MPHASE TECHNOLOGIES INC
Form PRE 14A
November 03, 2010

PRELIMINARY/ PROXY STATEMENT

PRELIMINARY COPY

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement
[ ] **Confidential, for use of the Commission only**
[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Rule 14A-ll(c) or Rule 14a- 12

mPhase Technologies, Inc.
(Name of Registrant as Specified In Its Charter)

mPhase Technologies, Inc.
(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

1

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

[ ] Fee paid previously with preliminary materials:

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-ll(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid: $

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY COPY

mPHASE TECHNOLOGIES, INC.
587 CONNECTICUT AVENUE
NORWALK, CONNECTICUT 06854-1711

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS IN LIEU OF ANNUAL MEETINGS

FOR FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2009

TO BE HELD WEDNESDAY, JANUARY 5, 2011

Avenue, Norwalk, CT 06854, on Wednesday, January 5, 2011at 10:00 a.m. local time, for the purpose of considering and voting upon:

(1) A proposal to approve and adopt an amendment to our Amended Certificate of Incorporation to increase the number of authorized shares of common stock from 2,000,000,000 to 5,000,000,000 shares.

(2) Such other business as may properly come before the meeting and any adjournment thereof.

The above items are more fully described in the attached Proxy Statement. Only shareholders of record at the close of business on November 15, 2010 are entitled to notice of and to vote at the meeting or any adjournment or postponement thereof. A list of stockholders as of the record date will be available for inspection by stockholders at our corporate headquarters during business hours for a period of 10 days before the meeting.

By Order of the Board of Directors
Gustave T. Dotoli
Corporate Secretary

November 22, 2010

IMPORTANT

Whether or not you expect to be present at the meeting, PLEASE FILL IN, SIGN, DATE AND MAIL THE ENCLOSED PROXY as promptly as possible in order to save us further solicitation expense. Shareholders of record attending the meeting may revoke their proxies at that time and personally vote all matters under consideration. There is an addressed envelope enclosed with the proxy for which no postage is required if mailed in the United States.

***** Exercise Your *Right* to Vote *****

IMPORTANT NOTICE Regarding the Availability of Proxy Materials

MPHASE TECHNOLOGIES, INC.

Meeting Information

Meeting Type: Special Meeting

For holders as of: November 15, 2010

Date: January 5, 2011

Time: 10:00 AM EST

Location: mPhase Technologies, Inc.

587 Connecticut Avenue

Norwalk, CT 06854

You are receiving this communication because you hold shares in the above named company.

This is not a ballot. You cannot use this notice to voe these shares. This communication presents only an overview of the more complete proxy materials that are available to you on the internet. You may view the proxy materials online at

www.proxyvote.com or easily request a paper copy (see reverse side).

We encourage you to access and review all of the important information contained in the proxy materials before voting.

See the reverse side of this notice to obtain proxy materials and voting instructions.

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--Before You Vote --

How to Access the Proxy Materials

Proxy Materials Available to VIEW or RECEIVE:

1. Annual Reports for fiscal years ended June 30, 2009, and June 30, 2010

2. Notice and Proxy Statement

3. Amended and Restated By-Laws of the Company

How to View Online:

Have the 12-Digit Control Number available (located on the following page) and visit: *www.proxyvote.com* .

How to Request and Receive a PAPER or E-MAIL Copy:

If you want to receive a paper or e-mail copy of these documents, you must request one. There is NO charge for requesting a copy. Please choose one of the following methods to make your request:

1) *BY INTERNET* : www.proxyvote.com

2) *BY TELEPHONE* : 1-800-579-1639

3) *BY E-MAIL** : sendmaterial@proxyvote.com

* If requesting materials by e-mail, please send a blank e-mail with the 12-Digit Control Number (located on the following page) in the subject line.

Requests, instructions and other inquiries sent to this e-mail address will NOT be forwarded to your investment advisor. Please make the request as instructed above on or before December 6, 2010 to facilitate timely delivery.

How To Vote

Please Choose One of the Following Voting Methods

Vote In Person: Many shareholder meetings have attendance requirements including, but not limited to, the possession of an attendance ticket issued by the entity holding the meeting. Please check the meeting materials for any special requirements for meeting attendance. At the meeting you will need to request a ballot to vote these shares.

Vote By Internet: To vote now by Internet, go to *www.proxyvote.com.* Have the 12 Digit Control Number available and follow the instructions.

Vote By Mail: You can vote by mail by requesting a paper copy of the materials, which will include a proxy card.

Voting Items

The Board of Directors recommends you vote FOR the following proposal:

Approval of an amendment to our Amended Certificate of Incorporation authorizing an increase in authorized shares of common stock from 2 billion shares to 5 billion shares.

PRELIMINARY COPY

mPHASE TECHNOLOGIES, INC.

PROXY STATEMENT
FOR THE SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD WEDNESDAY, January 5, 2011

This Proxy Statement is furnished to the shareholders of mPhase Technologies, Inc. in connection with the solicitation of proxies by our Board of Directors to be voted at the Special Meeting of Shareholders and at any adjournments thereof. The Special Meeting will be held at our offices at 587 Connecticut Avenue, Norwalk, CT 06854, at 10:00 a.m. Eastern Time on Wednesday, January 5, 2011.

The Company has been unable to hold two Annual Meetings of Shareholders for the fiscal years ended June 30, 2008 and June 30, 2009 owing to financial considerations during the past two years as a result, in part, of the global financial crisis that began in 2008. It is the intent of the Company to use its best efforts to hold its next Annual Meeting for the fiscal year ended June 30, 2010 no later than June 15, 2011. The Company, as a New Jersey Corporation, is subject to the provisions of Section 14A:5-2 of the New Jersey Business Corporation Law that provides as follows:

Annual Meeting of Shareholders

An annual meeting of shareholders shall be held at such time as may be provided in the bylaws, or as may be fixed by the board pursuant to authority granted in the by-laws, and, in the absence of such a provision, at noon on the first Tuesday of April. *Failure to hold the annual meeting at the designated time, or to elect a sufficient number of directors at such meeting or any adjournment thereof, shall not affect otherwise valid corporate acts or work a forfeiture or dissolution of the corporation.* If the annual meeting for election of directors is not held on the date designated therefor, the directors shall cause the meeting to be held as soon thereafter as convenient. If there is a failure to hold an annual meeting for a period of 30 days after the date designated therefor, or if no date has been designated for a period of 13 months after the organization of the corporation or after its last annual meeting, the Superior Court may, upon the application of any shareholder, summarily order the meeting or the election, or both, to be held at such time and place, upon such notice and for the transaction of such business as may be designated in such order. At any meeting ordered to be called pursuant to this section, the shareholders present in person or by proxy and having voting powers shall constitute a quorum for the transaction of the business designated in such order.

