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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTER ENDED SEPTEMBER 30, 2003

COMMISSION FILE NO. 000-24969

mPhase Technologies, Inc.

(Exact name of registrant as specified 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)

ISSUER'S TELEPHONE NUMBER, (203) 838-2741

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 / /

THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK AS OF NOVEMBER 9, 2003 IS 72,086,186 SHARES, ALL OF ONE CLASS OF $.01 STATED VALUE COMMON STOCK.

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mPHASE TECHNOLOGIES, INC.
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mPHASE TECHNOLOGIES, INC.
(A Development Stage Company)
Consolidated Balance Sheets

	June 30, 2003
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 396,860
Accounts receivable, net of bad debt reserve of $0 for each period	287,135
Stock subscription receivable	110,000
Inventories, net	2,103,328
Prepaid expenses and other current assets	100,329
Total Current Assets	2,997,652
Property and equipment, net	581,890
Patents and licensing rights, net	184,857
Other Assets	17,250
TOTAL ASSETS	$ 3,781,649
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	2,352,961
Accrued expenses	885,735
Due to related parties	187,372
Notes payable, current	762,735
Deferred revenue	214,180
Notes payable, related parties	-
TOTAL CURRENT LIABILITIES	4,402,983
Long-term debt, net of current portion	586,303
Other Liabilities	1,561,249
Other Liabilities, related parties	460,000
COMMITMENTS AND CONTINGENCIES (Note 9)	
STOCKHOLDERS' DEFICIT	
Common stock, stated value $.01, 150,000,000 shares authorized; 71,453,521 and 71,961,525 shares issued and outstanding at June 30, 2003 and September 30, 2003, respectively	714,535
Additional paid in capital	104,081,049
Deficit accumulated during development stage	(108,016,497)
Less-Treasury stock, 13,750 shares at cost	(7,973)
TOTAL STOCKHOLDERS' DEFICIT	(3,228,886)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 3,781,649

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

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

	Three Months Ended September 30, 2002	2003
REVENUES	$ 210,077	$ 2,489,201
COSTS AND EXPENSES		
Cost of Sales	197,319	2,098,744
Research and development including non-cash stock related charges of $43,750, $0 and $2,045,669, respectively)	803,294	611,420
General and Administrative (including non-cash stock related charges of $226,300 $112,245 and $46,172,894 respectively)	892,782	604,892
Depreciation and amortization	130,729	46,104
TOTAL COSTS AND EXPENSES	2,024,124	3,361,160
LOSS FROM OPERATIONS	(1,814,047)	(871,959)
OTHER INCOME		
Gain on extinguishments	40,725	23,087
Minority interest loss in consolidated subsidiary	-	-
Capital losses	-	-
Loss from unconsolidated subsidiary	-	-
Interest Income (expense), net	(18,735)	(15,639)
TOTAL OTHER INCOME (EXPENSE)	21,990	7,448

NET LOSS	$ (1,792,057)	$ (864,511)
Unrealized holding loss on securities	(9,368)	-
Comprehensive Loss	$ (1,801,425)	$(864,511)
LOSS PER COMMON SHARE, basic and diluted	$ (.03)	$ (.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted	60,881,131	71,725,318

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

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mPHASE TECHNOLOGIES, INC.
(A Development Stage Company)
Consolidated Statement of Changes in
Shareholders' Deficit (unaudited)

	Shares	$.01 Stated Value	Treasury Stock	Additional Paid-in Capital	Accumul Defici
Balance June 30, 2003	71,453,521	$714,535	$(7,973)	$104,081,049	$(108,01
Issuance of common stock with warrants in private placement	333,337	3,333	--	96,667	
Issuance of Common stock for services	174,667	1,747	--	50,653	
Issuance of warrants to purchase Common stock for services	--	--	--	59,843	
Net Loss	--	--	--	--	(86
Balance, September, 2003	71,961,525	$719,615	$(7,973)	$104,288,212	$(108,88

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

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2003	Oc (Inc Sep
Cash Flow From Operating Activities:			
Net Loss	$ (1,792,057)	$ (864,511)	$(1
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	380,563	210,543	
Book Value of fixed assets disposed	--	--	
Provision for doubtful accounts	--	--	
Gain on debt extinguishments	(40,725)	(23,087)	
Loss on unconsolidated subsidiary	--	--	
Impairment of note receivable	--	--	
Loss on Security			
Non-cash charges relating to issuance of common stock, common stock options and Warrants	270,050	112,245	
Changes in assets and liabilities:			
Accounts receivable	154,944	(442,320)	
Inventories	160,690	1,014,452	
Prepaid expenses and other current assets	24,662	(263)	
Other non-current assets	1,623	--	
Accounts payable	44,567	49,692	
Accrued expenses	(1,248)	(400,014)	
Due to/from related parties			
Microphase	127,500	(57,778)	
Janifast	237,438	21,963	
Officers	--	(90,583)	
Lintel	--	--	
Others	--	--	
Receivables from Subsidiary	--	--	
Deferred revenue	--	53,000	
Net cash used in operating Activities	(431,993)	(416,662)	(
Cash Flow from Investing Activities:			
Payments related to patents and licensing rights	--	--	
Purchase of fixed assets	--	(5,500)	
Net Cash (used)/provided by investing activities	--	(5,500)	
Cash Flow from Financing Activities:			
Proceeds from issuance of common stock and			

exercises of options and warrants	--	173,840	
Payments of notes payable	(29,697)	(2,000)	
Advances from related party	418,750	--	
Repurchase of treasury stock at cost	--	--	
Net cash provided by financing activities	389,053	171,840	
Net increase (decrease) in cash	(42,940)	(250,322)	
CASH AND CASH EQUIVALENTS, beginning of period	47,065	396,860	
CASH AND CASH EQUIVALENTS, end of period	$ 4,125	$ 146,538	$

