into our common stock on terms to be agreed upon, however, no assurances can be given that such an agreement will be reached.

THE LOSS OF KEY PERSONNEL COULD ADVERSELY EFFECT OUR BUSINESS

Management and employment contracts with most of our officers expired on June 30, 2002 and no assurances can be given that such executives will remain with the Company or that the Company will be able to successfully enter into agreements with such key executives. All of our officers have been granted stock options that are intended to represent a key component of their compensation. Such options may not provide the intended incentives to such officers if our stock price declines or experiences significant volatility.

ECONOMIC SUPPORT FROM AFFILIATED COMPANIES HAS BEEN SIGNIFICANT DURING THE

DOWNTURN IN THE TELECOMMUNICATIONS INDUSTRY

Both Microphase Corporation and Janifast Ltd. had provided significant financial support to mPhase during the past two years in the form of either cash infusions or conversions of related party debt. No assurances can be given that such companies, which share common management with mPhase will be able to sustain such economic support of mPhase in the future should such support be necessary.

SALES AND MARGINS FORM OUR COMPONENT DSL PRODUCTS HAVE DECLINED DRAMATICALLY DURING THE PAST YEAR AND REMAINS VOLATILE

Sales and gross margins from our POTS Splitter and other DSL products have experienced a significant decline during the period from June 30, 2001 through June 30, 2002 as a result of the significant downturn in capital spending by telecommunications service providers.

WE RELY ON SINGLE SOURCES FOR SUPPLY OF A CERTAIN COMPONENT FOR OUT POTS SPLITTER PRODUCT THAT HAS BEEN THE SOURCE OF ALL OF OUR REVENUES TO DATE

We purchase the core torroid which is a key component in our POTS Splitter Product from VAC Corporation. We purchase such component on a purchase order basis and have no long-term contract for the supply of such component. The loss of this current source of supply could result in us having to redesign our product at additional cost and result in lost revenues from our main source of sales to date.

WE MAY INCUR SUBSTANTIAL EXPENDITURES IN THE FUTURE IN ORDER TO PROTECT OUR INTELLECTUAL PROPERTY

Although our Traverser(TM) DVDDS television platform is patent-protected and not the subject of any infringement allegations, the telecommunications industry, in general, is characterized by a large number of patents and frequent patent litigation based upon claims of patent infringement when compared to other industries.

FACTORS RELATED TO OUR TARGETED MARKETS

HISTORICALLY THE SALE OF INFRASTURE IN THE INTERNATIONAL MARKETS IS DIFFICULT AND UNCERTAIN.

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

OUR TELEVISION PLATFORMS MAY NOT ACHIEVE COMPLIANCE WITH REGULATORY REQUIREMENTS IN FOREIGN COUNTRIES

Our Traverser(TM) DVDDS platform may fail to meet foreign regulatory standards. Since our targeted markets for our Television platform involves countries outside of the United States, such product is subject to greater regulatory risks since they must comply with different standards of different countries than can vary widely in the telecommunications industry.

THE TELECOMMUNCIATIONS INDUSTRY IS SUBJECT TO INTENSE COMPETITION CHARACTERIZED BY SWIFT CHANGES IN TECHNOLOGY.

The Telecommunications equipment industry is subject to swift and continuing innovation and technological changes that could render our Traverser(TM) DVDDS obsolete and intense competition in the industry could prevent our ever becoming profitable. Our competitors that sell DSL systems that compete with the Traverser(TM) system include much larger and better known and capitalized companies with significantly greater selling and marketing experience and financial resources such as ADC, Alcatel S.A., Calix Catena Networks, Copper Mountain, Advanced Fiber Communications, ECT Telecommunications, Ericsson, Fujitsu, Marconi, Motorola, NEC, Nortel, Huawei Technologies, Net to Net Technology, Nokia, UTS Starcom, DVTEL, Inc., Turnstone, Paradyne Networks, Samsung, 2 Wire, Siemens, TuT Systems, and Optibase Wesell. We also face competition from companies that provide infrastructure software products to deliver multi-channel digital television over telephone such as Imagic TV, Minerva Corporation and Myrio Corporation.Telephone service providers that are our targeted customers face competition from cable-based technologies, fixed wireless technologies and satellite technologies that may cause them not to deploy our Traverser(TM) DVDDS product.

DEPLOYMENT OF OUR TELEVISION PLATFORMS REQUIRES CERTAIN ADDITIONAL INVESTMENTS BY TELECOMMUNICATIONS SERVICE PROVIDERS

Our Customers may need to build a digital head-end to download television content from satellites involving a significant additional capital expenditure to utilize the digital Television capabilities of our Traverser(TM) DVDDS product.

ITEM 2. PROPERTIES

The corporate headquarters is located at 587 Connecticut Avenue, Norwalk, CT 06854-1711. The Company leases this office space from Microphase Corporation under a facilities agreement with Microphase that provides that mPhase lease office space, lab facilities and administrative staff on a month-to-month basis for $11,340/month. The Company also maintains an office at the Georgia Advanced Telecommunications Technology Center in Atlanta, Georgia.

ITEM 3. 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.com, Inc. (hereinafter "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.

15

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

As described in mPhase's Definitive Proxy Statement (DEF-14A), filed on April 8, 2002, the following proposals were submitted to shareholders for their approval at an annual meeting held on May 15, 2002: (1) a proposal to elect seven (7) Directors to hold office until the next Annual Meeting; and (2) a proposal to ratify the appointment of Arthur Andersen LLP or such other qualified auditors as the Board of Directors may determine is necessary, as the external auditors for mPhase's fiscal 2002 year. The aforementioned proposals are explained in greater detail in the Proxy Document; shareholders of record as of April 1, 2002 were entitled to vote before the deadline of May 15, 2002, and the proposals were approved by the shareholders on that date, with the minor exception that the auditors appointed by the Board and the shareholders at the meeting was in fact, Rosenberg Rich Baker Berman & Company ("other qualified auditors").

The vote was as follows: (1) Election of Directors - 32,280,669 votes were cast in favor of the election of each of the seven directors; and (2) Ratify Independent Auditors - 31,785,416 votes were cast in favor of ratifying Rosenberg Rich Baker Berman & Company as the Independent Auditors. Each of the directors was elected by the same number of votes in favor and there were no votes against their election.

16

PART II

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

(A) MARKET PRICES OF COMMON STOCK

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

YEAR/QUARTER	HIGH	LOW
Fiscal year ended June 30, 2000		
First Quarter	$ 9.25	$2.97
Second Quarter	6.19	2.50
Third Quarter	19.13	6.50
Fourth Quarter	14.13	6.00
Fiscal year ended June 30, 2001		
First Quarter	$ 9.25	$3.00
Second Quarter	5.94	1.47
Third Quarter	3.38	1.22
Fourth Quarter	2.61	1.03
Fiscal year ended June 30, 2002		
First Quarter	$ 1.67	$ .31
Second Quarter	.86	.31
Third Quarter	.62	.27
Fourth Quarter	.50	.23

(B) HOLDERS

As of June 30, 2002, mPhase had 60,807,508 shares of common stock outstanding and approximately 15,000 stockholders of record.

(C) DIVIDENDS

mPhase has never declared or paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. The Company currently intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be based upon mPhase's financial condition, operating results, capital requirements, plans for expansion, restrictions imposed by any financing arrangements and any other factors that the Board of Directors deems relevant.

Issuance of Unregistered Securities

The information required by this item is set forth in Note 10 on F-21 attached hereto and in 10-Q's dated September 30, 2001, December 31, 2001, and March 31, 2002.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

	From Inception (October 2, 1996) to June 30 1997	Year Ended June 3		
		1998	1999	20
		(in thousands, except share		
STATEMENT OF OPERATIONS DATA:				
Total revenues	$ --	$ --	$ --	$
Costs and Expenses:				
Cost of sales	--	--	--	
Research and development.........................	192	1,847	3,563	1
Licensing Fees	37	450	--	
General and administrative.....................	541	1,710	4,683	1
Depreciation and amortization.......................	11	29	410	
Non-cash compensation charge.............................	--	--	13,003	1
Operating loss	(781)	(4,036)	(21,659)	(3
Other income (expense), net	--	(305)	(1,162)	
Interest income (expense)	--	--	(18)	
Net loss	$ (781)	$ (4,341)	$ (22,839)	$ (3
Basic and diluted net loss per share	$ (.10)	$ (.46)	$ (1.42)	$
Shares used in basic and diluted net loss per share	7,806,487	9,336,340	16,038,009	26,97

Yea

	1997	1998	19
			(
BALANCE SHEET DATA:			
Cash and cash equivalents	$ 162	$ --	$ 7,
Working capital (deficit)	(212)	(3,073)	4,
Total assets	369	2,175	10,
Long-term obligations, net of current portion	--	--	
Total stockholders' equity (deficit)	$ (23)	$ (915)	$ 6,

18

The statement of operations data as of the periods indicated below are derived from unaudited financial statements and include all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements.