For both years ended June 20, 2008 and June 30, 2009, the Company continued to function with the same Board of Directors and auditors elected or approved at its last Annual Meeting for the fiscal year ended June 30, 2007 that was held on August 27, 2008. On July 22, 2010, the Board of Directors appointed Demetrius & Company, L.L.C. as its independent auditors for the 2010 fiscal year, replacing Rosenberg Rich Baker Berman & Company, as set forth in the Company's Form 8-K filing of July 23, 2010. The Board of Directors remains unchanged and it and the Company's recently appointed auditors and any successors thereto approved by the Board shall continue to function in such roles for the Company until the next annual meeting for fiscal year ended June 30, 2010. The Company is using its best efforts to hold such Annual Meeting not later than June 15, 2011.

After consulting with legal counsel, the Board of Directors of the Company determined that, given the lapse of time since the last Annual Meeting, it was in the best interest of all shareholders to hold this Special Meeting of Shareholders. For the information of its shareholders, the Company has included its most recent Annual Reports on Form 10-K for the fiscal years ended June 30, 2009 and June 30, 2010 as well as its Amended and Restated By-Laws. The Company believes that, in light of the restatement of certain financial information in its Form 10-K, as amended, for the fiscal year ended June 30, 2009, the provision of that document along with its more recent Form 10-K for the year ended June 30, 2010, affords shareholders the most complete available information concerning the Company.

Officers of the Company will be present at this Special Meeting of Shareholders to answer all questions regarding the decision to call such meeting in lieu of the two Annual Meetings of Shareholders for fiscal years ended June 30, 2008 and June 30, 2009.

The approximate date on which this Proxy Statement and the accompanying proxy card are first being sent or given to shareholders is November 22, 2010.

VOTING

General

The securities that may be voted at the Special Meeting consist of our common stock, with each share entitling its owner to one vote on each matter submitted to the shareholders. The record date for determining the holders of our shares who are entitled to notice of and to vote at the Special Meeting is November 15, 2010. On the record date, _____________shares were outstanding and eligible to be voted at the Special Meeting.

Quorum and Vote Required

The presence, in person or by proxy, of a majority of the outstanding shares of common stock is necessary to constitute a quorum at this Special Meeting. Abstentions and broker non-votes shall be counted for purposes of determining a quorum. At a meeting where a quorum is present, with respect to the proposal for the amendment of the Company s Amended Certificate of Incorporation to authorize an additional 2 billion shares of common stock for a total number of 5 billion authorized shares of common stock, the affirmative vote of a majority of the shares of the Company represented at the meeting in person or by proxy is required for approval.

Brokers holding shares of record for customers generally are not entitled to vote on certain matters unless they receive voting instructions from their customers. Broker non-votes means the votes that could have been cast on the matter in question if the brokers had received their customers instructions and as to which the broker has notified us on a proxy form in accordance with industry practice or has otherwise advised us that it lacks voting authority. If no direction is made, this Proxy will be considered a yes vote with respect to the proposal.

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Voting by Proxy

Shares represented by properly executed proxies received at or before the Special Meeting that have not been revoked will be voted at the Special Meeting in accordance with the instructions contained therein. Shares represented by properly executed proxies for which no instruction is given will be voted "FOR" approval of the proposal described in this Proxy Statement. If any other matters properly come before the Special Meeting, the persons named as proxies will vote upon such matters according to their judgment. Our shareholders are requested to complete, sign, date and promptly return the enclosed proxy card in the postage-prepaid envelope provided for this purpose to ensure that their shares are voted. A shareholder may revoke a proxy at any time before it is voted by signing and returning a later-dated proxy with respect to the same shares by filing with our corporate secretary a written revocation bearing a later date or by attending and voting in person at the Special Meeting. Mere attendance at the Special Meeting will not in and of itself revoke a proxy.

If the Special Meeting is postponed or adjourned for any reason, at any subsequent reconvening of the Special Meeting, all proxies (except for any proxies that have theretofore effectively been revoked or withdrawn) will be voted in the same manner as such proxies would have been voted at the original convening of the Special Meeting, notwithstanding that such proxies may have been effectively voted on the same or any other matter at a previous meeting.

PROPOSAL

APPROVAL OF AN AMENDMENT TO THE COMPANY S AMENDED CERTIFICATE OF INCORPORATION

The Board of Directors has approved, and is recommending to the stockholders for approval at the Special Meeting, an amendment to our Amended Certificate of Incorporation to increase the number of authorized shares of common stock from 2,000,000,000 to 5,000,000,000 shares. The Board of Directors determined that this amendment is advisable and should be considered at the Special Meeting.

Purpose and Effect of the Amendment to Authorize Additional Shares of Common Stock

PROPOSAL TO AMEND THE COMPANY S AMENDED CERTIFICATE OF INCORPORATION TO INCREASE THE AUTHORIZED COMMON STOCK FROM 2,000,000,000 SHARES TO 5,000,000,000 SHARES

Background

The Company s Amended Certificate of Incorporation, as currently in effect, provides that the Company s authorized capital stock consists of 2,000,000,000 shares of common stock, $.01 par value per share. Shareholders last approved an increase in the number of the Company s authorized shares from 900,000,000 common shares to 2,000,000,000 common shares on August 27, 2008. Effective as of November 1, 2010, the Company s Board of Directors approved an amendment to Article 4 of the Company s Amended Certificate of Incorporation to increase the number of authorized shares of common stock from 2,000,000,000 shares to 5,000,000,000 shares. In accordance with New Jersey law, the proposed amendment to the Amended Certificate of Incorporation is subject to shareholder approval.

In the event that shareholder approval of the proposed amendment is obtained, the Company expects to file a Certificate of Amendment to the Amended Certificate of Incorporation with the New Jersey Secretary of State on or about the close of business on the date of the Special Meeting.

As of October 25, 2010, of the 2,000,000,000 shares of common stock currently authorized for issuance under the Amended Certificate of Incorporation, a total of 1,260,923,713 shares were issued and outstanding and 475,743,017 shares were reserved for issuance upon exercise of the Company s stock options, warrants and other convertible debt securities that are currently outstanding and funded based upon the closing stock price of $.0088 per share on such date. In addition if all convertible debt were funded in cash to the Company of $4,175,400, the Company would be required to issue an additional 693,242,424 shares of its common stock based upon the stock price of $.0088 per share on October 25 2010. Indebtedness for unpaid compensation and loans of officers is also convertible into common shares as described in footnote 4 on page 21 below provided such shares are available for issuance after satisfaction of all other convertible debt, option and warrant obligations of the Company. Based on the October 25, 2010 closing price of $.0088, conversion of such officer indebtedness would require the issuance of an aggregate of 116,931,551 shares. An increase in the number of shares of common stock authorized for issuance under the Company s Amended Certificate of Incorporation is necessary to permit the Company to have additional shares available for issuance in furtherance of the Company s business purposes, as more fully set forth below under Reasons for and Effects of the Proposal.