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

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
NATURE OF OPERATIONS

mPhase Technologies, Inc. (the "Company") was organized on October 2, 1996. On February 17, 1997, the Company 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"), through the issuance of 2,500,000 shares of its common stock in exchange for all the issued and outstanding shares of MicroTel. The assets acquired in this acquisition were patents related to the mPhase line of DSL component products (e.g., POTS Splitters) and patent applications utilized in the Company's proprietary Traverser(TM) Digital Video Data Delivery System ("Traverser"). The primary business of the company is to design, develop, manufacture and market high band-width telecommunication products incorporating digital subscriber line ("DSL") technology. The present activities of the Company are focused (a) upon cost reduction and enhancement of its proprietary Traverser(TM) product under an Agreement with Lucent Technologies, Inc. and (b) deployment of the Traverser(TM) product. The Traverser(TM) enables telecommunications service providers to simultaneously deliver MPEG2 digital quality television (utilizing non-internet protocol), high-speed Internet and voice over copper telephone wire utilizing DSL technology. Additionally, the Company sells DSL component products which includes microfilters, splitters, and line extenders.

The Company is in the development stage, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises." 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.

BASIS OF PRESENTATION-The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ending September 30, 2003 are not necessarily indicative of the results that may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2003.

Through September 30, 2003, the Company had incurred cumulative (a) development stage losses totaling approximately $108,881,008 and (b) negative cash flow from operations equal to $44,031,903. At September 30, 2003, the Company had approximately $146,538 of cash, cash equivalents and approximately $729,455 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) allow the successful wide scale development, deployment and marketing of its products.

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 periods. 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.

LOSS PER COMMON SHARE, BASIC AND DILUTED - The Company 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 for all periods presented since their affect is antidilutive.

RESEARCH AND DEVELOPMENT-Research and development costs are charged to operations as incurred.

REVENUE RECOGNITION-All revenue included in the accompanying consolidated statements of operations for all periods presented relates to sales of mPhase's line of POTS Splitter products and other related DSL component products. As required, the Company adopted the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS, which provides guidance on applying generally accepted accounting principles to revenue recognition based on the interpretations and practices of the SEC. The Company recognizes revenue for its line of POTS Splitter products 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. In addition, the Company includes costs of shipping and handling billed to customers in revenue and the related expenses of shipping and handling costs is included in cost of sales.

STOCK-BASED COMPENSATION-mPhase has elected to continue to account for stock-based compensation under APB Opinion No. 23, under which no compensation expense has been recognized for stock options and certain compensating warrants granted to employees at fair market value. In accordance with SFAS No. 148 the Company has elected to implement the disclosure only provisions of this statement. Had compensation expense for stock options granted under the Plan and certain warrants granted to employees in 2002 and 2003 been determined based on fair value at the grant dates, mPhase's net loss for the three months ended September 30, 2002 and 2003 would have been increased to the pro forma amounts shown below.

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2003
Net Loss:		
As reported	$(1,801,425)	$(864,511)
Pro forma	$ 1,801,425	$ 854,511
Net Loss Per Share:		
As reported	$ (.03)	$ (0.1)
Pro forma	$ (.03)	$ (0.1)

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

In January 2003, the FASB issued FASB Interpretation No. 46 (" FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 did not have a significant impact on our consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and

Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities, if applicable. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. The adoption of this statement is not expected to have a significant impact on the Company's results of operations or financial position.

STATEMENT OF CASH FLOW SUPPLEMENTAL INFORMATION

	2002	2003
Interest Paid	$ 2,803	$3,000
Taxes Paid	$ -	$ 250

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

2. RELATED PARTY TRANSACTIONS

mPhase's President, Chief Operating Officer and Chairman of the Board of the Company are also officers of Microphase and mPhase's president and chairman of the board are shareholders of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase, whereby it will use office space as well as the administrative services of Microphase, including the use of accounting personnel. This agreement was for $5,000 per month and was on a month-to-month basis. In July 1998, the office space agreement was revised to $10,000, in January 2000 to $11,050 per month, in July 2001 to $11,340 per month, in July 2002 to $12,200 per month, in January 2003 to $10,000 per month, and in July 2003 to $18,000 per month. Additionally, in July 1998, mPhase entered into an agreement with Microphase, whereby mPhase reimburses Microphase $40,000 per month for technical research and development. In January 2003 the technical research and development agreement was revised to $20,000 per month, and in July 2003 it was further revised to $5,000 per month.

Microphase also charges fees for specific projects on a project-by-project basis. During the three months ended September 30, 2002 and 2003 and from inception (October 2, 1996) to September 30, 2003, $253,980, $72,948, and $7,297,474, respectively, have been charged to expense or inventory under these Agreements and is included in operating expenses in the accompanying consolidated statements of operations.

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. For the three months ended September 30, 2002 and 2003, mPhase recorded royalties to Microphase totaling $6,302 and $63,507, respectively. During the fiscal, year ended June 30, 2003 Microphase received

4,033,333 shares of common stock plus 1,000,000 five year warrants to purchase shares of common stock of mPhase at $.30 per share in exchange for the cancellation of accounts payable totaling $920,000.

As a result of the foregoing transactions as of September 30, 2003, the Company had $4,011 payable to Microphase, which is included in amounts due to related parties in the accompanying consolidated balance sheet. Additionally, at September 30, 2003, there are no undelivered purchase orders remain outstanding to Microphase.