		Thr
	September 30	Decemb
		(in thousand
FISCAL 2002 QUARTERLY STATEMENT OF OPERATIONS DATA:		
Total revenues	$ 537	$
Costs and Expenses:		
Cost of sales	457	
Research and development	1,111	
General and administrative	2,644	
Depreciation and amortization	193	
Non-cash compensation charge	217	
Operating loss	(4,085)	(
Interest expense	(10)	
Loss before other income (expense)	4,095	
Other income (expense), net	32	
Net loss	$ (4,063)	$ (
Basic and diluted net loss per share	$ (.10)	$
Shares used in basic and diluted net loss per share	42,037,506	44,64

Thr

	September 30	Decemb
	(in thousand	
FISCAL 2001 QUARTERLY STATEMENT OF OPERATIONS DATA:		
Total revenues	$ 1,865	$
Costs and Expenses:		
Cost of sales	872	
Research and development	3,162	
General and administrative	3,125	
Depreciation and amortization	123	
Non-cash compensation charge	362	
Operating loss	(5,779)	(
Interest income	28	
Net loss	$ (5,751)	$ (
Basic and diluted net loss per share	$ (.18)	$
Shares used in basic and diluted net loss per share	31,562,727	32,32

19

	Thr	
	September 30	Decemb
	(in thousand	
FISCAL 2000 QUARTERLY STATEMENT OF OPERATIONS DATA:		
Total revenues	$ --	$
Costs and Expenses:		
Cost of sales	--	
Research and development	1,491	
General and administrative	1,164	
Depreciation and amortization	114	
Non-cash compensation charge	46	
Operating loss	(2,815)	(
Other income, net	--	
Interest income	18	
Net loss	$ (2,797)	$ (
Basic and diluted net loss per share	$ (.11)	$
Shares used in basic and diluted net loss per share	24,942,965	25,90

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

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

RESULTS OF OPERATIONS

OVERVIEW

mPhase is a development-stage company that has designed, patented and is currently engaged in commercialization of the Company's primary product, the Traverser(TM). The Company believes that the Traverser(TM) provides a unique "turnkey" broadband equipment solution that enables telephone companies to deliver real-time digital television programming, high-speed Internet and voice service over existing copper telephone lines. The Company believes that the Traverser(TM) will, in many instances, provide the most cost effective, reliable and scaleable solution for many telephone companies to provide a comprehensive suite of bundled or unbundled services, utilizing Asymmetric Digital Subscriber Line, or ADSL technology. mPhase also manufactures and sells conventional and intelligent POTS Splitter Shelves and other DSL component products, which are currently being deployed by telephone companies both in the United States and abroad.

mPhase was organized on October 2, 1996. On February 17, 1997, the Company acquired Tecma Laboratories, Inc., a public corporation in a reverse merger transaction. This resulted in the Company's stock becoming publicly traded on the NASDAQ Over-the-Counter Bulletin Board. On June 25, 1998, the Company acquired Microphase Telecommunications, Inc. in a stock for stock exchange, whose principal assets included patents and patent applications utilized in the Company's Traverser(TM) product. On August 21, 1998, mPhaseTV.net, Inc. was organized as a wholly-owned subsidiary to market interactive television and e-commerce revenue opportunities. This subsidiary is dissolved. On March 2, 2000, mPhase acquired an interest in mPhaseTelevision.Net, Inc., a joint venture organized to provide digital television programming content to service providers deploying TV over DSL.

From mPhase's inception, the operating activities have related primarily to research and development, establishing third-party manufacturing and distribution relationships and developing product brand recognition among telecommunications service providers. These activities included establishing trials and field tests of the Traverser(TM) product with Hart Telephone Company in Georgia and establishing a core administrative and sales organization.

The Company has incurred net losses totaling approximately $101.4 million during the development of its flagship product. In fiscal 2001, the Company had anticipated that the sales of its component products would be able to supplement the underwriting of the completion of our flagship product, the Traverser(TM). In fiscal 2002 these sales declined with the overall decline of

DSL deployments and spending in the telephonic industry. The Company believes that sales of its POTS splitter product will continue to be slow during most of fiscal year 2003 until telecommunications spending increases. The Company believes that its new iPOTS product will benefit from some of the existing DSL deployments in the future. Until such time such revenues are realized, the Company intends on maintaining its reduced cost structure to minimize its losses, which management believes will permit the Company to ultimately achieve profitability. The Company believes the initial major deployments and the resultant revenues of its flagship product, the Traverser(TM), are not expected until late in fiscal year 2003 or the first part of its fiscal year 2004, which along with any upturn of spending in the telephonic industry will increase sales and improve the Company's margins and provide the Company the opportunity to attain profitability.

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

Cost of revenues. The costs necessary to generate revenues from the sale of POTS Splitter Shelves and other DSL component products include direct material, labor and manufacturing. mPhase paid these costs to Janifast, Ltd., which has facilities in the People's Republic of China and is owned by and managed by certain senior executives of the Company. The cost of revenues also includes certain royalties paid to Microphase Corporation, a privately held corporation organized in 1955, which shares certain common management with the Company. Costs for future production of the Traverser(TM) product will consist primarily of payments to manufacturers to acquire the necessary components and assemble the products and future patent royalties payable to GTRC.

Research and development. Research and development expenses consist principally of payments made to GTRC and Microphase Corporation for development of the Traverser(TM) product. All research and development costs are expensed as incurred.

General and administrative. Selling, general and administrative expenses consist primarily of salaries and related expenses for personnel engaged in direct marketing of the Traverser(TM), the POTS Splitter Shelves and other DSL component products, as well as support functions including executive, legal and accounting personnel. Certain administrative activities are outsourced on a monthly fee basis to Microphase Corporation. Finally, mPhase leases the principal office from Microphase Corporation.

Litigation. mPhase has not incurred any material expenses due to litigation since its inception.

Non-cash compensation charge. mPhase incurred non-cash compensation charges of $1,170,903 and $548,550, for the fiscal years ended 2001 and 2002, respectively. The Company makes extensive use of stock options and warrants as a form of compensation to employees, directors and outside consultants.

TWELVE MONTHS ENDED JUNE 30, 2002 VS. JUNE 30, 2001

Revenues. Total revenues for the year ended June 30, 2002 decreased to $2,582,446 from $10,524,134 for the year ended June 30, 2001. The decrease was primarily attributable to slowing sales of the Company's POTS Splitter product line, caused by the general downturn in the telecommunications market, including among customers that order component products from the Company. The Company continues to believe that its line of POTS Splitter products is positioned to be competitively priced with high reliability and connectivity, and as such has the potential to be significant part of DSL deployment worldwide. The

Company cannot predict when the demand for telecommunication equipment will resume, however we do not expect significant sales in the first two quarters of fiscal 2003.

Cost of revenues. Cost of sales was $2,415,129 for the year ended June 30, 2002 as compared to $5,804,673 in the year ended June 30, 2001. Cost of revenues declined for the twelve months ended June 30, 2002 compared to the prior period ending June 30, 2001 primarily because of decreased sales. Operating margins for the period ended June 30, 2002 were 6%. The margins have varied dramatically as spending among telecommunication providers has contracted, coupled with downward pressures related to the supply and demand of telecommunications products. The single most significant reason the margins decreased dramatically was due to the reduced selling price of our POTS Splitter product. Additionally, the Company has offered 2% discounts (for invoices paid within 29 days) discounts to Covad Communication and Bell South Corporation as its two largest customers in the period ended June 30, 2002 causing the margin to decrease. These discounts were to such customers to accelerate collections and amounted to $14,389 for the period.

Research and Development. Research and development expenses were $3,819,583 for the year ended June 30, 2002 as compared to $10,779,570 in the year ended June 30, 2001. Such expenditures include $450,000 incurred with GTRC for the year ended June 30, 2002 as compared to $3,814,000 during the comparable period in 2001. In addition we incurred $1,212,594 with Microphase and additional expenses with other strategic vendors for the year ended June 30, 2002 as compared to $3,405,975 during the comparable period in 2001.

The decrease in research and development expenses with Microphase is due to the completion of the development of the POTS Splitter product line. The decrease in research and development expense of approximately $3.1 million is due to the termination of the Company's relationship with a third party manufacturer, Flextronics, with whom the Company had incurred substantial costs for prototypes and pre-manufacturing costs.

The decrease in research expenditures incurred with GTRC is due to the Company's nearing completion of the design and manufacture of proptypes of the set top box and the central office equipment associated with its Traverser(TM) product in 2002. Generally, as the Company anticipates the completion of its Traverser(TM) product, overall research and development expenses are expected to decline, with variations based upon product cost reductions, product enhancements, if any, when such are undertaken. The Company anticipates the completion of its flagship product line and a leveling off of research and development costs to reduce the demands on working capital and in turn, this will have a positive effect on the Company's financial position going forward.

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(TM) and mPhase Stretch. We believe the mPhase iPOTS(TM) offers a much needed solution for the DSL industry; the iPOTS(TM) 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(TM), 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 direct current blocking capacitors in traditional POTS splitters, as required by various regulatory standards. The unique (patent pending) iPOTS(TM) 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 significant demand for this product, as it significantly reduces the cost of deploying and maintaining DSL services. Also recently developed is the DSL loop extender product called mPhaseStretch. This product extends the service distance for the mPhase Traverser(TM) and can be used in conjunction with other DSL services. The Company anticipates significant 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 $6,490,373 for the year ended June 30, 2002 down from $16,150,711 for the comparable period in 2001. The decrease in the selling, general and administrative costs included a decrease of non-cash charges relating to the issuance of common stock and options to consultants, which totaled $2,445,561 for the year ended June 30, 2002 as compared to $6,227,552 during the comparable period in 2001. The decrease also occurred as a result of the

reduction in workforce in Fiscal 2002 and the reduction in marketing expenses in Fiscal 2002 in response to the current contraction in the telecommunications equipment market. Other components of the decrease in selling, general and administrative expenses were a substantial decrease in payroll of approximately $1,100,000 to $450,000, use of outside consultants of approximately $870,000 to $70,000, marketing expenses such as trade shows of $1,200,000 to $270,000, and advertising expenses of $415,000 to $13,000, all of which approximated $2,800,000.

Net loss. mPhase recorded a net loss of $11,245,361 for the year ended June 30, 2002 as compared to a loss of $23,998,734 for the same period ended June 30, 2001. This represents a loss per common share of $(.23) in 2002 as compared to $(.72) in 2001, based upon weighted average common shares outstanding of 49,617,280 and 33,436,641 during the years ending June 30, 2002 and June 30, 2001, respectively.

TWELVE MONTHS ENDED JUNE 30, 2001 VS. JUNE 30, 2000

Revenues. Total revenues for the year ended June 30, 2001 increased to $10,524,134 from $279,476 for the year ended June 30, 2000. The increase was primarily attributable to sales of POTS Splitter Shelves and other DSL component products.

Cost of revenues. Total cost of revenues increased to $5,804,673 for the year ended June 30, 2001 from $131,756 for the year ended June 30, 2000 due to the commencement of sales of POTS Splitter Shelves and other DSL component products. Operating margins for the period ended June 30, 2001 were 45% based on the limited number of sales achieved. During the year ended June 30, 2001 there was a general shortage of POTS Splitter Shelves and other DSL component products as telecommunication companies worldwide began aggressively deploying DSL technology. Such margins may be materially smaller in the future as a result of a greater market balance of supply and demand for such products.