Reasons for and Effects of the Proposal

Due to the limited number of shares of common stock available to be issued, the Board of Directors has unanimously approved, and recommends that the shareholders approve, an amendment to the Company's Amended Certificate of Incorporation pursuant to which the number of shares of common stock which the Company would be authorized to issue would be increased from 2,000,000,000 shares to 5,000,000,000 shares. As of October 25, 2010, the Company had 1,260,932,713 outstanding shares of common stock as well as warrants and options convertible into 235,841,502 additional shares of common stock. In addition, the Company anticipates the need for significant additional shares in connection with future funding of over $4.1 million anticipated from future conversions of convertible debt securities.

The Company traditionally financed its operations from inception to late 2007 through equity private placements with retail investments of its common stock and warrants. The equity market for the Company's common stock contracted significantly in December of 2007. As a result, in order to finance its operations thereafter, the Company has issued convertible debentures and convertible notes to a number of hedge funds. Such transactions are highly dilutive since the conversion price of the convertible debt into common stock is at a discount ranging from 20-25% of the market price of the stock. From September 30, 2007 through September 23, 2008 the Company's shares of common stock outstanding increased from 391,736,000 shares to 527,000,000 shares and by September 19, 2009 such outstanding shares had increased to 1,158,726,952 shares. The substantial increase in shares is attributable to the decline in the Company's common stock value from $.076 per share in September of 2007 to $.04 per share in September of 2008 to $.024 per share in September of 2009. On October 25, 2010 the stock price closed at $.088 per share. In order for the Company to raise a fixed amount of financing for operations, it has become necessary to issue an increased amount of shares upon conversions of convertible debt into shares of common stock at a fixed discount from the then current market price. The Company will continue to require substantial funds to be raised in the capital markets until it has achieved profitable operations. The Company is unable to predict when its operations may become profitable and therefore finds it necessary to increase its authorized shares in order to continue to finance for operations. The need for the substantial increase in authorized shares for the Company is especially critical at this time given the continuing volatility of the Company's stock price and global uncertainty in the capital markets.

mPHASE TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN
ELEMENTS OF EQUITY CAPITAL
FROM JUNE 30, 2009 Through June 30 2010
and from June 30 2010 to October 25, 2010 (Unaudited)

	Common	Stock			
$	**Shares**	**.01 Par Value**	**Treasury Stock**	**Additional Paid in Capital**	**Subtotal Equity Capital Elements**
Balance June 30, 2009	870,419,882	$ 8,704,197	$ (7,973)	$ 172,861,427	$ 181,557,651
Conversions of Convertible Debentures plus accrued interest	232,723,736	2,327,238	-	1,088,012	3,415,250
Conversions of Accounts Payable	26,666,667	266,667	-	(66,667)	200,000
Issuance of common stock in private	30,666,667	306,667	-	(81,667)	225,000
placements net of offering cost ($25,000)					
Issuance of Common Stock for Services	1,575,000	15,750		18,563	34,313
Issuance of Common Stock for Reparations	1,700,000	17,000		18,530	35,530
Beneficial Conversion feature of Officers'					
Notes Payable and conversion of accounts payable	-	-	-	669,276	669,276
Cancelation of Capital Notes in Subsidiary Issued in connection with equity	-	-	-	175,820	175,820
Balance June 30, 2010	1,163,751,952	$ 11,637,519	($7,973)	$ 174,683,294	$ 186,312,840
Conversions of Convertible Debentures plus accrued interest	72,133,538	721,335		(70,748)	650,588
Issuance of Common Stock for Services	5,075,000	50,750		12,195	62,945
Balance September 30, 2010(Unaudited)	1,240,960,490	$ 12,409,604	$ (7,973)	$ 174,624,741	$ 187,026,373
Conversions of Convertible Debentures plus accrued interest	19,972,223 $	199,722	-	(66,410)	133,313
Balance October 25, 2010 (Unaudited)	1,260,932,713	$ 12,609,326	$ (7,973)	$ 174,558,331	$ 187,159,686

The Company also currently plans to reserve not more than one billion shares of the additional authorized common stock for issuance in connection with benefit, option or stock ownership plans or employment agreements, as the case may be. In particular, substantial awards may be made in connection herewith to the Company s key executives, Messrs. Durando, Dotoli and Smiley. At this time, no determination has been made that any such awards will be made or the terms or quantities thereof. The determination to make any awards will be subject to the discretion of the

Company s Board of Directors which will consider such factors as the performance of the executives, the Company and relevant market and economic conditions.

The Board of Directors believes that an increase in authorized common stock would provide the Company with increased flexibility to issue and/or sell common stock from time to time at the discretion of the Board of Directors, and without further authorization by the shareholders, for one or more of the following business purposes: (i) in public or private offerings as a means of obtaining additional capital for the Company s business; (ii) as part or all of the consideration required to be paid for the acquisition of ongoing businesses or other assets; (iii) to satisfy any current or future financial obligations of the Company; (iv) in connection with the exercise of options, warrants or rights, or the conversion of convertible securities that may be issued by the Company; or (v) pursuant to any benefit, option or stock ownership plan or employment agreement.

The Company expects to receive between $100,000 and $400,000 per month during the next 15 months through the conversion of convertible debt securities that is essential capital to maintain ongoing operations until sales revenues of its new emergency flashlight product materialize. In addition, the Company will need to raise an additional $5-10 million for product expansion and marketing and distribution during the next 12 months. Since the Company uses its stock as its main source of currency to sustain operations and fund further product development and commercialization, management believes that the additional number of authorized shares will enable it to continue development of the Company into an enterprise with revenue in the future.

The proposed increase in the number of authorized shares of common stock will not change the number of shares of common stock outstanding or the rights of the holders of such stock. Other than issuing new shares of common stock upon the exercise of options, warrants, convertible debentures and convertible notes, both currently outstanding as well as issuable in the future on such terms as may be determined from time to time based on, among other factors, market conditions and the needs of the Company, the Company has no immediate plans to issue additional common stock out of the additional authorized shares. However, the Company does anticipate that it will need to raise additional equity capital in the near future through the issuance of common stock or securities convertible into or that otherwise grant the holder the right to purchase common stock. The records of the Company's transfer agent indicated that as of October 25, 2010, the Company had 1,260,932,713 shares of common stock outstanding plus warrants at prices ranging from $.05 to $.35 per share convertible into 98,323,502 shares of common stock and options ranging from $.05 per share to $.30 per share convertible into 137,518,000 shares of common stock. Warrants convertible into 6,869,000 shares of common stock and options convertible into 500,000 shares of common stock expired during the period from January 1, 2010 through October 25, 2010. All warrants and options have fixed strike prices and none allow for cashless exercise.