The Company purchases products and incurs certain research and development expenses with Janifast Ltd., which is owned by U.S. Janifast Holdings, Ltd., a company in which three directors of mPhase are significant shareholders and one is an officer, in connection with the manufacturing of POTS Splitter shelves and component products including cards and filters sold by the Company. During the year ended June 30, 2003 Janifast Ltd. was issued 1,500,000 shares of mPhase common stock in connection with the cancellation of $360,000 of outstanding liabilities of mPhase, the value of which was based upon the price of the Company's stock on the effective date of the settlement. No gain or loss was recognized in connection with conversions by Janifast Ltd. for the fiscal year ended June 30, 2003.

During the three months ended September 30, 2002 and 2003 and the period from inception (October 2, 1996) to September 30, 2003, $0, $1,185,995 and $11,877,681, respectively have been charged by Janifast to inventory or expense and is included in operating expenses in the accompanying statements of operations.

As a result of the foregoing transactions as of September 30, 2003, the Company had $21,963 payable to Janifast, which is included in amounts due to related parties in the accompanying balance sheet. Additionally, at September, 2003, approximately $723,700 of undelivered purchase orders remain outstanding to Janifast Ltd.

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 ("Note"), secured by 75,000 shares of the former consultants common stock of mPhase. The Note was due April 7, 2001. Accordingly, during the year ended June 30, 2002 and 2003, the Company charged $20,250 and $0, respectively, to administrative expense as a result of impairment of the Note. At September, 2003, the Company has included the residual balance of $17,250, representing the estimated fair value of the underlying stock, in long-term assets in the accompanying consolidated balance sheet.

Effective March 30, 2002, the Company converted 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; a second warrant to purchase 550,000 shares of the Company's common stock; and Piper agreed to accept a Promissory note for $420,872 of their remaining payable at an interest rate of 8% with scheduled 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. The

Company is currently in arrears with respect to $45,000 of payments due under the Promissory note.

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

3. INVENTORIES

Inventory is stated at the lower of cost, determined on a first-in, first-out basis, or market. Inventory consists mainly of the Company's POTS Splitter shelves and cards. At September 30, 2003 inventory is comprised of the following:

Raw materials	$ 133,947
Work in progress	738,558
Finished goods	681,728
Total	1,554,233
Less: Reserve for Obsolescence	(465,358)
Net Inventory	$1,088,875

4. INCOME TAXES

The Company 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 recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Because of the uncertainty as to their future realizability, net deferred tax assets, consisting primarily of net operating loss carry-forwards, have been fully reserved for. Accordingly, no income tax benefit for the net operating loss has been recorded in the accompanying consolidated financial statements.

Utilization of net operating losses generated through September 30, 2003 may be limited due to changes in ownership that have occurred.

5. ACCRUED EXPENSES

Accrued expenses representing accrued general and administrative expenditures were $449,561 at Setember 30, 2003. At September, 2003 accrued expenses consisting of administrative expenses were $249,561 and accrued expenses for research and development expenses incurred with Lucent Technologies, Inc. were $200,000, totaling $449,561.

6. JOINT VENTURE

In March 2000, mPhase acquired a 50% interest in mPhaseTelevision.Net pursuant to a Joint Venture Agreement (the "Agreement") for $20,000. The agreement stipulates for mPhase's joint venture partner, AlphaStar International, Inc., ("Alphastar"), to provide mPhaseTelevision.Net right of first transmission for its transmissions including 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 and presently the Company owns 56.5% of this venture.

During the three months ended September, 2002 and ended September 30, 2003, mPhaseTelevision.Net, Inc., was charged $0 and $0, 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.

7. EQUITY TRANSACTIONS

During the three months ending September 30, 2002, the Company granted 200,000 shares of its common stock to consultants for services performed. Additionally, effective for the three months ended September 30, 2002, the Company issued 4,873,333 shares of the Company's Common Stock and 2,491,800 warrants in connection with the extinguishment of debt.

Pursuant to commitments by related parties to concurrently convert certain liabilities on, October 11, 2002, the Company entered into, subject to the Company's and the counter parties respective board of director's approval, 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. The Company issued warrants to purchase 2,491,800 shares of the Company's common stock at an exercise price of $.01, valued at $480,917, or $.193 per share, for the cancellation of unpaid compensation due to officer's, with a measurement date of October 14, 2002, and 4,533,333 shares of its common stock for the conversion of $980,000 due to related parties, with respective measurement dates of October 14 and 15, 2002. The Company's board of director's approved these transactions on October 30, 2002 and the warrants and shares were issued on November 11 and 12, 2002. The warrants were calculated using the Blacke-Scholes pricing model, assuming an annual expected return of 0%, a Beta volatility of 125.4 and a risk free interest rate of 5.9% pursuant to ETIF 96-18 and were treated as permanent equity as of September 30, 2002 pursuant to ETIF 00-19.

During the three months ending September 2003, the Company granted 174,667 shares of its common stock and warrants to purchase 249,667 shares of its common stock to consultants for services performed valued at $112,243. In August of 2003, the Company issued 333,334 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of $.30 per share, in a private placement generating net proceeds of $100,000 which was collected during the three month period ended on September 30, 2003.

8. DEBT CONVERSIONS AND EXTENSION

Effective for the three months ending September 30, 2002, pursuant to debt conversion agreements, the Company converted the $1,566,242 of liabilities due to certain strategic vendors and related parties into 4,873,333 shares of the Company's common stock, and 2,491,800 warrants. Related parties and strategic vendors converted debt aggregating approximately $620,000 and $477,242 respectively into approximately 3,033,333 and 1,840,000 shares of common stock respectively, the value of which was based upon the price of the Company's common stock on the effective date of settlement with each party. Additionally, two warrants to purchase 2,491,800 shares of common stock were issued to the Company's president and vice-president to settle outstanding indebtedness of approximately $469,000 as of September 30, 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 2.4% pursuant to EITF 96-18, for the aggregate conversion of $1,566,242 of such liabilities which resulted in an aggregate gain on extinguishments of $40,725.