Research and development. Research and development expenses increased from $10,156,936 in the year ended June 30, 2000 to $10,779,570 for the year ending June 30, 2001. Such amount includes $4,564,000 incurred with GTRC for such twelve-month period ended in 2000 as compared to $3,814,000 during the comparable period in 2001. Research and development expenses incurred primarily with respect to Microphase Corporation and Flextronics increased from $3,328,443 to $3,405,975 for the twelve-month period ended June 30, 2000 as compared to the twelve-month period ended June 30, 2001.

Research expenditures incurred with Flextronics were due to our increased efforts in the deployment of the Traverser(TM), including the design and manufacture of prototypes of the set-top box. Increased research and development expenditures incurred with Microphase Corporation and Janifast Corporation were primarily related to development work associated with the POTS Splitter, and other DSL components.

The increase in other research and development expenses during Fiscal 2001 was due to a full year of operations of the Company's joint venture, mPhase Television.Net. The major costs incurred by this joint venture were payroll expenses attributable to research and development of the Company's transmission capabilities and acquisition of television content.

General and administrative expenses. General and administrative expenses were $16,150,711 for the twelve-month period ended on June 30, 2001 as compared to $17,516,216 for the same period ended June 30, 2000. The decrease in administrative costs included the decrease of non-cash charges for the issuance of options to consultants which totaled $6,227,552 for the year ended June 30, 2001 as compared to $9,078,311 during the comparable period in 2000, offset by an increase in salaries and marketing expenses.

Net loss. mPhase recorded a net loss of $23,998,734 for the year ended June 30, 2001 as compared to a loss of $38,161,542 for the same period ended June 30, 2000. This represents a loss per common share of $(.72) in 2001 as compared to $(1.41) in 2000, based upon weighted average common shares outstanding of $33,436,641 and 26,974,997 during the years ending June 30, 2001 and June 30, 2000, respectively.

PLAN OF OPERATIONS

RESEARCH AND DEVELOPMENT ACTIVITIES

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

Traverser(TM).

For the years ended June 30, 2001 and 2002 and for the period since inception (October 2, 1996) to June 30, 2002, approximately $3,814,000, $450,000 and $13,424,300 respectively, has been billed to mPhase for research and development conducted by GTARC. Subsequent to June 30, 2002, the Company and GTRC and GTARC entered into a Memorandum of Intention to convert all amounts outstanding and exchange mutual releases in consideration for two term Notes totaling $624,235 with varied payments through 2007 and warrants to purchase shares of the Company's common stock through 2007, at a price and formula to be agreed upon. mPhase is the sole, worldwide licensee of the technology developed by GTARC in conjunction with the Traverser(TM) product line. Upon completion of the commercial 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, 2002 was $30,808,774. During the year ended June 30, 2002, the Company incurred research and development expenses of $3,819,583 related to the continued development of its current DSL products and services.

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 Intelligent POTS Splitter (iPOTS(TM)) and UniversalBypass(TM), as well as future "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 is already engaged with Corning Cable Systems in the development of a next generation iPOTS for a major RBOC.

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, 2002 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(TM) 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, 2002 may be limited due to "changes in control" of our common stock that occurred.

STOCK-BASED COMPENSATION

The Company follows the disclosure-only provisions of SFAS No. 123 "Accounting for Stock-based Compensation." SFAS No. 123 encourages, but does not require companies to record compensation expense for stock-based employee compensation at fair value. As permitted, the Company has elected to continue to account for stock-based compensation to employees using the intrinsic value method presented in Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees" and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair valued-based method, as defined, had been applied. Compensation expense is generally measured on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

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. Actual results could differ from these estimates.

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 re-transmission accreditation to proprietary television content that the Company plans to provide with its flagship product, the Traverser(TM) 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(TM). 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 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.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002 mPhase had working capital of $399,321 as compared to working capital deficit of $1,458,227 at June 30, 2001. The Company believes this will be sufficient for its short-term liquidity. During fiscal year ending June 30, 2003 it is estimated that the Company will need to raise approximately $1.5 million to meet longer term liquidity needs. The primary reason for the improvement in the Company's working capital position at June 30, 2002, were the conversions of approximately $2.7 million of accounts payable and accrued expenses due to related parties and strategic vendors to equity, $1.5 million of accounts payable and accrued expenses due to strategic vendors into Notes payable and $1.8 million of accounts payable and accrued expenses due to related parties and strategic vendors expected to be converted to equity in fiscal 2003. Through June 30, 2002, the Company had incurred development stage losses totaling approximately $101,366,000. At June 30, 2002, the Company had cash and cash equivalents of $47,065 compared to $31,005 at June 30, 2001. Historically, mPhase had 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 cashflow 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, 2002, the Company had accounts receivable of approximately $273,780 and inventory of approximately $3.3 million. This compared to approximately $300,000 of accounts receivable and $4.3 million of inventory at June 30, 2001.

Cash used in operating activities was $2.7 million during the twelve months ending June 30, 2002. The cash used by operating activities principally consists of the net loss, the net decrease in inventory, the net decrease in accounts receivable offset by the increase in depreciation and amortization, and by non-cash charges for common stock options and warrants issued for services and increased accrued expenses. In the year ended June 30, 2002, net cash of approximately $106,000 was used in investing activities.

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 $4,563,560, $3,813,683, and $450,000 for the years ended 2000, 2001 and 2002, respectively, and $13,424,300 from the period from inception through June 30, 2002. Subsequent to June 30, 2002, the Company and GTRC and GTARC entered into a Memorandum of Intent to convert all amounts outstanding and exchange mutual Releases in consideration for two term Notes totaling $624,235 with varied payments through 2007 and warrants to purchase shares of the Company's common stock through 2007, at a price and formula to be agreed upon. mPhase is the sole, worldwide licensee of the technology developed by GTARC in conjunction with the Traverser(TM) product line. Upon completion of the commercial product, GTRC may receive a royalty of up to 5% of product sales.

During the quarter ended, December 31, 2001, certain officers, directors and related parties were issued 2,000,000 restricted shares of the Company's common stock for the investment of $1,000,000 in cash.

26

During the twelve-month period ended June 30, 2002, the Company raised capital through private placements with accredited investors, whereby the Company issued 6,404,174 shares of the Company's common stock and 6,329,174 warrants each to purchase one share of the Company's common stock at an exercise price of $.30 per share and 75,000 warrants to purchase one share of the Company's common stock at an exercise price of $3.00 per share, generating gross proceeds of $1,973,750. The Company incurred no cash expenses and issued 576,469 shares of its common stock and 576,469 warrants each to purchase one share of its common stock at $.30 per share to finders, consultants and investment banking firms in connection with these private placements.

In addition, 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.

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 of June 30, 2002, mPhase had no material commitments for capital expenditures.

LOSSES DURING THE DEVELOPMENT STAGE AND MANAGEMENT'S PLANS

Through June 30, 2002, the Company had incurred development stage losses totaling approximately $101,366,000, and at June 30, 2002 had working capital of $399,321. The primary reason for the improvement in the Company's working capital position at June 30, 2002, were the conversions of approximately $2.7 million of accounts payable and accrued expenses due to related parties and strategic vendors to equity, $1.5 million of accounts payable and accrued expenses due to strategic vendors into Notes payable and $1.9 million of accounts payable and accrued expenses due to related parties and strategic vendors expected to be converted to equity in fiscal 2003. At June 30, 2002, the Company had approximately $47,065 of cash, cash equivalents and approximately $273,780 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.

During fiscal year ended June 30, 2002 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 sheet at June 30, 2002, based upon the revised payment terms. The company believes they can maintain its present repayment schedule, or otherwise renegotiate such terms that are satisfactory with these vendors.

The Company believes that it will be able to complete the necessary steps in order to meet its cash flow requirements throughout fiscal 2003 and continue its development and commercialization efforts. Management's plans in this regard include, but are not limited to, the following:

We intend to continue to invest in technology and telecommunications hardware and software in connection with the full commercial production of the cost-reduced version of the Traverser(TM). Since we have strategically determined that the cost to a prospective telco to build a master headend is substantially reduced owing to new developments in technology, we have decided that mPhaseTV no longer requires access to a satellite uplink facility. Thus the amount of capital necessary to fund mPhaseTV and mPhase has been substantially reduced.

We continue our efforts to raise additional funds through private placements of our common stock and strategic alliances, the proceeds of which are required to fund continuing development stage expenditures and the commercial roll-out of our Traverser(TM) Digital Video and Data Delivery System. However, there can be no assurances that we will generate sufficient revenues to provide positive cash flows from operations or that sufficient capital will be available when needed or at terms that we deem to be reasonable.

We have evaluated our cash requirements for fiscal year 2003 based upon certain assumptions, including our ability to raise additional financing and increased sales of our POTS splitter. The Company anticipates that it will need to raise approximately $1.5 million additional monies primarily in private placements of its common stock with accredited investors, and/or a Rights Offering to all of the Company's current shareholders during the fiscal year which will end June 30, 2003, or alternatively we will need to curtail certain expenses as incurred at the present levels including marketing and research and development expenses. We have no commitments from affiliated or third parties to provide additional financing. In the event that we do not receive any proceeds from additional financings, we will attempt to further reduce expenditures and continue to operate the Company from sales revenue and any funding that may be available

from affiliated companies. Additional investment in technology design to reduce the cost of the Traverser(TM) will be necessary over the next 12 months. In the long term, the Company may continue to invest additional funds annually on research and development of the Traverser(TM) product line based upon sales levels, changes to technology and the overall success of the Company attaining sufficient financing until such time as it achieves profitable operations.