As of October 25, 2010, the Company's convertible debt instruments were immediately convertible into 239,901,515 shares of common stock at a price discounted from the market price of $.0088 per share for $1,433,600 of funding already received by the Company. Based upon the market price of the Company's common stock on October 25 2010, additional conversions into 693,242,424 shares of common stock through November 17, 2012 may occur provided that the Company receives funding of $4,175,400 of additional cash under these agreements. The shares that would be issued under the convertible debt would increase in cases where the price of the Company's common stock decreased. The Company may experience requests for conversions exceeding the total shares it has available over the life of the convertible debt agreements should its stock price decrease; in such case the Company believes it would not have a greater liability than that recorded on its Financial Statements, as amended, for convertible notes payable and the corresponding derivative liability. The Company also has outstanding officer notes for amounts owed that have limited conversion features effective from April of 2009 through April of 2014 that could be convertible into approximately 117,000,000 shares of common stock provided that such shares are available at the time of conversion.

The following table illustrates the shares issuable at a range of prices from $.00704 , $.0088 and $.01056 for obligations the Company has outstanding as of October 25, 2010.

Potential Shares Issuable under Convertible Debt andDebenture Agreements Outstanding with the Compa as of October 25, 2010, Basedupon the Actual (and20% Changes in the) Market Price of the Company's Sto

Dollar Amounts of Funding Receivedand Receivable under Convertible Agreements, Outstanding as of October 25, 2010 (including Interest Receivable)		Dollar Amounts of Funding Currently Convertible & Convertible during Remainder of the Agreements Outstanding as of October 25, 2010 (including Discounts & Interest Payable)		Shares Issuable under Convertible Agreements as of October 25, 2010	Shares Issuable under Present Agr Following Prices: Price Decline Illustration-20%	Actual Price October 25, 2010	Il
					$ 0.00704	$ 0.08800	$
Amount of Funding Receivedthrough October 25, 2010	$ 1,433,600	Amount Convertible for Funding Receivedthrough October 25, 2010	$ 1,583,975	Shares Issuable for Amounts Fundedas of October 25, 2010	299,876,894	239,901,515	
Funding Receivable during Remainder of the Outstanding Agreements; (1),(2)	$ 4,175,400	Convertible upon Funding during Remainder of the Outstanding Agreements; (1),(2)	$ 4,575,400	Shares Issuable for Amounts to be Fundedduring Remainder of the Agreements; (1),(2)	866,533,030	693,242,424	
Total Amount of Funding under Outstanding Convertible Agreements if Fundedin Full; (1),(2)	$ 5,609,000	Total Amount Convertible under Outstanding Convertible Agreements if Fundedin Full; (1),(2)	$ 6,159,375	Total Shares Issuable under Outstanding Convertible Agreements if Fundedin Full; (1),(2)	1,166,409,924	933,143,939	

OUTSTANDING CONVERTIBLE DEBENTURES

Arrangement #1 (LaJolla Cove Investors Inc,)

On September 11, 2008, the Company issued a 7.25% convertible debenture in the principal amount of $2,000,000 to La Jolla Cove Investors, Inc. Interest only is payable monthly with any unpaid principal plus accrued interest payable on September 30, 2011. The Company received $200,000 in cash plus an 8.25% secured promissory note from the debenture holder in the principal amount of $1,800,000. Interest only is payable monthly with any unpaid principal plus accrued interest payable at maturity on September 30, 2011.

Conversion of outstanding debentures into common shares is at the option of the holder at a price equal to the dollar amount of the debenture divided by the lesser of $.35 per share or 80% of the three lowest volume weighted average prices during a 20 day trading period. The holder has converted $190,000 of the principal amount of the convertible debenture into 21,714,285 shares of common stock as of October 25, 2010.

If the price of the Company s common stock is $.04 per share or greater prior to maturity, the holder of the convertible debenture may fund, under the terms of the secured promissory note, up to the remaining principal of $1,800,000 and convert such amount into a maximum of approximately 56,250,000 or fewer shares of common stock at the price set forth in the preceding paragraph. The option to fund is not available to the holder at prices less than $.04, and the shares underlying the unfunded portion of this convertible debenture have accordingly been deducted from the number of total shares issuable set forth in the table above in which all conversion prices shown are less than $.04.

Of the $1,810,000 debt outstanding, $10,000 is currently subject to conversion and as of October 25, 2010, based upon the price of the Company s common stock of $.0088 per share, such conversion would result in the issuance of 1,420,455 shares of the Company s common stock.

Arrangement #2 (JMJ Financial, Inc.)

On August 19, 2009, the Company issued a 12% convertible note maturing on August 10, 2012 in the principal amount of $1,870,000 to JMJ Financial for a purchase price of $1,700,000. The Company initially received $250,000 in cash as partial payment of the purchase price for the convertible note plus a 13.2% secured promissory note maturing on August 10, 2012 in the amount of $1,450,000. To date the Company has received a total of $1,924,400 cash representing payment in full of the $1,700,000 purchase price and $224,400 in contract interest. The number of shares into which this convertible note can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest trading price during the 20 day trading period prior to conversion. Through October 25, 2010, the Company has issued 176,092,858 shares of common stock to the holder upon conversions in respect of $2,094,400 representing satisfaction in full of the convertible note in the principal amount of $1,870,000 and $224,400 in contract interest. Accordingly, effective October 25, 2010, all obligations under this arrangement have been satisfied.

Arrangement #3 (JMJ Financial, Inc.)

On September 30, 2009, the Company issued a 12% convertible note maturing on September 23, 2012 in the principal amount of $1,200,000 to JMJ Financial for a purchase price of $1,100,000. The Company initially received $150,000 in cash as partial payment of the purchase price for the convertible note plus a 13.2% secured promissory note maturing on August 10, 2012 in the amount of $950,000. Conversion of outstanding principal into shares of common stock is at the option of the holder. The number of shares into which this note can be converted is equal to the dollar amount of the note divided by 75% of the lowest trade price during the 20 day trading period prior to conversion.