During the three months ending September 30, 2003, a note payable in the amount of $360,000 to Microphase Corporation was executed in exchange for the cancellation of a like amount of accounts payable to Microphase on September 25, 2003 which matures on July 25, 2004. Additionally, a note payable to Martin Smiley, CFO and General Counsel of mPhase, in the amount of $100,000 was extended from September 25, 2003 to July 24, 2004. Both liabilities carry an interest rate of 12% payable quarterly in arrears. Each note is convertible into Common Stock of mPhase at the rate of $.30 cents per share through July 25, 2004. Upon conversion, each note holder will be granted warrants to purchase an equivalent amount of mPhase Common stock at $.30 cents per share for a period of five years from the date of conversion.

9. COMMITMENTS AND CONTINGENCIES

The Company has entered into various agreements with Georgia Tech Research Corporation ("GTRC"), pursuant to which the Company receives technical assistance in developing the commercialization of its Digital Video and Data Delivery System (DVDDS). The amounts incurred by the Company for GTRC technical assistance with respect to its research and development activities and included in the accompanying consolidated statement of operations for the three months ending September 30, 2002 and 2003 and for the period from inception through September 30, 2003 totaled approximately $100,000, $0 and $13,524,300, respectively.

If and when sales commence utilizing this particular technology, the Company will be obligated to pay to GTRC a royalty of up to 5% of sales of the Traverser(TM) DVDDS.

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

10. DEFERRED REVENUE

Deferred revenue as of September 30, 2003 consists of customer's billings in excess of costs totaling $209,180 on the POTS product line whereby completion of customer acceptance will be attained when original splitters are upgraded to the next generation splitters and deposits of $58,000 from Beta customers on the Traverser(TM) product line orders to be delivered when it reaches commercial production.

11. RESTATEMENT

Management has reevaluated the clarity and completeness of certain disclosures in the accompanying consolidated financial statements. As a result of this reevaluation, management has reissued the September 30, 2003 consolidated financial statements in an effort to clarify and more completely disclose the Company's presentation of the consolidated financial statements at September 30, 2003.

The aforementioned changes to the consolidated financial statements have no effect on the financial position and results of operations for the three months ended September 30, 2003.

ITEM 2. MANAGEMENT'S DISCUSSION OF FINANCIAL CONDITIONS AND RESULTS 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.

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

Some of the statements contained in or incorporated by reference in this Form 10-Q/A discuss the Company's plans and strategies for its business or state other forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "plan," "intend," "should," "seek," "will," and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. These forward-looking statements include, among others, statements concerning the Company's expectations regarding its working capital requirements, gross margin, results of operations, business, growth prospects, competition and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Any forward-looking statements contained in this Quarterly Report on Form 10-Q are subject to risks and uncertainties that could cause actual results to differ materially from those results expressed in or implied by the statements contained herein.

ABOUT THIS AMENDMENT

Management has reevaluated the clarity and completeness of the Form

10Q/A and certain disclosures in the accompanying unaudited consolidated financial statements. As a result of this reevaluation, management has reissued the Form 10Q/A and the September 30, 2003 consolidated financial statements.

The amendment includes expanded and clarified disclosure in the Consolidated Financial Statements, including notes 1, 7, 8, and 11 for the Three Months Ended September 30, 2002 and 2003 beginning on page 7, and reclassifications of: 1) previously segregated expenses for non-cash stock based compensation of administrative employees now combined with general and administrative for both quarterly periods and Cumulative totals through September 30, 2003; and 2) certain depreciation expenses now included in research and development for the three months ended September 30, 2003 and the Cumularive totals through September 30, 2003, on the Statement of Operations, on page 4. Additionally, the amendment includes technical and clerical edits, expanded and clarified disclosure in "Management's Discussion and Analysis", which begins on page 15, 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 at September 30, 2003, or the results of operations and loss per share for the Three Months Ended September 30, 2002 and 2003.

RESULTS OF OPERATIONS

OVERVIEW

mPhase, a New Jersey corporation, founded in 1996 is a publicly-held company with over 12,000 shareholders and approximately 72 million shares of common stock outstanding. The Company's common stock is traded on the Over the Counter Bulletin Board under the ticker symbol XDSL. We are headquartered in Norwalk, Connecticut with offices in Little Falls, NJ and Atlanta, GA. mPhase shares common office space with Microphase Corporation, a privately held company. Microphase is a leader in the field of RF and filtering technologies within the defense and telecommunications industry. It has been in operation for almost 50 years and supports mPhase with both engineering, administrative and financial resources as needed.

mPhase develops, markets and sells a line of innovative DSL ("digital subscriber line")-based broadband telecommunications equipment. Our flagship product line includes two systems enabling the delivery of television over DSL by telephone service providers. Both of these products facilitate telephone companies becoming full service communications providers by enabling the simultaneous delivery of digital broadcast television, high speed data and voice services over the existing telephone line infrastructure. mPhase has developed its flagship line of products with a specific target in mind-telephone companies in parts of the world where access to multichannel television is limited. To that end, mPhase's primary goal is to develop cost-effective TV over DSL solutions that support proven, revenue-generating services (i.e., broadcast television) rather than developing robust, feature-intensive and expensive platforms intended to compete with cable companies such as those that exist in the US.

mPhase introduced its first TV over DSL product, the Traverser(TM) Digital Video and Data Delivery System in 1999. The Traverser(TM) DVDDS, is a patented end-to-end system based upon proprietary technology developed in conjunction with Georgia Tech Research Corporation. Because it is an end-to-end video-over-ADSL system, the Traverser(TM) does not interoperate with other manufacturer's DSL CO equipment or CPE modems. This system is the only non-Internet Protocol system on the market today. The company continues to market this product, and believes it to be ideal for customers specifically interested in supporting television services with a minimal need to support high-speed data customers.