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 available at June 30, 2002, plus financing to be secured during fiscal year 2003, and expected POTS splitter revenues, will be sufficient to meet our obligations until the end of fiscal year 2003. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is set forth on pages F1-F28 attached hereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Executive officers are selected by the Board of Directors. No family relationships exist between any of the executive officers or directors. The following table sets forth certain information with respect to each person, who is an executive officer or director. mPhase's executive officers and directors as of June 30, 2002 are as follows:

NAME	AGE	POSITION(S)
Necdet F. Ergul	78	Chairman of the Board and Dir
Ronald A. Durando	45	Chief Executive Officer and D
Gustave T. Dotoli (2)	66	Chief Operating Officer and D
David Klimek	49	Chief Technology Officer and
		Executive Vice President, Gen
Martin Smiley	54	Officer
OUTSIDE DIRECTORS		
Michael McInerney	46	Director
Anthony H. Guerino (1)(2)	56	Director
Abraham Biderman (1)(2)	54	Director

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

All of the directors were elected by the shareholders on May 15, 2002. The current executive officers and directors, along with their backgrounds, are set forth below:

NECDET F. ERGUL has served as mPhase's Chairman of the Board since October 1996 with the exception of a three-month period when he temporarily resigned due to the press of personal business. Mr. Ergul also currently serves as the Chairman of the Board of Directors, President and Chief Executive Officer of Microphase Corporation, a leading developer of military electronic defense and telecommunications technology, which he founded in 1955. 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 and has served as the Company's President, Chief Executive Officer and Director since its inception in October 1996. Since 1994, Mr. Durando has been an Officer of Microphase Corporation. Mr. Durando is not a Director of Microphase Corporation. From 1986-1994, Mr. Durando was President and Chief Executive Officer of Nutley Securities, Inc., a registered broker-dealer. In addition, Mr. Durando is also Chairman of the Board of Janifast, Ltd., a Hong Kong company, for operational and manufacturing companies in China. Mr. Durando is also President and a Director of PacketPort.com, Inc. ("Packet Port").

GUSTAVE T. DOTOLI has served as mPhase's Chief Operating Officer since October 1996 and has been a Director since October 1996. Prior to joining the Company, Mr. Dotoli was President and CEO of State Industrial Safety, Inc. from 1986-1996. In addition, Mr. Dotoli currently serves as the Vice President of Corporate Development of Microphase Corporation. Mr. Dotoli is also a Director and Vice President of Packet Port. He is formerly 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 Dickenson University in 1959.

DAVID KLIMEK is a co-founder of mPhase and has served as the Company's Chief Technology Officer since June 1997 and as Director of Engineering since its inception in October 1996. Mr. Klimek joined the 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.

29

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 telecommunications company, Hart Cable, a cable television company and Diversified Golf. Mr. McInerney was Executive 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 the Board since August 3, 2000. Since 1990, Mr. Biderman has been employed by Lipper & Co. as Executive Vice President; Executive Vice President, Secretary and Treasurer of the Lipper Funds; and Co-Manager of Lipper Convertibles, L.P. Prior to joining Lipper & Co. 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 mPhase as Executive Vice President, Chief Financial Officer and General Counsel in August 2000. Mr. Smiley has over twenty years experience as a corporate finance and securities attorney and as an investment banker. 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.

At each annual meeting of stockholders, the newly elected directors' terms begin on the date of election and qualification, and continue through the next annual meeting following election. Terms may differ in the case where a director resigns, is removed from office, or until the time when a successor director is elected and qualified.

SECTION 16 (A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Directors, executive officers, and individual owning more than 10 percent of mPhase common stock are required to file initial reports of ownership and changes in ownership with the SEC under Section 16(a) of the Securities Exchange Act of 1934, as amended. The SEC regulations also require those persons to provide copies of all filed Section 16(a) reports to the Company. mPhase has reviewed the report copies filed in 2001, and based also on written representations from those persons, the Company believes that there was compliance with Section 16(a) filing requirements for 2002. All the officers and directors filed all of the required forms, but in certain instances the directors were late with respect to the filing of Form 4s.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth, for the fiscal year ended June 30, 2002 and the two previous fiscal years, the compensation earned by mPhase's chief executive officer and the four other executive officers, whose compensation was greater than $100,000 for services rendered in all capacities to the Company for the year ended June 30, 2002.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSA	
	YEAR	SALARY	BO
Ronald A. Durando (1)...	2002	$388,504	
Chief Executive Officer and President	2001	$395,004	
	2000	312,920	$2,39
Gustave Dotoli (1)..	2002	313,504	
Chief Operating Officer	2001	342,917	
	2000	231,670	36
David Klimek (1)..	2002	106,606	
Chief Technology Officer	2001	175,577	
	2000	106,500	3

Martin Smiley..	2002	158,712
Executive Vice President	2001	163,435
Chief Financial Officer and General Counsel	2000	--

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(1) Includes $7,500 annual stipend as a director.

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, 2002 to the executive officers named in the summary compensation table above. For the fiscal year ended June 30, 2002, mPhase granted options to acquire up to an aggregate of shares to employees and directors.

OPTION GRANTS IN LAST FISCAL YEAR
(INDIVIDUAL GRANTS)

Name	Number of Securities Underlying Options/SARS Granted (#)	% of Total Option/SARS Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Market Price on Grant Dates	Expiration Date	Pote Assu Pric 0%
Ronald A. Durando	700,000	33.02%	$0.49	$0.49	10/18/2006	0
	700,000	29.60%	$0.31	$0.31	12/26/2006	0
	25,000	0.97%	$2.15	$1.63	05/30/2006	0
	200,000	18.47%	$0.30	$0.30	03/12/2007	0
	25,000	2.43%	$0.45	$0.45	05/15/2007	0
	200,000	19.42%	$0.30	$0.30	06/28/2007	0
Gustave T. Dotoli	450,000	21.23%	$0.49	$0.49	10/18/2006	0
	450,000	19.03%	$0.31	$0.31	12/26/2006	0
	25,000	0.97%	$2.15	$1.63	05/30/2006	0
	150,000	13.85%	$0.30	$0.30	03/12/2007	0
	25,000	2.43%	$0.45	$0.45	05/15/2007	0
	125,000	12.14%	$0.30	$0.30	06/28/2007	0
David Klimek	30,000	1.42%	$0.49	$0.49	10/18/2006	0
	30,000	1.27%	$0.31	$0.31	12/26/2006	0
	25,000	0.97%	$2.15	$1.63	05/30/2006	0
	30,000	2.77%	$0.30	$0.30	03/12/2007	0
	25,000	2.43%	$0.45	$0.45	05/15/2007	0
	22,500	2.18%	$0.30	$0.30	06/28/2007	0
Martin Smiley	200,000	9.43%	$0.49	$0.49	10/18/2006	0
	200,000	8.46%	$0.31	$0.31	12/26/2006	0
	75,000	6.93%	$0.30	$0.30	03/12/2007	0
	65,000	6.31%	$0.30	$0.30	06/28/2007	0

OPTION GRANTS IN LAST FISCAL YEAR
(INDIVIDUAL GRANTS)

Name	Number of Securities Underlying Options/SARS Granted (#)	% of Total Option/SARS Granted to Employees in Fiscal Year	Weighted Average Exercise or Base Price ($/Share)	Weighted Average Market Price on Grant Dates	Expira Dat
Ronald A. Durando	1,850,000	28.1%	$.40	$.39	200
Gustave T. Dotoli	1,225,000	18.6%	$.41	$.40	200
David Klimek	162,500	2.5%	$.64	$.63	200
Martin Smiley	540,000	8.2%	$.37	$.36	200

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, 2002. 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, 2002, and the exercise price of the options.

31

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND
FISCAL YEAR-END OPTION VALUES

	Shares Acquired on Exercise	Value Realized $	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT YEAR END (#	
			EXERCISABLE	UNEXERCISA
Ronald A. Durando	--	--	4,775,000	--
Gustave T. Dotoli	--	--	3,035,000	--
David Klimek	--	--	947,500	--
Martin Smiley	--	--	1,210,000	--

Compensation of Directors

mPhase pays each of the directors $7,500 annually for their services as a director and for their attendance of Board and committee meetings. Additionally, some of the directors have been granted options under the Company's Stock Incentive Plan and the Company has included those grants in the table entitled "Security Ownership of Certain Beneficial Owners and Management" and the notes thereto.

Employment Agreements

mPhase had an employment agreement with Ronald A. Durando, the President, Chief Executive Officer and Director, which agreement expired on June 30, 2002. Under the terms of the agreement, Mr. Durando received a base annual salary of $275,000, a bonus and a salary increase based upon performance review every six months, beginning six months from the effective date of the agreement, as well as health benefits, vacation and such other fringe benefits as would be paid to our similarly situated senior management. In consideration of devoting such time as would be required of the Chief Executive Officer to mPhase's business and specifically to his duties under the agreement to provide investor relations, Mr. Durando is entitled to a bonus at the end of each year equal to five percent (5%) of the increase in the market value of the issued and outstanding shares, of which bonus twenty-five percent (25%) shall be payable in cash and the remaining balance in shares.

Such agreement is terminable upon Mr. Durando's death, permanent disability, or for "just cause" (defined below) and is renewable within two months of the expiration date of the agreement upon the mutual terms agreed to by Mr. Durando and mPhase. Mr. Durando shall be deemed "permanently disabled" under the agreement if he shall fail to render and perform the executive services required under the agreement for a continuous period of three consecutive months. "Just cause" is defined under the agreement as the commission of acts constituting theft, embezzlement, the receipt of funds or property under false pretenses or similar acts of gross misconduct with respect to our property, or the conviction of a felony involving matters not directly related to the Company business if, in the Board's discretion, it adversely affects his ability to perform his executive duties.

The agreement also contains work-for-hire, confidentiality and non-disclosure provisions. In the event that Mr. Durando breaches such provisions, mPhase is entitled to injunctive relief restraining him from any further breach, in addition to any other remedies that the Company may have arising out of such breach.

mPhase also had an employment agreement with Gustave T. Dotoli, the Chief Operating Officer and Director, which agreement expired on June 30, 2002. Mr. Dotoli received a base annual salary of $200,000, a bonus and a salary increase based upon performance review every six months, beginning six months from the effective date of the agreement, as well as health benefits, vacation and such other fringe benefits as would be paid to mPhase's similarly situated senior management. The employment agreement is terminable upon Mr. Dotoli's death, permanent disability, or for "just cause" (defined below), and is renewable within two months of the expiration date of the agreement upon the mutual terms agreed to by Mr. Dotoli and mPhase. Mr. Dotoli shall be deemed "permanently disabled" under the agreement if he shall fail to render and perform the executive services required under the agreement for a continuous period of three consecutive months. "Just cause" is defined under the agreement as the commission of acts constituting theft, embezzlement, the receipt of funds or property under false pretenses or similar acts of gross misconduct with respect to the Company's property, or the conviction of a felony involving matters not directly related to the Company's business if, in the Board's discretion, it adversely affects his ability to perform his executive duties. The agreement also contains work-for-hire, confidentiality and non-disclosure provisions.

mPhase had an employment agreement with Martin Smiley, the Executive Vice President, Chief Financial Officer and General Counsel, which expired on August 20, 2002. Mr. Smiley received a base annual salary of $175,000, a bonus and a salary increase based upon performance review every twelve months, beginning twelve months from the effective date of the agreement, as well as health benefits, vacation and such other fringe benefits as would be paid to the Company's similarly situated senior management.

mPhase had an employment agreement with David Klimek, the Chief Technical Officer and a Director, which agreement expired on April 1, 2002. Mr. Klimek received an annual salary of $170,000 per annum and a bonus based upon performance as well as health benefits, vacation and such other fringe benefits as would be paid to the Company's similarly situated senior management. In addition, in the event of a change of control that is not approved by Mr. Klimek as one or the Company's directors or shareholders, he is entitled to exercise an option to purchase 150,000 shares at $1.00 per share.