To date the Company has received a total of $550,600 cash and has issued 8,000,000 shares of common stock to the holder upon conversions of $48,000 of principal through October 25, 2010. The remaining $693,500 of cash to be received from the holder for the balance of the purchase price for the convertible note plus accrued and unpaid interest is convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. Based upon the price of the Company’s common stock on October 25, 2010 of $.0088 per share, the holder could convert the remaining principal amount plus interest of this convertible note into approximately 196,363,636 shares of common stock.

Arrangement #4 (JMJ Financial, Inc.)

On November 17, 2009, the Company received a total of $186,000 of proceeds in connection with a new financing agreement with JMJ Financial. This transaction consists of the following: 1) a convertible note in the amount of $1,200,000 plus a one-time interest factor of 12% ($144,000) and a maturity date of September 23, 2012 and (2) a secured promissory note in the amount of $1,100,000 plus a one-time interest rate factor of 13.2% ($144,000) and a maturity date of September 23, 2012 due from the holder of the convertible note. Conversion of outstanding principal into shares of common stock is at the option of the holder. The number of shares into which this note can be converted is equal to the dollar amount of the note divided by 75% of the lowest trade price during the 20 day trading period prior to conversion.

To date, the Company has received a total of $186,000 cash and has issued no shares of common stock to the holder upon conversions. The remaining $1,058,100 of cash to be received from the holder for the balance of the purchase price for the convertible note plus accrued and unpaid interest is convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock . Based upon the price of the Company's common stock on October 25, 2010 of $.0088 per share, the holder could convert the remaining principal amount plus interest of this convertible note into approximately 203,636,363 shares of common stock.

Arrangement #5 (JMJ Financial, Inc.)

On December 15, 2009, the Company entered into a new financing agreement with JMJ Financial that consists of the following: 1) a convertible note issued by the Company in the amount of $1,500,000 plus a one time interest factor of 12% ($180,000) and a maturity date of December 15, 2012 and (2) a secured promissory note in the amount of $1,400,000 plus a one time interest rate factor of 13.2% ($180,000) and a maturity date of December 15, 2012 due from the holder of the convertible note. Conversion of outstanding principal into shares of common stock is at the option of the holder. The number of shares into which this note can be converted is equal to the dollar amount of the note divided by 75% of the lowest trade price during the 20 day trading period prior to conversion.

To date, the Company has received a total of $300,000 cash and has issued no shares of common stock to the holder upon conversions. The remaining $1,280,000 of cash to be received from the holder for the balance of the purchase price for the convertible note plus accrued and unpaid interest is convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. Based upon the price of the Company's common stock on October 25, 2010 of $.0088 per share, the holder could convert the remaining principal amount plus interest of this convertible note into approximately 254,545,454 shares of common stock.

Arrangement #6 (JMJ Financial, Inc.)

On April 5, 2010, the Company entered into a new financing agreement with JMJ Financial that consists of the following: 1) a convertible note issued by the Company in the principal amount of $1,200,000 plus a one time interest factor of 12% ($144,000) and a maturity date of December 15, 2012, and (2) a secured promissory note from the holder of the convertible note in the amount of $1,100,000 plus a one time interest rate factor of 13.2% ($144,000) and a maturity date of December 15, 2012. Conversion of outstanding principal into shares of common stock is at the option of the holder. The number of shares into which this note can be converted is equal to the dollar amount of the note divided by 75% of the lowest trade price during the 20 day trading period prior to conversion.

To date the Company has received a total of $100,000 cash and has issued no shares of common stock to the holder upon conversions. The remaining $1,144,000 of cash to be received from the holder for the balance of the purchase price for the convertible note plus accrued and unpaid interest is convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. Based upon the price of the Company's common stock on October 25, 2010 of $.0088 per share, the holder could convert the remaining principal amount plus interest of this convertible note into approximately 203,636,363 shares of common stock.

Arrangement #7 (J. Fife)

On March 3, 2010, the Company entered into a new financing agreement with J. Fife that consists of a convertible note issued by the Company in the principal amount of $550,000, bearing interest at 7.5% per annum, in which the Company received $495,000 cash up front. The convertible note has a maturity date of four years from the date of issuance. In addition, the Company has committed to issue in the future two additional promissory notes, each in the principal amount of $275,000, each with an interest rate of 7.5% and each upon the receipt of $250,000 of cash funding in exchange for such notes. The issuance of each of such notes is expected to take place upon the full conversion by the holder of its previous note into common stock of the Company. Conversion of each of the convertible notes into common stock of the Company is at the option of the holder at a price equal to the dollar amount of the note being converted divided by 75% of the three lowest volume weighted average prices during the 20 day trading period immediately preceding the date of conversion.

On September 1, 2010 and September 16, 2010 the holder converted $75,000 and $90,000 of principal on the convertible note into 8,086,253 and 9,847,285 shares respectively of common stock of the Company. On October 22, 2010, the Company entered into a Forbearance Agreement with J. Fife in which the lender agreed not to convert any additional amounts under the terms of the $550,000 convertible note until January 15, 2011 in exchange for increasing the original principal amount of the Convertible Note and two subsequent notes to be issued by 10%. Based upon the price of the Company's common stock on October 25, 2010 of $.0088 per share, the holder could then convert the remaining principal amount plus interest of this convertible note, as adjusted under the terms of the Forbearance Agreement, into approximately 73,541,666 shares of common stock.

From December 31, 2007 through October 25, 2010, the Company has raised a total of $8,103,100 in cash proceeds from convertible debentures and convertible notes along with $473,400 of interest income thereon totaling $8576,500 , and it has issued 604,830,458 shares of common stock valued at an aggregate amount of $7,960,606 in connection with the conversion of debenture and note principal, loan costs, and interest.

Private Placements

During fiscal year ended June 30, 2008, the Company issued 24,600,000 shares of common stock in private placements raising $1,144,247. In addition the Company issued warrants in connection with such private placements convertible into 500,000 shares of common stock.

During fiscal year ended June 30, 2009, the Company issued 72,333,334 shares of common stock in private placements raising $720,000.

During fiscal year ended June 30, 2010, the Company issued 30,666,667 shares of common stock in private placements raising $225,000.

Reparation Shares

In connection with private placements that occurred during the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, the Company has, as indicated in its Form 10-K and Form 10-Q filings, issued reparation shares to induce prior investors from earlier offerings to invest in additional shares of common stock of the Company. The Company has, in three of the past ten years prior to the fiscal year commencing on July 1, 2007, also issued reparation shares in order to induce prior investors in equity private placements of common stock of the Company to make an investment in a new private placement. This was necessary because the price of the Company s common stock has generally declined over the course of the past ten years and the Company engaged exclusively in private placements of equity prior to December of 2007. The aggregate number of reparation shares the Company has issued to date is 77,106,987, which includes 52,521,246 shares issued in years prior to our fiscal year ended June 30, 2008 and 24,585,741 shares issued since that date.