The Traverser(TM) is installed at Hart Telephone Company in Hartwell, Georgia, where a 100-user system is currently operational. Hart Telephone competed the construction of its digital head end toward the end of 2001, marking the Traverser's(TM) transition to commercial deployment. A Traverser(TM) system is also installed at the BMW manufacturing plant in Spartanburg, South Carolina for use as a telebroadcast system in a commercial setting.

The mPhase TV+ platform, recently developed in conjunction with the Bell Labs division of Lucent Technologies, Inc. (Lucent), is a new product also designed to allow for the simultaneous delivery of voice, high speed data, and broadcast TV over copper telephone lines between a telephone service provider's CO and the customer premises. The TV+ formerly named `Simple TV', is a modular solution for the delivery of several hundred broadcast television channels over ADSL that utilizes an industry-leading, standards-based Lucent Stinger(TM) DSL Access Concentrator for transport of digital television plus high speed internet and voice. The mPhase TV+ platform consists of a cost-reduced Traverser INI(TM) set top box located in a customer's premises plus the Lucent Stinger located at the telephone company's CO. A newly developed mPhase Broadcast Television Switch ("BTS") interfaces with the Stinger and a video headend built by a telephone service provider to downlink broadcast television programming from satellites. The BTS formats the video data prior to distribution to a customer by the Stinger and supports administrative tasks associated with subscriber management. Using the Lucent Stinger (digital subscriber line access mutiplexer commonly known as a DSLAM) for transport in the TV+ platform results in a highly scalable architecture for the delivery of video. This scalability is accomplished by internally multicasting each television channel for delivery from the CO to a larger number of end users than would be otherwise possible over ADSL. We believe that the TV+ platform is the most cost-effective, standards-based solution for delivery of broadcast television using ADSL. The Stinger is one of a few DSLAM's currently on the market with robust internal multicasting capabilities. For mPhase, the alliance with Lucent marks a change in strategy from selling a complete proprietary platform to providing an industry-standard modular solution.

Both the TV+ platform and the legacy DVDDS products are aimed for use in markets primarily outside of the United States that do not have a hybrid fiber coaxial cable ("HFC") infrastructure necessary for cable TV or fiber to the curb necessary for very fast DSL (VDSL). We believe there is a significant cost advantage when our mPhase TV+ solution is compared against other platforms utilizing existing telephone lines containing the same features. The mPhase TV+ platform does not contain the features such as the delivery of two or more TV channels to a single set top box over copper telephone lines or video on demand and interactive TV features. As ADSL technology migrates forward to ADSL2 or ADSL2+, mPhase will include additional features to its TV+ platform in a modular scaleable cost-effective manner depending upon actual market demand for such features in markets that mPhase is targeting.

We believe the legacy DVDDS developed by GTRC, when combined with a version of the cost-reduced Traverser INI(TM) set top box redesigned by Lucent, continues to be a cost effective TV platform. The DVDDS can be sold in international markets where primary demand is for multi-channel digital broadcast television plus voice only and where there is little demand for high speed internet. We believe the mPhase TV+ platform is the optimal solution for both a telecommunications service provider where the ultimate customer requires all three services, i.e. high-speed internet, voice and digital broadcast television over ADSL.

For those television markets in the United States that are not served by HFC, we believe the availability of programming content is essential to facilitate potential sales of our TV platforms over ADSL. In March of 2000, we established mPhase Television net., Inc. (mPhase TV), a joint venture between mPhase and Alphastar International, Inc. mPhase TV can provide contracts, licensing agreements, marketing and legal support to service providers interested in deploying television over ADSL for U.S. markets. mPhase TV has secured licenses to resell programming for approximately 80 channels of U.S. broadcast television. mPhase TV enables telecommunications service providers in the U.S. to provide customers a full complement of television programming. This enables a U.S. telecommunications service provider to avoid the necessity of securing such contracting rights individually with many different providers of broadcast television content. It is important to note that the role of mPhase TV has changed since its inception. Originally, mPhase TV was to utilize a satellite uplink/downlink facility and serve as an aggregator of television content. This would eliminate the need for a telecommunications service provider, purchasing a TV delivery platform from mPhase, from having to build a full scale television reception facility (head-end) to downlink broadcast television channels from satellites orbiting the earth. However, recent advances in technology have significantly reduced the costs for a telephone company to build a full scale headend. Therefore, the role of mPhaseTV is now limited to providing the appropriate licenses and relationships as opposed to offering a content aggregation solution. As part of its cost reduction efforts, mPhase terminated its lease of Alphastar's earth station satellite uplink and downlink facility in Oxford, CT. mPhase owns approximately 57% of mPhase TV.

To effectively market this joint solution, mPhase has been established as a Lucent Business Partner. As a business partner, mPhase is able to sell the complete SimpleTV platform, including reselling the Lucent Stinger(R). The agreement enables mPhase to sell the SimpleTV platform anywhere in the world where the customer is interested in supporting digital video services. Additionally, mPhase and Lucent are jointly marketing this product solution to existing Lucent customers, as well as to Lucent's extensive network of business partners around the world. Together the two companies are in the process of identifying strong opportunities and target markets. Once identified, collectively mPhase and Lucent will approach Lucent's established business partner in that region for further marketing to the appropriate end customer. This co-marketing relationship adds tremendous value to mPhase. By gaining access to Lucent's business partners, mPhase will have the opportunity to significantly increase exposure for its SimpleTV solution without having to increase the size of its direct sales force.