Both Mr. Smiley's and Mr. Klimek's agreements are terminable upon death, significant disability, or for good cause, and are renewable within one month of the expiration date of such agreements upon the mutual terms agreed to by such employees and mPhase. Such employees shall be deemed "significantly disabled" under their respective agreements for a continuous period of six months. "Good cause" is defined under each of the agreements as the commission of acts constituting a felony or crime; fraud or misappropriation of funds; personal dishonesty, incompetence or, gross negligence; willful misconduct; repeated use of drugs, alcohol or similar substance; or breach by such employee of his agreement. Such agreements also contain confidentiality and non-disclosure provisions.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee during fiscal 2002 were Messrs. Dotoli, Biderman and Guerino. Mr. Dotoli is the Chief Operating Officer. Neither Messrs. Biderman nor Guerino has been one of mPhase's officers or employees. Mr. Vickers resigned from the Board of Directors after fiscal year 2001 and has been replaced by Mr. Biderman on the Compensation Committee effective March 2002. None of the Company's 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 2002 that has a director or executive officer serving on mPhase's Board of Directors, except that Mr. Dotoli is also a member of the Board of Directors of PacketPort, a company in which Mr. Durando serves as Chief Executive Officer. Mr. Dotoli, together with Mr. Durando, is a controlling shareholder of Janifast. Janifast has produced components for the Traverser(TM), and may produce such components for mPhase in the future.

33

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of August 26, 2002 certain information regarding the beneficial ownership of shares of our common stock:

- o by each of mPhase's directors;
- o by each person who is known by the Company to beneficially own 5% or more of the outstanding shares of common stock;
- o by each of the Company's executive officers named in the summary compensation table; and,
- o by all of the Company's executive officers and directors as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER(1)	OPTIONS AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENTAGE OF COMMON STOCK(2)
Necdet F. Ergul (7)(10)....................	9,319,118	14.5%
Ronald A. Durando (3)(7)(8)................	13,884,148	20.7%
Gustave Dotoli (7)(8)(12)..................	4,051,366	6.3%
J. Lee Barton (4)(6)(7)(9).................	7,703,219	12.6%
David Klimek (7)(8)........................	1,340,000	2.1%
Craig Vickers (9)..........................	159,000	*
Lintel, Inc. (6)...........................	4,114,219	6.7%
Abraham Biderman (5)(7)....................	277,733	*
J. Allen Layman (7)(9).....................	140,000	*
Anthony Guerino (7)........................	267,500	*
Martin Smiley..............................	2,417,048	3.9%
Michael McInerney (7)......................	124,500	*
All executive officers and directors as a group (11) (eleven people)	39,683,632	60%

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* 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 60,807,508 shares outstanding on August 26, 2002, and, with respect to each such person holding options or warrants to purchase shares that are exercisable within 60 days after August 26, 2002, 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	1,216,250
Ronald A. Durando	4,775,000
Gustave Dotoli	3,035,000
J. Lee Barton	295,000
David Klimek	947,500
Martin Smiley	1,085,000
J. Allen Layman	140,000
Craig Vickers	159,000
Abraham Biderman	272,500
Anthony Guerino	267,500
Michael McInerney	120,500

(3) Includes 1,396,148 shares held by Durando Investment LLC, which Mr. Durando controls and 5,850,000 shares and 1,200,000 warrants held by Janifast 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 mother. Mr. Barton resigned in March 2002.
(5) Includes 5,233 shares of common stock, options and warrants for 195,000 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 the 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) Does not include contingent options exercisable only upon a change in control of our Company, not voted for by such person as a stockholder or director, Ronald Durando-3,000,000; Gustave Dotoli-1,500,000; David Klimek-150,000.
(9) Craig Vickers resigned as a Director in September 2001. J. Allen Layman and J. Lee Barton also resigned as Directors in 2002. Mr. Michael P. McInerney, President of Lintel, Inc. subsidiaries, was appointed to the Board at the Annual Shareholders Meeting.
(10) Includes 200,000 shares owned by Berrin Snyder, his daughter and 150,000 owned by Eda Peterson, his daughter. Also includes 4,469,534 shares and 2,200,000 warrants owned by Microphase Corporation, a company in which Mr. Ergul is the President and Chief Executive Officer.
(11) Includes Mr. Vickers and Mr. Layman, who resigned in September 2001 and March 2002, respectively.
(12) Includes 190,000 shares owned by Patricia and Gustave Dotoli Foundation; and 30,000 shares owned by Dotoli Charitable Remainder Trust.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

mPhase's President and Chairman of the Board of the Company are also officers of Microphase. (See Footnote 11 to Financial Statement entitled "Related Party Transactions".) 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. 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. Microphase also charges fees for specific projects on a project-by-project basis. During the years ended June 30, 2000, 2001, 2002 and for the period from inception (October 2, 1996) to June 30, 2001, $2,547,847, $2,128,983, 1,212,594 and $6,576,424, 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.

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 proprietary Traverser(TM) Digital Video and Data Delivery System and DSL component products. During the year ended June 30, 2001 and 2002, mPhase recorded royalties to Microphase totaling $297,793 and $78,762, 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 2,200,000 warrants to purchase mPhase common stock. As of June 30, 2001, the Company had $70,799 payable to Microphase, which is included in amounts due to related parties in the accompanying consolidated balance sheet. As of June 30, 2002, the Company had $92,405 included in other liabilities-related parties in the accompanying consolidated balance sheet as discussed in Note 14.

35

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, for the year ended June 30, 2001, Janifast received 1,200,000 shares of the Company's common stock. For the year ended June 30, 2002 pursuant to debt conversion agreements, Janifast received 3,450,000 shares of mPhase common stock and 1,200,000 warrants to purchase mPhase common stock. During the years ended June 30, 2000, 2001 and 2002 and the period from inception (October 2, 1996 to June 30, 2002) $0, $8,932,378, $1,759,308 and $10,691,686, respectively 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 in the accompanying consolidated balance sheet as discussed in Note 14.

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.

Due to related parties as of June 30, 2000 included $36,120 due to Nutley Securities, a company owned by mPhase's President and $49,180 due to affiliates of the Company's joint venture partner, Alphastar International, Inc. both amounts are for various services performed.

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. 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 commencement of commercial production of the Traverser(TM). 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.

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 year ended June 30, 2002, certain officers, directors and related parties were issued 8,150,000 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.

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.

Our management is affiliated by employment at and/or ownership of a related group of companies, including Microphase Corporation, Complete Telecommunications, Inc. (which was dissolved subject to a settlement dated August 16, 1999), PacketPort.com, Inc. and Janifast Ltd., which may record material transactions with us. As a result of such affiliations, our management in the future may have conflicting interests with these affiliated companies.

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.

We reimburse Microphase $51,340 per month for research and development services and administrative expenses incurred for the use of Microphase's office space, lab facilities and administrative staff.

Ronald A. Durando is the owner/sole shareholder of Nutley Securities, Inc., a former registered broker-dealer, which is not a private investment company under the Investment Advisors Act of 1940.

One of our former directors, J. Lee Barton, Chairman of the Board of Lintel, Inc. Lintel is the parent corporation of Hart Telephone Company, our beta customer located in Hartwell, Georgia, where we installed our prototype product and commenced beta testing. In December 1998, we issued 3,115,000 shares in a private placement to J. Lee Barton, several members of his family, Lintel, several employees of Lintel and two employees of Microphase for a purchase price of approximately $1.03 per share, or an aggregate purchase price of $3,197,416. Mr. Barton has received a $285,000 bonus, a stock award of 140,000 shares and options to purchase 295,000 shares, which includes options to Hart Telephone. Michael McInerney, one of our directors, is the president of Lintel, Inc. Mr. McInerney has been awarded 5,000 shares and options to purchase 120,500 shares.

Janifast Ltd., a Hong Kong corporation manufacturer, which has produced components for our prototype Traverser(TM) 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.

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.

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.

ITEM 14A. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) The following is a list of the financial statements, financial statement schedules and exhibits, which are included in this Annual Report on Form 10-K. Where so indicated by footnote, exhibits, which were previously filed, are incorporated by reference.

37

FINANCIAL STATEMENTS

38

FINANCIAL STATEMENT SCHEDULES:

EXHIBITS

EXHIBITS NUMBER REFERENCE	DESCRIPTION
2.1*	Exchange of Stock Agreement and Plan of Reorganization (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)).
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)).
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)).

EXHIBITS NUMBER REFERENCE	DESCRIPTION
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)).
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. 33-63261002462)).
10.12(b)	Distribution Agreement effective May 15, 2002 by and between Corning Cable Systems and the Company.
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 Arthur Andersen LLP (incorporated by reference to our registration statement, Amendment No. 2 filed on Aug. 15, 2001.

23.5* Consent of Schuhalter, Coughlin & Suozzo, LLC (incorporated by reference to our registration statement, Amendment No. 2 filed on Aug. 15, 2001.

23.6* Consent of Piper Marbury Rudnick & Wolfe LLP (included in Exhibit 6.1) (incorporated by reference to our registration statement, Amendment No. 2 filed on Aug. 15, 2001.