None of the investors that have been issued reparation shares in the fiscal years ended June 30, 2008, June 30, 2009 and June 30, 2010 or for the period from July 1, 2010 through the date hereof are related persons as defined in Item 404 of Regulation S-K.

During the fiscal year ended June 30, 2008, the Company issued 3,163,741 reparation shares valued at $230,923 to four investors unrelated to the Company that made new investments totaling $259,500 for the issuance of an aggregate of 3,550,000 additional restricted shares of common stock of the Company. The reparation shares were adjustments to private placements in which the four investors had made investments of an aggregate of $1,469,723 in previous fiscal years for the issuance of 10,859,412 restricted shares of common stock of the Company.

On April 1, 2008, the Company amended the terms of two warrants issued by the Company on December 12, 2006, to purchase 11,111,112 shares of the Company's common stock and also issued the warrant-holder a new replacement warrant at a fixed price of $.14 per share to purchase up to 11,111,112 shares of common stock that can be exercised at any time through April 1, 2013. The amendment revised the exercise prices of the two warrants previously issued by the Company. The increase in value of the amended warrants was estimated to be $161,111. This was recorded as reparation expense in respect of the unrelated warrant-holder who had made an investment of $722,222 for the issuance of 11,111,112 restricted shares of common stock of the Company upon the exercise of the revised warrants. Previously, on December 12, 2006, the warrant-holder made an investment of $750,000 for the issuance of 5,555,556 restricted shares of common stock of the Company and the two warrants which were amended. As a result of the reparation shares valued at $230,923 and the change in value of the amended warrants estimated to be $161,111, the Company recorded reparation expense of $392,034 for the fiscal year ended June 30, 2008. (Further details in respect of this investor are provided in the table below regarding reparation expense for the fiscal year ended June 30, 2008.)

During the fiscal year ended June 30, 2009, the Company issued 16,522,000 reparation shares valued at $380,172 to three investors unrelated to the Company that made new investments of $400,000 for the issuance of 24,000,000 additional restricted shares of common stock of the Company. The reparation shares were adjustments to private placements in which the three investors had made investments of an aggregate of $1,770,000 in previous fiscal years for the issuance of 15,232,500 restricted shares of common stock of the Company. Additionally, on each of April 15, 2009, May 15, 2009, and June 15, 2009, the Company issued 1,000,000, 1,000,000 and 1,000,000 reparation shares valued at an aggregate of $52,000 to a fourth unrelated investor to extend three short term notes that would otherwise have come due. Previously, during the fiscal years ended June 30, 2007 and 2008, the holder of these notes had made investments of $1,126,723 for the issuance of 13,000,000 restricted shares of common stock of the Company. As a result of the issuance of the reparation shares valued at $380,172 to the three investors that made new investments and the reparation shares valued at $52,000 to extend the three short term notes, the Company recorded reparation expense of $432,172 for the fiscal year ended June 30, 2009. (Further details in respect of each investor are provided in the table below regarding reparation expense for the fiscal year ended June 30, 2009.)

During the fiscal year ended June 30, 2010 the Company issued 1,700,000 reparation shares in November 2009 and recorded reparation expense of $35,530, the value of the shares on the issuance date, to a single unrelated investor. The reparation shares were an adjustment to a private placement in which this investor had made an investment of $100,000 on May 29, 2008 of fiscal year ended June 30, 2008 for an original issuance of 2,000,000 restricted shares of common stock of the Company at $.05 per share.

In prior years, reparation shares had been issued to Janifast, Ltd. and Microphase Corporation, which are “related persons” as defined in Item 404 of Regulation S-K. Mr. Durando, President and CEO of the Company, owns a controlling interest and is a director and President of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Dotoli was also a shareholder of Janifast Limited prior to its discontinuing operations in March of 2009. Mr. Ergul owns a controlling interest and is a director of Microphase Corporation and a director and shareholder of Janifast Limited. Microphase Corporation is a significant shareholder of the Company. Janifast Limited had been a significant shareholder of the Company until September 19, 2009, when it transferred to Mr. Durando 11,735,584 shares, representing all the shares of the Company held by Janifast, in consideration of the partial cancellation of loan obligations to Mr. Durando in connection with the plan of its liquidation.

During the fiscal year ended June 30, 2007, Janifast Ltd. was issued 769,231 shares valued at $138,462 for reparations of an investment of $171,000 for 950,000 shares issued for an investment made in fiscal year ended June 30, 2006. During the fiscal year ended June 30, 2006, the Company issued 3,931,382 shares valued at $728,434 to Janifast Ltd and 4,504,542 shares valued at $834,633 to Microphase Corporations for reparations of investments. For fiscal year ended June 30, 2005 the Company issued 1,000,000 shares to Janifast Ltd valued at $200,000 and 1,250,000 shares to Microphase valued at $250,000 for reparations of investments. During the fiscal year ended June 30, 2003 the Company issued to Janifast Ltd 1,500,000 valued at $360,000 and the Company issued to Microphase Corporation 4,033,330 shares valued at $920,000 for reparations of investments. In fiscal year ended June 30, 2002 the Company issued to Janifast Ltd. 3,450,000 shares valued at $720,000 and 2,700,000 shares to Microphase Corporation valued at $740,000 for reparations of investments. In fiscal year ended June 30, 2001 the Company issued to Janifast Ltd. 2,400,000 shares valued at $1,200,000 and issued to Microphase Corporation 1,278,000 shares valued at $639,000 for reparations of investments.

The Company had no contractual or legal obligation to issue shares for reparations and determined the issuance of each on a case by case basis as negotiated with its investor. As of the date hereof, there are no current agreements for the issuance of any additional reparation shares. The Company is unable to predict whether conditions in the financial markets in the future may require it to issue additional reparation shares in order to attract monies in future private placements of its common stock.

The determination of the quantity of reparation shares for the corrective issuance of each reparation for selected prior investments in private placements of the Company s common stock was negotiated with each accredited investor at the time the subsequent new investment was made. This quantity was based on several factors including: (i) the market value of the Company s common stock at the time of the prior investment in relation to the market value at the date of the new investment; (ii) the dollar amount of the prior investment in relation to the dollar amount of the new investment; and (iii) the current terms of private placements of common stock being offered by the Company to other accredited investors. All reparation costs were valued as of the date of the new investment. In no case did the corrective issuance exceed the reduction in the market value of the prior issuance.