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mPhase DSL Component Products - mPhase also has designed and markets a line of DSL component products ranging from 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 has been derived from sales of our component DSL products such as POTS splitters and low pass filters. Our newest innovation in our suite of DSL component products is our iPOTS or Intelligent POTS splitter product. This product enables telephone service providers comprehensive remote and automated test access to all elements of a DSL network. The iPOTS1, and iPOTS3 allow a telephone service provider to bypass POTS splitters on a DSL network and avoid having to manually intervene and disrupt line usage so a test signal can pass through a DSL network. This product marks an advancement in automating DSL loop management. As DSL deployments increase, it is becoming more important for telecommunications service providers to streamline the process for rolling-out and troubleshooting DSL services. Additionally, as competition for high speed Internet expands, the market is witnessing a reduction in the price for such service. Therefore, it has become imperative that telecommunications service providers lower the operational costs involved with supporting DSL services. Currently our iPOTS1 is designed for use with the Lucent Stinger, whereas, the iPOTS3 is compatible with DSLAM's manufactured by other vendors. mPhase currently has a non-exclusive worldwide distribution agreement with Corning Cable Systems for the sale of the iPOTS products. Such arrangement potentially expands exposure for this product, as Corning is one of the largest vendors of central office DSL filtering equipment. The Company is also aggressively pursuing direct efforts with respect to sales of the iPOTS product.

mPhase has established a worldwide distribution agreement with Corning Cable Systems for the sale of this 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.

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 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 television over DSL.

From mPhase's inception, the operating activities 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. In addition, we have recently entered an Agreement with Lucent Technologies, Inc. to cost-reduce and enhance features of mPhase's Digital Set Top Box that is part of its Traverser(TM) product.

Revenues. To date, all material revenues have been generated from sales of the POTS Splitter Shelves and other DSL component products to a small number of telecommunications companies. mPhase believes that future revenues are difficult to predict because of the length and variability of the commercial roll-out of the 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 the 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 related DSL component products include direct material, labor and manufacturing. mPhase paid these costs to Janifast Ltd., which has facilities in the People's Republic of China and is owned by and managed by certain senior executives of the Company. The cost of revenues also includes certain royalties paid to Microphase Corporation, a privately held corporation organized in 1955, which shares certain common management with the Company. 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 Georgia Tech Research Corporation, ("GTRC").

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Research and development. Research and development expenses consist principally of payments made to GTRC, Microphase Corporation and Lucent Technologies, Inc. for development of the Traverser(TM) and the integration mPhase's Broadcast Television Switch with the Lucent Stinger(R) voice and data delivery system 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.Non-cash compensation charge. The Company makes extensive use of stock options and warrants as a form of compensation to employees, directors and outside consultants. From inception (October 2, 1996) through September 30, 2003 the Company has incurred cumulative (a) development stage losses and has an accumulated deficit of $108,881,008 and (b) negative cash flow from operations of $44,031,903. The auditors report for the fiscal year ended June 30, 2003 includes the statement that "there is substantial doubt of the Company's ability to continue as a going concern". Management estimates that the Company needs to raise approximately $2,000,000 during the next 12 months to continue its present level of operations. As of September 30, 2003, the Company had a negative net worth of $3,881,154 up from a negative net worth of $3,228,886 as a result of continuing net losses incurred after June 30, 2003.

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 telephone industry. For the first three months of fiscal year 2004, sales of POTS splitters were $2,489,201 which was greater than the total of sales of POTS Splitters for the entire fiscal year ending June 30, 2003. The Company believes its new IPOTS product will capture some of the existing DSL deployments, providing increases in revenue in the third quarter of fiscal 2004. 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 sustain its development process and ultimately achieve profitability.

The Company believes that significant deployments and resulting revenues from these deployments of its flagship products, the Traverser(TM) and the TV+ respectively, are not expected until the first half of fiscal year 2004. The Company further believes that an increase in capital expenditures in the telecommunications industry will also increase sales and improve the Company's margins as well as increase the probability that the Company will attain profitability.

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THREE MONTHS ENDED SEPTEMBER 30, 2003 VS. SEPTEMBER 30, 2002

REVENUE

Total revenues were $2,489,201 for the three months ended September 30, 2003 compared to $210,077 for the three months ended September 30, 2002. The increase was primarily attributable to an increased demand of the Company's POTS Splitter product line. The Company continues to believe that its line of POTS Splitter products is positioned to be competitively priced with high reliability and connectivity, and as such has the potential to be a significant part of DSL deployment worldwide. The Company cannot predict say if the upturn in sales of its POTS Splitter product will continue. The revenue increase was primarily from two customers, Covad Communications and Bell South.

COST OF REVENUES

Cost of sales were $2,098,744 for the three months ended September 30, 2003 as compared to $197,319 in the prior period, representing 84.3% of gross revenues for the quarter ended September 30, 2003 and 93.9% for the quarter ended September 30, 2002, respectively. Our margins have contracted dramatically over the past three years as spending among the telecommunications providers has contracted, coupled with downward pressures related to the supply and demand of telecommunications products. Margins for the quarter ended September 30, 2003, increased by 9.6% over the margins for the same period ended September 30, 2002 due to a lower cost of production due to better material prices on our POTS Splitter product line. We are unable to determine whether such increase in margins will continue for the remainder of fiscal year 2004.

RESEARCH AND DEVELOPMENT

Research and development expenses were $611,420 for the three months ended September 30, 2003 as compared to $803,294 during the comparable period in 2002 or a decrease of $191,874. This decrease is comprised primarily of a reduction in expenses to GTRC of $100,000 as compared to the quarter ended September 30, 2002, a decrease in expenses to Microphase in the amount of $66,000 as compared to the quarter ended September 30, 2002, and a decrease of $43,750 in non-cash stock and stock option expenses of $0 in the current quarter as compared to the quarter ended September 30, 2002.