31.1 Certification of CFO Pursuant to Section 302 of The Sarbanes-Oxley Act.

31.2 Certification of CFO Pursuant to Section 302 of The Sarbanes-Oxley Act.

32.1 Certification of CFO Pursuant to Section 906 of The Sarbanes-Oxley Act.

32.2 Certification of CFO Pursuant to Section 906 of The Sarbanes-Oxley Act.

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* Incorporated by reference.

40

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, 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 the year then ended. 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, 2002 totals of the statements of operations, changes in stockholders' equity and cash flows and reflect total net loss of 89 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 audit 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, 2002 and the results of their operations and their cash flows for the year then ended and for the period from inception to June 30, 2002, 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.

As discussed in note 15 to the consolidated financial statements, management has expanded certain disclosures in the accompanying consolidated financial statements. The resulting changes from these expanded disclosures and additional schedules have no effect on the financial position and results of operations for the year ended June 30, 2002. As a result of these expanded disclosures, management has reissued the June 30, 2002 consolidated financial statements to reflect these expanded disclosures.

Rosenberg Rich Baker Berman & Company
Bridgewater, NJ

August 26, 2002, except for note 14 as to which the date is October 14, 2002 and except for note 15 as to which the date is July 28, 2003.

F-1

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' 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, LLC

Raritan, New Jersey
January 28, 1999

F-3

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2002

	JUNE 30,	
	2001	2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,005	$ 47,065
Accounts receivable, net of bad debt reserve of $29,218 and $2,906 respectively..............	292,434	273,780
Due from officer	100,000	--
Inventory	4,303,895	3,342,716
Prepaid expenses and other current assets	856,979	830,589
Total current assets	5,584,313	4,494,150
Property and equipment, net	2,198,845	1,742,186
Patents and licenses, net	1,026,524	685,349
Other assets	187,500	20,830
Total assets	$ 8,997,182	$ 6,942,515

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:		
Accounts payable	5,116,029	2,819,245
Accrued expenses	1,742,138	673,065
Due to related parties	184,373	35,000
Note payable, current	--	353,339
Deferred revenue	--	214,180
Total current liabilities	7,042,540	4,094,829
Other liabilities	90,000	1,211,249
Other liabilities, related parties	--	665,068
Long-term debt, net of current portion	--	1,014,218
COMMITMENTS AND CONTINGENCIES (Note 13)		
STOCKHOLDERS' EQUITY (DEFICIT):		
Common Stock, stated value $.01, 150,000,000 shares authorized; 41,344,467, in 2001, and 60,807,508 in 2002, shares issued and outstanding, respectively....................	413,445	608,075
Additional paid-in capital	92,293,370	100,751,284
Deferred compensation	(713,275)	(23,923)
Deficit accumulated during development stage ...	(90,120,925)	(101,366,286)
Unrecognized capital losses	--	(4,026)
Less-treasury stock, 13.750 shares, at cost	(7,973)	(7,973)
Total stockholders' equity (deficit)	1,864,642	(42,849)
Total liabilities and stockholders' equity (deficit)	$ 8,997,182	$ 6,942,515

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 End June 30,	
	2000	2001
TOTAL NET REVENUES	$ 279,476	$ 10,524,134
COSTS AND EXPENSES:		
Cost of Sales (see also note 11 Related Party Transactions)	131,756	5,804,673
Research and development (including non-cash stock related charges of $1,010,375, $0, $267,338 and $1,660,174, respectively, see also note 11 Related Party Transactions)....	10,156,936	10,779,570
General and administrative (including non-cash stock related charges of $19,421,925, $7,398,455, $3,004,111 and $45,311,609 respectively, see also note 11 Related Party Transactions)....	27,859,330	17,321,614
Depreciation and amortization	471,101	660,372

Total costs and expenses	38,619,123	34,566,229
Loss from operations	(38,339,647)	(24,042,095)
OTHER INCOME (EXPENSE):		
Gain On Extinguishments	--	--
Minority interest loss in consolidated subsidiary	20,000	--
Loss from unconsolidated subsidiary	--	--
Interest income (expense), net	158,105	43,361
Total other income (expense)	178,105	43,361
NET LOSS	$(38,161,542)	$(23,998,734)
Unrealized holding loss on securities	--	--
COMPREHENSIVE LOSS	$(38,161,542)	$(23,998,734)
LOSS PER COMMON SHARE, basic and diluted	$ (1.41)	$ (0.72)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted	26,974,997	33,436,641

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 FIVE YEARS
IN THE PERIOD ENDED JUNE 30, 2002

	Common Stock			Additional	
	Shares	$.01 Stated Value	Treasury Stock	Paid-In Capital	Deferre Compensat
BALANCE, OCTOBER 2, 1996 (date of inception)	1,140,427	$ 11,404	$ --	$ 459,753	$--
Issuance of common stock of Tecma Laboratories, Inc., for 100% of the Company	6,600,000	66,000	--	(537,157)	--
Issuance of common stock, in private placement, net of offering costs of $138,931	594,270	5,943	--	752,531	--
Net loss	--	--	--	--	--
BALANCE, JUNE 30, 1997	8,334,697	83,347	--	675,127	--
Issuance of common stock with warrants, in private placement, net of offering					

costs of $84,065...........	999,502	9,995	--	791,874	--
Issuance of common stock for services....................	300,000	3,000	--	147,000	--
Issuance of common stock in connection with investment in unconsolidated subsidiary	250,000	2,500	--	122,500	--
Repurchase of 13,750 shares of common stock................	--	--	(7,973)	--	--
Issuance of common stock with warrants in private placement, net of offering costs of $121,138...........	1,095,512	10,955	--	659,191	--
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	--
Net loss......................	--	--	--	--	--
BALANCE, JUNE 30, 1998........	13,579,711	$135,797	$(7,973)	$4,079,692	$--

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 FIVE YEARS
IN THE PERIOD ENDED JUNE 30, 2002

	Common Stock				
	Shares	$.01 Stated Value	Treasury Stock	Additional Paid-In Capital	Deferred Compensati
BALANCE, JUNE 30, 1998......	13,579,711	$135,797	$(7,973)	$ 4,079,692	$
Issuance of common stock with warrants in private placements, net of offering costs of $107,000	3,120,000	31,200	--	2,981,800	
Issuance of common stock for services.................	1,599,332	15,993	--	8,744,873	
Issuance of common stock with warrants in private placement, net of offering costs of $45,353.........	642,000	6,420	--	1,553,227	
Issuance of common stock in private placement, net of offering costs of $679,311	4,426,698	44,267	--	10,343,167	

Issuance of stock options for services.............	--	--	--	7,129,890	
Issuance of warrants for services..................	--	--	--	16,302	
Deferred employee stock option compensation.......	--	--	--	--	(140,0
Net loss...................	--	--	--	--	
BALANCE, JUNE 30, 1999......	23,367,741	233,677	$(7,973)	$34,848,951	$ (140,00
Issuance of common stock and options in settlement.....	75,000	750	--	971,711	
Issuance of common stock upon exercise of warrants and options..............	4,632,084	46,321	--	5,406,938	
Issuance of common stock in private placement, net of cash offering costs of $200,000.................	1,000,000	10,000	--	3,790,000	
Issuance of common stock in private placement, net of cash offering costs of $466,480.................	1,165,500	11,655	--	9,654,951	
Issuance of common stock for services.................	1,164,215	11,642	--	8,612,265	
Issuance of options for services.................	--	--	--	9,448,100	
Deferred employee stock option compensation	--	--	--	1,637,375	(1,637,3
Amortization of deferred employee stock option compensation.............	--	--	--	--	551,7
Net loss...................	--	--	--	--	
BALANCE, JUNE 30, 2000......	31,404,540	$314,045	$(7,973)	$74,370,291	$(1,225,66

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 FIVE YEARS
IN THE PERIOD ENDED JUNE 30, 2002

	Common Stock				
	Shares	$.01 Stated Value	Treasury Stock	Additional Paid-In Capital	Deferred Compensati
BALANCE, JUNE 30, 2000......	31,404,540	$314,045	$(7,973)	$74,370,291	$(1,225,66

Issuance of common stock upon exercise of options..	320,000	3,200	--	324,300	-
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	-
Issuance of common stock for services..................	450,000	4,500	--	1,003,125	-
Issuance of options and warrants for services.....	--	--	--	5,849,585	-
Deferred employee stock option compensation.......	--	--	--	607,885	(607,88
Amortization of deferred employee stock option compensation.............	--	--	--	--	1,120,27
Issuance of common stock in settlement of debt to directors and related parties..................	4,840,077	48,402	--	2,371,637	-
Net Loss	--	--	--	--	-
BALANCE, JUNE 30, 2001......	41,344,467	$413,445	$(7,973)	$92,293,370	$ (713,27

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

mPHASE TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)
TO JUNE 30, 1997 AND FOR EACH OF THE FIVE YEARS
IN THE PERIOD ENDED JUNE 30, 2002

	Shares	$.01 Stated Value	Treasu Stoc
Balance June 30, 2001......................................	41,344,467	$413,445	$(7,9
Sale of Common stock with warrants in private placement....	6,980,643	69,807	
Issuance of Common stock for services......................	2,976,068	29,760	
Issuance of options and warrants for services..............	--	--	
Cancellation of unearned options to former employees.......	--	--	
Amortization of deferred employee stock option compensation	--	--	
Issuance of common stock and warrants in settlement of debt to related parties and strategic vendors.................	7,492,996	74,930	
Sale of Common stock to certain Officers and Directors in private placement.....................................	2,000,000	20,000	
Issuance of Common stock upon exercise of options	13,334	133	
Net Loss...	--	--	
Other comprehensive loss...................................	--	--	
Balance, June 30, 2002.....................................	60,807,508	$608,075	$(7,9

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F-9

mPHASE TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)
TO JUNE 30, 1997 AND FOR EACH OF THE FIVE YEARS
IN THE PERIOD ENDED JUNE 30, 2002

	Accumulated Deficit
Balance June 30, 2001	$(90,120,925)
Sale of Common stock with warrants in private placement	--
Issuance of Common stock for services	--
Issuance of options and warrants for services	--
Cancellation of unearned options to former employees	--
Amortization of deferred employee stock option compensation	--
Issuance of common stock and warrants in settlement of debt to related parties and strategic vendors	--
Sale of Common stock to certain Officers and Directors in private placement	--
Issuance of Common stock upon exercise of options	--
Net Loss	(11,245,361)
Other comprehensive loss	--
Balance, June 30, 2002	$(101,366,286)