The following tables summarize details of reparation expense for the last tep fiscal years as follows:

For the fiscal year ended June 30, 2008

	NEW INVESTMENT FYE 6-30-08			common stock issued for REPARATIONS FYE 6-30-08		PRIOR INVESTMENT		
	DATE	**SHARES**	**AMOUNT**	**SHARES**	**VALUE**	**DATE(S)**	**SHARES**	**AMOUNT**
INVESTOR 1	**9/30/2007**	**1,000,000**	**$ 100,000**	**1,349,842**	**$ 146,204.00**	**fye 6-30-06 & fye 6-30-07, as follows:**	**6,038,021**	**$ 1,026,723**
						a) 1-19-2006	**3,000,000**	**$ 600,000**
						b) 8-24-2006	**2,268,790**	**$ 326,723**
						c) 5-28-2007	**769,231**	**100,000**
INVESTOR 2	**9/30/2007**	**500,000**	**$ 50,000**	**444,444**	**$ 22,222.00**	**fye 6-30-07 as follows**	**769,231**	**$ 100,000**
						a) 5-25-2007	**769,231**	**$ 100,000**
INVESTOR 3	**12/31/2007**	**350,000**	**$ 24,500**	**792,857**	**$ 30,778.00**	**fye 6-30-07 as follows :**	**275,000**	**$ 55,000**
						a) 11-30-2006	**275,000**	**$ 55,000**
INVESTOR 4	**4/8/2008**	**1,700,000**	**$ 85,000**	**576,598**	**$ 31,719.00**	**fye 6-30-06 & fye 6-30-07, as follows:**	**2,153,846**	**$ 385,000**
						a) 1-20-2006	**1,500,000**	**$ 300,000**
						b) 5-15-2007	**653,846**	**$ 85,000**
INVESTOR 5	**4/1/2008**	**11,111,112**	**$ 722,222**	**-**	**$ -**	**fye 6-30-07 as follows:**	**5,555,556**	**$ 750,000**
						a)12-12-2006	**5,555,556**	**$ 750,000**
TOTALS	*******	**14,661,112****	**$ 981,722 ****	**3,163,741**	**$ 230,923.00**		**14,791,654**	**$ 2,316,723**

*** The date indicated was the execution and funding date of the new investment and the date the corresponding reparation shares or warrant(s) were issued.

** Proceeds received in cash and included in our statements of shareholders equity as proceeds of current year private placements and exercise of warrants.

* Issued as an inducement to an existing warrant-holder to make an investment of $722,222 based upon the exercise of previously issued warrants, as modified. Reparation costs associated with this warrant were measured at the difference between the original value of the warrants and the value of the warrant after modification, based upon the Black-Scholes model.

The warrant-holder exercised its right to purchase 11,111,112 shares of the Company's common stock under two previously issued warrants, at a price revised from each of the original prices in each of the two warrants. The previously outstanding warrants were fixed price warrants, each to purchase up to 555,555,556 shares of the Company's common stock at an exercise price of $.15 and $.18, respectively, through December 12, 2011. The revised prices of $.062 and $.067 per share, or approximately $.065 for all shares from both warrants, was based on 50% of the share price of the Company's common stock on March 28, 2009. As a condition to the re-pricing of the strike price of the warrants the warrant-holder was required to exercise such warrants by April 1, 2008 and the Company issued the warrant-holder a new replacement warrant at a fixed price of $.14 per share for 11,111,112 shares of common stock that can be exercised at any time through April 1, 2013.

Details of reparation expenses to the last three fiscal years are as follows:

For the fiscal year ended June 30, 2009

	NEW INVESTMENT FYE 6-30-09			common stock issued for REPARATIONS FYE 6-30-09		PRIOR INVESTMENT (s)			H
	DATE	SHARES	AMOUNT	SHARES	AMOUNT	DATE(S)	SHARES	AMOUNT	W
INVESTOR 1	**9/30/2008**	**4,000,000**	**$ 200,000**	**3,862,000**	**$ 216,689**	**fye 6-30-07, as follows :**	**6,232,500**	**$ 1,000,000**	
						a) 11-10-2006	**2,732,500**	**$ 475,000**	
						b) 12-28-2006	**1,500,000**	**$ 225,000**	
						c) 2-08-2007	**2,000,000**	**$ 300,000**	
INVESTOR 2	**3/25/2009**	**15,000,000**	**$ 150,000**	**7,660,000**	**$ 99,483**	**fye 6-30-08 , as follows:**	**4,000,000**	**$ 200,000**	
						a) 4-08-2008	**4,000,000**	**200,000**	
INVESTOR 3*	**4/15/2009**	**-**	**$ -**	**1,000,000**	**$ 12,000**	**fye 6-30-08 & fye 6-30-07, as follows:**	**13,000,000**	**$ 1,126,723**	
						a) 2-26-2007	**4,000,000**	**$ 576,723**	
						b) 10-31-2007	**1,000,000**	**$ 100,000**	
						c) 4-04-2008	**8,000,000**	**$ 400,000**	
INVESTOR 3*	**5/15/2009**	**-**	**$ -**	**1,000,000**	**$ 20,000**			**$ -**	
INVESTOR 3*	**6/15/2009**	**-**	**$ -**	**1,000,000**	**$ 20,000**			**$ -**	
INVESTOR 4	**6/29/2009**	**5,000,000**	**$ 50,000**	**5,000,000**	**$ 64,000**	**fye 6-30-08, as follows**	**5,000,000**	**$ 250,000**	
							5,000,000	**$ 250,000**	

						a) 4-04-2008		
TOTALS	***	**24,000,000****	**$ 400,000 ****	**19,522,000**	**$ 432,172**		**28,232,500**	**$ 2,576,723**

*** The date indicated was the execution and funding date of the new investment and the date the corresponding reparation shares or warrant(s) were issued.

** Proceeds received in cash and included in our statements of shareholders equity as proceeds of current year private placements.

* Investor reparation of prior investments to extend a current loan. The loan bore an interest rate of 12% and was originally due on April 15, 2009. The loan was extended until April 15, 2010 and as of October 12, 2010, no amounts remained outstanding on this loan

As previously noted, during the fiscal year ended June 30, 2010 the Company issued 1,700,000 reparation shares in November 2009 and recorded reparation expense of $35,530, the value of the shares on the issuance date, to a single unrelated investor. The reparation shares were an adjustment to a private placement in which this investor had made an investment of $100,000 on May 29, 2008 of fiscal year ended June 30, 2008 for an original issuance of 2,000,000 restricted shares of common stock of the Company at $.05 per share.