Such decreases are the result of elimination of further development of the Traverser(TM) DVDDS product by GTRC as the Company focuses its efforts on Research and Development expenditures associated with the TV+ product with Lucent which has been comparatively, to date, less expensive to develop. 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 the 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 DC blocking capacitors in traditional POTS splitters, as required by the ITU, ANSI and ETSI. 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 future demand for this product, as it significantly reduces the cost of deploying and maintaining DSL services. Also recently developed is the DSL loop extender product called mPhaseStretch. This product extends the service distance for the mPhase Traverser(TM) and can be used in conjunction with other DSL services. The

Company anticipates future demand for the Stretch loop extender product as it addresses a primary issue in DSL services.

GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $604,892 for the three months ending September 30, 2003 down from $870,262 or a decrease of $265,370 from the comparable period in 2002. The decrease in the selling, general and administrative costs is comprised primarily of a reduction in expenses of non-cash charges relating to the issuance of common stock and options to consultants, which totaled $112,245 for the three months ended September 30, 2003 as compared to $203,780 for the comparable period ended September 30, 2002 resulting in a savings of $91,535. The remaining decrease of $173,835 in selling, general and administrative costs included reductions in travel of $23,000 reduction of salaries before payroll taxes of $14,000 and legal fees of $128,000. We expect sales and travel expenses to grow as the Company approaches the deployment of its TV+ products in the future. Legal fees fluctuate based on various factors and we cannot predict if they can be at such a reduced level going forward.

Depreciation and Amortization. Depreciation and amortization expense was $46,104 for the three months ending September 30, 2003, down from $130,729, or a decrease of $84,625 from the comparable period in 2002. The decrease is a result of the Company's reduced outlays for capital expenditures in its two most recent fiscal years. We do not expect such downward trend to continue but such depreciation and amortization expense should remain at the current reduced levels until the Company commences deployment of its Television over DSL platforms.

We expect to increase capital expenditures in connecting with the deployment of equipment at test sites with various telecommunications service providers globally as development of our TV+ product progresses and such equipment will need to be depreciated or amortized, as the case may be, that will result in increased depreciation at that time.

NET LOSS

The Company recorded a net loss of $864,511 for the three months ended September 30, 2003 as compared to a loss of $1,792,057 for the three months ended September 30, 2002. This represents a loss per common share of $.01 for the three month period ended September 30, 2003 as compared to a loss per common share of $.03 for the three months ending September 30, 2002; based upon weighted average common shares outstanding of 60,881,131 and 71,725,318 during the periods ending September 30, 2003 and 2002, respectively.

The Company believes the initial major deployments and the resultant revenues of its flagship products, the Traverser(TM) and the TV+ respectively, are not expected until the second quarter of fiscal year 2005, which along with any upturn of spending in the telephone industry will also increase sales and improve the Company's margins and provide the Company with the opportunities to attain profitability.

CRITICAL ACCOUNTING POLICIES

REVENUE RECOGNITION

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

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

RESEARCH AND DEVELOPMENT

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

INCOME TAXES

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

Utilization of net operating losses generated through June 30, 2002 may be limited due to "changes in control" of our common stock that occurred.

STOCK-BASED COMPENSATION

Financial Accounting Statement No. 123, Accounting for Stock Based Compensation, encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation for grants to employees using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The Company has adopted the "disclosure only" alternative described in SFAS 123 and SFAS 148, which require pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied.

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

INVENTORY RESERVE AND VALUATION ALLOWANCE

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

During the fiscal years ended June 30, 2003, 2002 and 2001, the Company reserved approximately $302,000, approximately $928,000, and approximately $315,000, respectively, for technical obsolescence and marketability based upon current prices and overall demand and charged a like amount to expense, representing 8.4% of average inventory, at cost, of approximately $3,588,000 on hand during the period in fiscal 2003; 20.2% of average inventory, at cost, of approximately $4,602,000 on hand during the period in fiscal 2002; and 13.6% of average inventory, at cost, of approximately $2,309,000 on hand during fiscal 2001. The reserve and corresponding charges in fiscal 2002 were increased as the Company experienced a dramatic decrease, along with the entire telephonic industry, in demand for our component products in addition to the decision to table the production of certain product line items built on certain European standards and which the Company does not expect to pursue in the near future. As of June 30, 2003, the Company recorded a cost adjustment of approximately $1,059,000, recognizing permanent cost reductions due to price adjustments approximating $318,000 and reductions due to obsolescence resulting from a lack of inter-operability of certain components in inventory with the Company's present product line approximating $741,000. As a result on June 30, 2003 the Company had a total inventory valuation reserve of $486,500 against its inventory with a total balance, at cost, of $2,589,678, or 18.8%. If there was to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory allowances and our gross margins could be adversely affected.

MATERIAL RELATED PARTY TRANSACTIONS

The Company records material related party transactions. The Company incurs costs for engineering, design and production of prototypes and certain administrative functions from Microphase Corporation and the purchase of finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited. The Company has incurred costs for obtaining transmission rights. This enabled the Company to obtain 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.

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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 2003. 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.

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LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2003 mPhase had working capital deficit of $2,424,625 as compared to working capital deficit of $1,405,331 at June 30, 2003. Through September 30, 2003, the Company had incurred development stage losses totaling approximately $108,881,008. At September 30, 2003, the Company had approximately $146,538 of cash, cash equivalents and approximately $729,455 of trade receivables to fund short-term working capital requirements. The Company's ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near term to: (1) satisfy its current obligations, (2) continue its research and development efforts, and (3) the successful wide scale development, deployment and marketing of its products.

Historically, mPhase has funded its operations and capital expenditures primarily through private placements of common stock. Management expects that its ongoing financial needs will be provided by financing activities and believes that the sales of its line of POTS Splitter products and other related DSL component products will provide some offset to 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 September 30, 2003, the Company had cash and cash equivalents of $146,538 compared to $396,860 at June 30, 2003, accounts receivable of $729,455 and inventory of $1,088,875. This compared to $287,135 of accounts receivable and $2,103,328 of inventory at June 30, 2003.