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

F-10

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

For the Years Ended
June 30,

	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(38,161,542)	$(23,998,7
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	756,055	1,235,2
Book value of fixed assets disposed	5,796	61,4
Loss on unconsolidated subsidiary	--	
Provision for doubtful accounts	--	29,2
Impariment of note receivable	--	212,5
Gain on Extinguishments	--	--
Non-cash common stock, common stock option and warrant expense	20,431,800	7,398,4
Changes in operating assets and liabilities:		
Accounts receivable	(151,186)	(170,4
Inventory	--	(4,303,8
Prepaid expenses and other current assets	(730,626)	88,2
Production advances-related parties	(1,109,641)	1,109,6
Other assets	--	(150,0
Receivables from subsidiary	--	--
Due from officer	--	(100,0
Accounts payable	1,086,736	2,802,0
Accrued expenses	(391,997)	(5,3
Deferred revenue	--	--
Due to related parties:		
Microphase..	(14,335)	709,8
Janifast..	--	1,272,7
Officers..	412,400	(412,4
Accrued expense, Lintel...	--	477,0
Due to Others...	85,300	59,5
Net cash used in operating activities...........................	(17,781,240)	(13,685,0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in patents and licensing rights	(38,272)	(148,1
Purchase of property and equipment	(1,348,210)	(705,5
Net cash used in investing activities...........................	(1,386,482)	(853,7
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from private placement of common stock and exercise of options and warrants...	17,622,279	8,137,3
Repurchase of treasury stock at cost	--	
Repayment of note payable	--	
Net cash provided by financing activities.......................	17,622,279	8,137,3
Net increase (decrease) in cash	(1,545,443)	(6,401,4
CASH AND CASH EQUIVALENTS, beginning of period	7,977,860	6,432,4
CASH AND CASH EQUIVALENTS, end of period	$ 6,432,417	$ 31,0

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, 2002

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(TM) 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(TM) Digital Video and Data Deliver System ("Traverser(TM)").

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 $1.5 million. 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 proprietary Traverser(TM) and associated DSL component 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, 2002, the Company had incurred development stage losses totaling approximately $101,366,000, and at June 30, 2002 had a stockholders' deficit of $42,849. At June 30, 2002, the Company had approximately $47,065 of cash, cash equivalents and approximately $273,780 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 2003 and continue its development and commercialization efforts. Management's plans in this regard include, but are not limited to, the following:

During the quarter ended December 31, 2001, certain officers, directors and related parties were issued 2,000,000 restricted shares of the Company's common stock for the investment of $1,000,000 in cash. The Company also completed private placements of its common stock during the fiscal year ended June 30, 2002, generating proceeds of approximately $2.7 million, and converted certain payables and accrued expenses with related parties and strategic vendors to equity, approximately $3.6 million, and to long-term notes,

2. LOSSES DURING THE DEVELOPMENT STAGE AND MANAGEMENT'S PLANS -- (Continued)

approximately $1.5 million. In addition, subsequent to June 30, 2002, related parties agreed in principle and strategic vendors executed a Memorandum of Intention to convert a total of approximately $1.9 million to equity.

Management estimates that the Company will need additional minimum capital of $1.5 million by June 30, 2003 to continue its operations either through revenues from sales, external independent or related party funding including some combination thereof (and further reduction in our cash expenses currently running at approximately $175,000 per month).

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 including the possibility of a Rights Offering with the Company's existing shareholders.

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 commercial sales of its Traverser(TM) products, including deployment at existing test sites. The Company has had discussions with certain companies for increasing sales of its POTS splitter and other component products.

Management believes that actions presently being taken to complete the Company's development stage through the commercial roll-out of its Traverser(TM) Digital Video and Data Delivery System 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

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.

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. 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 each of the years ended June 30, 2002 and 2001, there was no difference between the Company's net income and comprehensive income.

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.

F-14

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

Amortization expense was $442,444, $460,121 and $471,629 for the years ended June 30, 2000, 2001, and 2002, respectively.

INVENTORIES

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

	June 30	
	2001	2002
Raw materials	$ 639,524	$ 266,748
Work in Progress	--	1,045,679
Finished goods	3,978,923	3,273,644

Total	$4,618,447	$ 4,586,071
Less: Reserve for obsolescence	(314,552)	(1,243,355)
	$4,303,895	$ 3,342,716

LONG-LIVED ASSETS

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 reviews 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.

If changes in circumstances indicate that the carrying amount of an asset may not be recoverable, then the Company estimates the fair value based on the undiscounted future cash flows expected to result from the use of the asset and its eventual disposition, and would record an impairment loss (equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset) if such estimated cash flows are less than the carrying amount of the asset. Fair value would be determined, if necessary, based on an outside appraisal.

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 as they represent the amounts the Company expects to liquidate these obligations with cash or cash equivalents, and the amounts recorded as other liabilities and other liabilities -- related parties approximate their fair values as based upon 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 antidilutive.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

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, 2002, 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 immaterial and through June 30, 2002 no additional amounts have been considered necessary to reserve for additional warranty costs at this time.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 required all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002 and accordingly, during the period ended June 30, 2002, the adoption of SFAS had no material effect on the Company's results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and provides guidance on classification and accounting for such assets when held for sale or abandonment. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Management does not expect that adoption of SFAS No. 144 will have a material effect on the Company's results of operations or financial position effective July 1, 2002.

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", which recinds SFAS No. 4 and No. SFAS 44 and SFAS No. 64 which relates to circumstances whereby the Company would determine when the settlement of debt or other liabilities would be considered extraordinary or recurring. Management does not expect that adoption of SFAS No. 145 will have a material effect on the Company's results of operations or financial position effective July 1, 2002.

STATEMENT OF CASH FLOW SUPPLEMENTAL INFORMATION

	JUNE 30 2001	JUNE 30 2002

Interest paid	$ 1,201	$ 21,760
Taxes paid	$ --	$ --
Schedule of Non-Cash Investing and Financing Activities:		
Conversion of accounts payable and accrued expenses to equity	$2,420,039	$2,738,658
Conversion of accounts payable and accrued expenses to notes payable	$ --	$1,487,747
Investments in Patents and Licenses paid with equity	$ --	$ 43,750

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2002

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 has included the $37,500, in long-term assets in the accompanying consolidated balance sheet 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. The Company has included the $17,250 in long-term assets in the accompanying consolidated balance sheet for the year ended June 30, 2002.

6. PROPERTY AND EQUIPMENT

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

	June 30	
	2001	2002

Equipment	$ 2,879,738	$ 3,593,418
Office and marketing equipment	471,086	482,464
	3,350,824	4,075,882
Less-Accumulated depreciation	(1,151,979)	(2,333,696)
	$ 2,198,845	$ 1,742,186

Depreciation expense for the years ended June 30, 2000, 2001, and 2002, was $313,611, $775,092, and $1,181,717, respectively of which $284,954, $501,676, and $983,163, respectively is included in research and development expense.

7. ACCRUED EXPENSES

Accrued expenses consist of the following:

	June 30	
	2001	2002
GTRC (Notes 13, 14)	400,000	--
Other	1,342,138	$673,065
	$1,742,138	$673,065

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 is included in general and administrative expenses in the accompanying statement of operations for the

8. JOINT VENTURE -- (Continued)

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 stipulates 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, 2002 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.

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

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 accompanying consolidated balance sheet.

9. LONG TERM DEBT

Long-term debt is comprised of the following:

	June 30, 2002
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 Sept. 15, 2002 (see also--Note 14--Subsequent Events)............	$ 150,000
Accounts payable expected to be converted to Note payable to GTRC bearing 7% interest, amortized in average monthly payments of $0 in 2003, $39,568 in 2004, $56,085 in 2005 $60,140 in 2006, $64,487 in 2007, and a lump sum payment of $253,955 due at maturity in September 2007 (see also--Note 14--Subsequent Events)	$ 474,235
Note payable to law firm bearing 8% interest, monthly installments of $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...........	$ 415,887
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 2003.......................	$ 237,169
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
Total	1,367,557

Less: Current portion	(353,339)
Long-term Debt, non-current portion	$1,014,218

mPHASE TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2002

9. LONG TERM DEBT -- (Continued)

At June 30, 2002 total maturities of long-term debt are as follows:

2003	$ 353,339
2004	575,052
2005	55,760
2006	59,791
2007	64,113
2008 and thereafter	259,502
TOTAL	$1,367,557

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 sold, 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 cumulative 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 sold, 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 sold 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.

10. STOCKHOLDERS' EQUITY -- (Continued)

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 sold 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 sold, 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 sold 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 accompanying 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 sold 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 sold 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 of $1,007,625 was based upon the fair market value of the common stock on the date of the grant and the balance of $121,091 was charged to operation for the year ended June 30,2002.

10. STOCKHOLDERS' EQUITY -- (Continued)

Effective June 30, 2001 the Company issued 4,840,077 shares of the Company's common stock in settlement of debt totalling $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 EIF-F00-19 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 AU 560 and SFAS 128.

In July 2001, the Company sold 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 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 is discussed below.

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;

(b) 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, 2002 includes 3,772,996 shares of common stock and warrants to purchase 2,233,490 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 EITF00-19 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

b) 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.

10. STOCKHOLDERS' EQUITY -- (Continued)

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).

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.

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 and to be performed valued at $1,199,001 for common stock and $504,657 for warrants 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 totaled $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 deferred.

The Company granted 1,505,000 options, and 48,068 warrants of its common stock and 48,068 to employees and 5,065,000 options to consultants for services performed during the fiscal year ended June 30, 2002. Compensation expense for the options granted to consultants was recorded based on the fair value of the options at the date of grant. 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.

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)

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, 2000, 2001, 2002 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, 2000	7,462,500	$ 2.09
Granted	5,618,000	1.56
Exercised	(320,000)	1.02
Canceled	(180,000)	2.39
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
Exercisable at June 30, 2002	19,096,385	$ 1.27

The fair value of options granted in 2000, 2001 and 2002 was estimated as of the date of grant using the Black-Scholes stock option pricing model, based on the following weighted average assumptions: annual

10. STOCKHOLDERS' EQUITY -- (Continued)

expected return of 0%, annual volatility of 115% in 2000, 113% in 2001, and 125.4% in 2002 risk-free interest rate ranging from 3.2% to 6.18% and expected option life of three years.

