MPHASE TECHNOLOGIES INC
Form S-1/A
August 13, 2007

As filed with the Securities and Exchange Commission on August 13, 2007

Registration No. 333-144527

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 2 TO

FORM S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

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

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

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

Martin S. Smiley
Chief Financial Officer

mPHASE TECHNOLOGIES, INC.

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

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

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

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

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

August 13, 2007

PROSPECTUS

mPHASE TECHNOLOGIES, INC.

Shares of Common Stock

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

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

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

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

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

The date of this prospectus is August 13, 2007.

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

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

PROSPECTUS SUMMARY

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

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

mPHASE TECHNOLOGIES, INC.

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

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

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

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

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

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

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

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

THE OFFERING

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

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

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

SUMMARY FINANCIAL DATA

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

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

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

BALANCE SHEET DATA
As of June 30
(in thousands)

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

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

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

RISK FACTORS

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

CAUTIONARY STATEMENT

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

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

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

The Commission alleges that Mr. Durando and Mr. Dotoli and others were part of a fraudulent scheme to, through the use of misleading publicity to inflate the price of the stock of Packeport.com, Inc. , as well as failing to make disclosures and selling shares of stock of Packeport.com, Inc through nominees. Complete details of the allegations are summarized in SEC Litigation Release No. 19465 dated November 16, 2005.

Messrs. Durando, Dotoli and Microphase as well as certain Affiliates of each are listed as Selling Shareholders on the Selling Shareholders list contained in this prospectus. Such persons and entities are registering for sale the following:

1.

Mr. Durando: 14,597,017 Shares of Common Stock
Options convertible into 15,375,000 Shares of Common Stock
Warrants convertible into 581,667 Shares of Common Stock

2.

Affiliates of Mr. Durando include the following:
Durando Investments LLC: 420,000 Shares of Common Stock
Janifast Ltd. 8,227,778 Shares of Common Stock
Warrants convertible into 1,950,000 Shares of Common Stock

3. Mr. Dotoli: 6,793,033 Shares of Common Stock
Options convertible into 7,650,000 Shares of Common Stock

Warrants convertible into 1,138,067 Shares of Common Stock

4. Affiliates of Mr. Dotoli include the following:
None

5.

Microphase Corporation: 16,060,019 Shares of Common Stock
Warrants convertible into 6,522,222

6.

Affiliates include Mr. Necdet F. Ergul
(Chairman of the Board of the Company): 2,850,000 Shares of Common Stock
Options convertible into 2,748,750
Shares of Common Stock

7. Packeport.com Inc does not own any securities of the Company

Mr. Durando , Mr. Dotoli and Mr. Edward Suozzo, as Directors of Packetport.com, Inc.are Affililiates :

Mr. Suozzo is listed as a Selling shareholder for:

150,000 Shares of Common Stock
Options convertible into 350,000 Shares of Common Stock
Warrants convertible into 277,778

Schulater, Coughlin & Suozzo (Affiliate of Mr. Suozzo):

75,000 Shares of Common Stock
Options convertible into 345,000 Shares of Common Stock

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

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

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

Risks Related to Financial Aspects of Our Business

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

The Company has expended over $3.6 million from February of 2004 through the date hereof pursuant to 12 month contracts with the Bell Labs division of Lucent Technologies, Inc. during such period to develop longer life battery cells for military applications as well as commercial applications such as RFID (Radio Fequency Identification) tags.

The Company expects to continue exploratory research with Lucent Technologies, Inc. and is currently in negotiations for an extension of such contract for an additional 12 months at the rate of $100,000 per month . Even though a feasibility prototype product has been successfully developed, pure research involves a high degree of risk with significant uncertainty as to whether a commercially viable product will result

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

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

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