Cash used in operating activities was $146,662 during the three months ending June 30, 2003. The cash used by operating activities principally consists of the net loss, and significant changes in assets and liabilities, including additional cash used for decreasing accrual expenses by $400,014 and to support the net increase in accounts receivable of $442,320 offset by depreciation and amortization of $210,543, and by non-cash charges of $112,245 for common stock options and warrants issued for services and cash flow provided from a decrease in inventory of $1,014,452. The Company does not expect decreases of inventory to be as significant in upcoming quarters, yet we will not need to increase inventory until the roll out of our TV+ platform and the increase in accounts receivable is temporary as a significant sale and shipment occurred late in the September quarter."

The Company has entered into various agreements with GTARC, pursuant to which the Company receives technical assistance in developing the Digital Video and Data Delivery System. The Company has incurred expenses in connection with technical assistance from GTARC totaling approximately $0, $100,000, for the three month periods ended September 30, 2003 and 2002, respectively, and $13,524,300 from the period from inception through September 30, 2003. The Company and GTRC entered into a Memorandum of Intent, on October 14, 2002 and revised on November 12, 2002, as revised in October of 2003 which would result in the settlement of all amounts outstanding and the exchange of mutual releases in consideration for one term Note totaling approximately $674,000 with varied payments through 2008 and warrants to purchase 5,069,000 shares of the Company's common stock through 2008.The Company and GTARC are continuing negotiation of final documentation based upon such Memorandum of Intent. 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 twelve months ending June 30, 2003, certain strategic vendors and related parties converted approximately $1.9 million of accounts payable and accrued expenses into 5,923,333 shares of the Company's common stock and 2,491,800 warrants to purchase additional shares of common stock of the Company.

As of September 30,2003, mPhase is obligated to pay Lucent Technologies, Inc., the sum of $100,000 per month through November of 2003 for development of mPhase's new Broadcast Television Switch that will enable the Lucent Stinger(R) Digitial Subscriber Line Technology to deliver television as well as data and voice over copper telephone lines. In addition, mPhase has entered into a new Development Agreement with Lucent for further development of the TV+ product which will require a one time payment of $70,000 in October 2003 plus additional payments of $140,000 per month commencing on October, 2003 through May,2004 for a total sum of $1,190,000.

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LOSSES DURING THE DEVELOPMENT STAGE AND MANAGEMENT'S PLANS

From inception (October 2, 1996) through September 30, 2003 the Company had incurred development stage losses and has an accumulated deficit of approximately $108,881,008 million and a stockholder's deficit of $3,881,154. For the three months ended September 30, 2003, and from inception through September 30, 2003 respectively, the Company had negative cash flow from operations of $416,662 thousand and $44,031,903, respectively. The report of the Company's outside auditor's, Rosenberg, Rich, Baker, Berman and Company with respect to its latest audited 10k for the fiscal year ended June 30,2003 stated that "there is substantial doubt of the Company's ability to continue as a going concern". Management estimates that the Company will need to raise approximately $2,000,000 during the next 12 months to continue its present level of operations.

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 expenditures and the controlled development stage rollout of our Traverser(TM) Digital Video and Data Delivery System. 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 needed or at terms that we deem to be reasonable.

We have evaluated our cash requirements for fiscal year 2004 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, at a minimum, approximately $2,000,000 primarily in private placement of its common stock with accredited investors, during the next 12 months, or alternatively we will need to curtail certain expenses as incurred at the present levels including marketing and research and development expenses.

Management believes that the $2 million to be raised, in new Private Placements in the capital markets, will be sufficient to cover its current operating expenses and permit the company to maintain its present operational levels. This amount may be supplemented with additional funds that could be received from investors, currently holding warrants to purchase up to a total of approximately $19.8 million shares of common stock at exercise prices of approximately $.30 per share which are presently "in the money" and can be exercised during the next 12 months.

Should these cash flows not be available to us, we believe we would have the ability to revise our operating plan and make certain further reductions in expenses, so that our resources which were available at June 30, 2003, plus financing to be secured during fiscal year 2004, and expected POTS splitter revenues, will be sufficient to meet our obligations until the end of fiscal year 2004. 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is not exposed to changes in interest rates as the Company has no debt arrangements and no investments in certain held-to-maturity securities. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of any financial instruments at September 30, 2003.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14c and of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 1034. As noted in other public filings of mPhase, the CEO and COO 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. To date no action has been filed against Packetport, its Officers or Directors. mPhase is not named as a party in connection with this matter.

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

ITEM 2. CHANGES IN SECURITIES

Effective for the three-month period ended September 30, 2003 the Company issued the following unregistered securities:

During the three months ending September 2003, the Company granted 174,667 shares of its common stock and warrants to purchase 249,667 shares of common stock to consultants for services performed valued at $249,667. In August of 2003, the Company issued 333,334 shares of its commons stock together with a like amount of warrants in a private placement generating net proceeds of $100,000 which was collected during the three month period ended on September 30, 2003. Additionally, during the three months ended September 30, 2003, the Company reserved for issuance 3,066,666 shares of its common stock for up to 1,533,333 shares and five year warrants, with an excercise price of $.30 per share, for up to 1,533,333 shares in connection with the conversion rights of certain notes to equity upon debt maturity on notes totaling $460,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

(b) Reports on Form 8-K.

On July 2, 2003-mPhase reported in a press release that it had received its largest single purchase order ever for its POTS Splitter product from Covad Communications Group, Inc.

On July 24, 2003 mPhase announced it had received another significant purchase order from A major customer for its POTS Splitter product bringing its total backlog to $2.8 million.

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/ Martin S. Smiley

Martin S. Smiley
Executive Vice President
Chief Financial Officer and
General Counsel