The per share weighted average fair value of stock options granted during 2000, 2001, and 2002 was $6.99, $1.16, and $.26, respectively. The per share weighted average remaining life of the options outstanding at June 30, 2000, 2001, and 2002 is 3.86, 3.66 and 3.29 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 granted to employees at fair market value. Had compensation expense for stock options granted under the Plan been determined based on fair value at the grant dates, mPhase's net loss for 2000, 2001 and 2002 would have been increased to the pro forma amounts shown below.

	20
Net Loss:	
As reported..	$38,16
Proforma...	$40,09
Net Loss Per Share	
As reported..	$
Pro forma..	$

For the year ended June 30, 2000, mPhase recorded non-cash charges and deferred compensation totaling $9,448,100 and $1,637,375, respectively, in connection with the grant of 2,710,000 options to employees and options to consultants for services rendered or to be rendered.

For the year ended June 30, 2001, the Company 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. 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, 2002, the Company recorded non-cash charges and deferred compensation totaling $927,420 and $0, respectively, in connection with the grant of 6,570,000 options 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 options issued to employees and Black-Scholes stock option pricing calculations for options issued to consultants.

The following summarizes information about stock options outstanding at June 30, 2002:

RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE
$0 - $.50	6,322,500	4.53
$.51 - $1.50	8,640,500	2.40
$1.50 - $16.38	4,144,000	2.75

10. STOCKHOLDERS' EQUITY -- (Continued)

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 also issued 400,000 warrants each to purchase one share of common stock at an exercise price of $1.00 per share. The warrants expire five years from the date of grant. These warrants were exercised during the year ended June 30, 2000 generating proceeds of 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 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 remained outstanding with a weighted average exercise price of $2.93.

F-24

10. STOCKHOLDERS' EQUITY -- (Continued)

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 remain outstanding with a weighted average exercise price of $1.05.

The following summarizes information about warrants issued pursuant to various financing transactions through June 30, 2002.

RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE
$.30	14,703,535	4.43
$0.45 - $0.50	370,000	4.59
$1.25 - $2.50	1,244,000	2.70
$3.00 - $5.00	5,647,725	4.03

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 re-transmission accreditation to proprietary television content that the Company plans to provide with its flagship product, the Traverser(TM) 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(TM). 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). 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

11. RELATED PARTY TRANSACTIONS -- (Continued)

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. 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. Microphase also charges fees for specific projects on a project-by-project basis. During the years ended June 30, 2000, 2001, and 2002 and for the period from inception (October 2, 1996) to June 30, 2002, $2,547,847, $2,128,983, $1,212,594 and $6,576,424, respectively, have been charged to expense or inventory under these Agreements and is included in operating expenses in the accompanying consolidated statements of operations.

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 proprietary Traverser(TM) Digital Video and Data Delivery System and DSL component products. During the year ended June 30, 2002, mPhase recorded royalties to Microphase totaling $78,762. 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 as discussed in Note 10. 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 2,200,000 warrants to purchase mPhase common stock. As of June 30, 2001, the Company had $70,799 payable to Microphase, which is included in amounts due to related parties in the accompanying consolidated balance sheet. As of June 30, 2002, the Company had $92,405 included in other liabilites-related parties in the accompanying consolidated balance sheet as discussed in Note 14. Additionally, at June 30, 2002, approximately $142,000 of undelivered purchase orders remain outstanding to Microphase.

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 has been charged to expense under this Agreement and is included in licensing fees in the accompanying consolidated statement of operations. As of June 25, 1998, the Company acquired MicroTel and as of that date this Agreement is no longer in effect.

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. There were no such advances as of June 30, 2002.

Pursuant to a debt conversion agreement between the Company and Janifast, for the year ended June 30, 2001, Janifast received 1,200,000 shares of mPhase common stock as discussed in Note 10. For the year ended June 30, 2002, pursuant to debt conversion agreements, Janifast received 3,450,000 shares of mPhase common stock and 1,200,000 warrants to purchase mPhase common stock. During the years ended June 30, 2000, 2001 and 2002 and the period from inception (October 2, 1996 to June 30, 2002) $0, $8,932,378, $1,759,308 and $10,691,686, respectively 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 liabilites-related parties in the accompanying consolidated balance sheet as discussed in Note 14. Additionally, at June 30, 2002, approximately $1,614,000 of undelivered purchase orders remain outstanding to Janifast.

11. RELATED PARTY TRANSACTIONS -- (Continued)

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.

Due to related parties as of June 30, 2000 includes $36,120 due to Nutley Securities, a company owned by mPhase's president and $49,180 due to affiliates of the Company's joint venture partner, Alpha Star International, Inc. both amounts are for various services performed.

On November 26, 1999, PacketPort, Inc., a company owned by Mr. Durando, the President and CEO of mPhase, acquired a controlling interest in Linkon Corp., which subsequently changed its name to PacketPort.com, Inc. In connection with this transaction, Mr. Durando transferred 350,000 of his own shares of mPhase's common stock to Packet Port, Inc.

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. 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(TM). 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 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 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 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 year ended June 30, 2002 he received 62,500 options for services as a director.

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, 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.

12. INCOME TAXES

No provision has been made for corporate income taxes due to cumulative losses incurred. At June 30, 2002, mPhase has operating loss carryforwards of approximately $56.8 million and $56.5 million to offset future federal and state income taxes respectively, which expire at various times from 2016 through 2022. 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.

12. INCOME TAXES -- (Continued)

At June 30, 2002 the Company has net deferred income tax assets of approximately $21.9 million comprised principally of the future tax benefit of net operating loss carryforwards, which represents an increase of $1.0 million for the fiscal year ended June 30, 2002. A full valuation reserve has been recorded against such assets due to the uncertainty as to their future realizability.

13. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

mPhase has entered into various agreements with 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, 2000, 2001, and 2002 totaled $4,563,560, $3,814,300, and $450,000 respectively, and $13,424,300 from the period from inception through June 30, 2002. Subsequent to June 30, 2002, the Company and GTRC and its affiliate, GTARC, entered into a Memorandum of Intention to exchange warrants and promissory notes for all amounts outstanding and to exchange mutual Releases.

If and when sales commence utilizing this particular technology, the Company will be obligated to pay to GTRC a royalty up to 5% of product sales, as defined.

mPhase was a party to employee agreements with certain key executives providing for cash commitments of $675,000 through June 30, 2002. In addition, one of the executives is entitled to an annual bonus equal to 5% of the appreciation in market value of mPhase's stock from year-to-year based on the change in the Company's issued and outstanding common stock at each fiscal year end through June 30, 2002, 25% of which is to be paid in cash and the remainder in common stock of the Company. All of these employment agreement have expired by their term.

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.

14. SUBSEQUENT EVENTS

On October 11, 2002, the Company, subject to the Company's and the counter parties respective board of director's approval, entered 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 the unpaid compensation and accounts payable through September 30,2002. In the accompanying balance sheet for June 30, 2002 the Company has reclassified $312,504 due to officer's and $352,564 due to related parties to other liabilities-related parties for amounts due through June that are expected to be converted to equity.

On October 14, 2002, the Company entered into a memorandum of intention with Georgia Tech Research Corporation, (GTRC), and its affiliate, Georgia Tech Applied Research Corporation, (GTRAC), subject to the approval of the respective board of director's, together with the exchange of mutual releases, to convert all amounts outstanding as of June 30, 2002, in consideration for two term notes totaling $624,235 with interest at 7% and varied payments through 2007 and warrants to purchase shares of the Company's common stock through 2007, at a price and formula to be agreed upon. In the accompanying balance sheet for June 30, 2002 the Company has reclassified $624,235 and $1,211,249 of accounts payable and accrued

expenses due to GTRC and GTRAC to long term debt and other liabilities for the amounts expected to be converted to notes payable and equity, respectively.

15. RESTATEMENT

Management has reevaluated the adequacy and completeness of certain disclosures in the accompanying consolidated financial statements including Schedule II (Valuation and Qualifying Accounts, Item 14B). As a result of this reevaluation, management has reissued the June 30, 2002 consolidated financial statements in an effort to clarify and more completely disclose the Company's presentation of the consolidated financial statements at June 30, 2002.

The aforementioned changes to the consolidated financial statements have no effect on the financial position and results of operations for the year ended June 30, 2002.

SCHEDULE II

ITEM 14B. VALUATION AND QUALIFYING ACCOUNTS

mPHASE TECHNOLOGIES, INC.

VALUATION AND QUALIFYING ACCOUNTS

Years Ended June 30, 2002, 2001 and 2000

(In Thousands)

Description	Balance at beginning of year	Additions Charged to costs and expenses	Char o acc
Year ended June 30, 2002			
Allowance for doubtful accounts (deducted from accounts receivable)...	29	3	
Allowance for obsolescence (deducted from inventory)........	315	928	
Year ended June 30, 2001			
Allowance for doubtful accounts (deducted from accounts receivable)...	0	29	

	===	===
Allowance for obsolescence (deducted from inventory)........	0	315
	===	===
Year ended June 30, 2000		
Allowance for doubtful accounts (deducted from accounts receivable)..	0	0
	===	===
Allowance for obsolescence (deducted from inventory)........	0	0
	===	===

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 TWO YEARS ENDED JUNE 30, 2001. THE REPORT ON 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 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.

41

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

mPHASE TECHNOLOGIES, INC.

Dated: January 26, 2004

By: /s/ RONALD A. DURANDO

Ronald A. Durando
President, CEO

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Necdet F. Ergul, Chairman of the Board — January 26, 2004

Ronald A. Durando, Chief Executive Officer, Director	January 26, 2004
Gustave T. Dotoli, Chief Operating Officer, Director	January 26, 2004
Martin S. Smiley, Chief Financial Officer	January 26, 2004
Anthony Guerino, Director	January 26, 2004
Abraham Biderman, Director	January 26, 2004
Michael McInerney, Director	January 26, 2004