	Estimated Allocation of 5 Billion Shares of Common Stock				
Fully Diluted Outstanding Shares of Common Stock, Warrants and Options as of October 12, 2010	**Officer Convertible Notes on October 25, 2010**	**Existing Convertible Debt Arrangements based on price of common stock on October 25, 2010**	**Future Convertible Debt Arrangements**	**Future Equity Financings**	**Employee Stock Awards and Option Awards**
1,496,774,215 Shares	**116,931,551 Shares**	**933,143,939 Shares**	**450,000,000 Shares**	**1,003,150,295 Shares**	**1,000,000,000 Shares**

Any issuance of additional shares of common stock could reduce the current shareholders' proportionate interests in the Company, depending on the number of shares issued and the purpose, terms and conditions of the issuance. Moreover, the issuance of additional shares of common stock could discourage attempts to acquire control of the Company by tender offer or other means. In such a case, shareholders might be deprived of benefits that could result from such an attempt, such as realization of a premium over the market price of their shares in a tender offer or the temporary increase in market price that could result from such an attempt. Also, the issuance of stock to persons supportive of the Board of Directors could make it more difficult to remove incumbent management and directors from office. Although the Board of Directors intends to issue common stock only when it considers such issuance to be in the best interest of the Company, the issuance of additional shares of common stock may have, among others, a dilutive effect on earnings per share of common stock and on the equity and voting rights of holders of shares of common stock. The Board of Directors believes, however, that the benefits of providing the flexibility to issue shares without delay for any business purpose outweigh any such possible disadvantages.

Ownership of shares of common stock entitles each shareholder to one vote per share of common stock. Holders of shares of common stock do not have preemptive rights to subscribe to additional securities that may be issued by the Company, which means that current shareholders do not have a prior right to purchase any new issue of capital stock of the Company in order to maintain their proportionate ownership. Shareholders wishing to maintain their interest, however, may be able to do so through normal market purchases.

The increase in the authorized common stock will be implemented by effecting an amendment to the Company s Amended Certificate of Incorporation, replacing the current Article 4 with a new Article 4 that states as follows:

The aggregate number of shares of common stock which the Corporation shall have authority to issue is 5,000,000,000 shares, par value $.01 per share.

Assuming the increase in authorized common stock is approved by the shareholders at the Special Meeting, an amendment to the Company s Amended Certificate of Incorporation will be filed with the Secretary of State of the State of New Jersey, and the increase in authorized common stock will become effective as of 5:00 p.m. Eastern Time on the date of such filing. The Company expects that such filing will take place on or shortly after the date the Special Meeting is held. The increase in authorized common stock may be abandoned by the Board of Directors at any time before or after the Special Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT TO THE AMENDED CERTIFICATE OF INCORPORATION, THEREBY INCREASING THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 2,000,000,000 SHARES TO 5,000,000,000 SHARES, AS SET FORTH ABOVE. THE AFFIRMATIVE VOTE OF HOLDERS OF A MAJORITY OF THE SHARES OF COMMON STOCK REPRESENTED AT THE MEETING IN PERSON OR BY PROXY IS REQUIRED TO APPROVE THE AMENDMENT TO THE AMENDED CERTIFICATE OF INCORPORATION. SHARES OF COMMON STOCK REPRESENTED AT THE MEETING BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR APPROVAL OF THE PROPOSAL.

Information Regarding Directors and Executive Officers

The Company is furnishing the following information including certain information that would have been contained in a proxy for an Annual Meeting of Shareholders for fiscal years ended June 30, 2008 and June 30, 2009 had such meetings in which an election of directors would normally occur been held in a timely manner shortly after the end of each fiscal year. Such information is being provided to shareholders to enable shareholders to evaluate management s direct interest in the Company and compensation in common stock, which information shareholders may find relevant in determining whether to vote for an increase in the Company s authorized shares of common stock from 2 billion to 5 billion shares.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of October 25, 2010 certain information regarding the beneficial ownership of our shares:

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

2. each of our directors;

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

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

AFFILIATES (1 & 2)	Shares	Warrants	Options	TOTAL	%
Victor Lawrence	0	0	0	-	-
Anthony Guerino	0	0	765,000	765,000	.07%
Abraham Biderman	1,076,000	0	1,065,000	2,141,900	.18%
Gustave Dotoli (4)	22,793,033	35,789,943	35,775,000	94,357,976	7.36%
Ron Durando (3) (4)	52,816,743	57,276,731	61,175,000	171,268,474	12.89%
Ned Ergul	2,850,000	0	2,655,000	5,055,000	.47%
Martin Smiley (4)	17,062,629	26,969,446	19,700,000	63,732,075	5.07%
Microphase Corporation(5) (6)	42,726,686	4,322,222	0	47,048,908	4.03%
Total Affiliates	139,325,991	7,617,791	121,135,000	384,369,333	30.07

(1) Unless otherwise indicated, the address of each beneficial owner is 587 Connecticut Avenue, Norwalk, Connecticut 06854-1711.

(2) Unless otherwise indicated, mPhase believes that all persons named in the table have sole voting and investment power with respect to all shares of the Company beneficially owned by them. The percentage for each beneficial owner listed above is based on shares outstanding on October 25 2010, and, with respect to each person holding options or warrants to purchase shares that are exercisable within 60 days after October 25, 2010, the number of options and warrants are deemed to be outstanding and beneficially owned by the person for the purpose of computing such person's percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes 1,816,148 shares held by Durando Investment LLC. Shares held by Janifast which Mr. Durando controls are stated separately.

(4) Includes as warrants 56,326,731 shares, 35,789,943 shares and 24,226,000 shares issuable for unpaid compensation and loans plus accrued interest, if converted, for Messrs. Durando, Dotoli and Smiley respectively. Such conversions are subject to availability of authorized shares. On April 27, 2009, the board of directors consolidated all amounts outstanding for all obligations to the officers, including unpaid compensation, and authorized the issuance of new notes with a term of five years, an interest rate of 12% and a conversion feature at a price of $.0075 on amounts outstanding plus accrued interest thereon. During the fiscal years ended June 30, 2009 and June 30, 2010, the Company recorded $914,060 and $82,609, respectively, of beneficial interest expense with respect to the conversion feature.

(5) Messrs. Ergul and Durando and certain members of their families may be deemed to exercise shared majority voting power for Microphase Corporation through their indirect ownership interests in Microphase Holding Company, LLC which owns 88.4% of Microphase common stock. The holding company is owned 43.9% by the Ergul Family Limited Partnership, which is wholly owned by Mr. Ergul, his wife and daughters, and 50% by Edson Realty Inc. which is 83% owned by Mr. Durando, 12% by Mr. Ergul and 5% by three unrelated shareholders. Mr. Durando owns an additional 1.6% of Microphase common stock in his individual name.

(6) Includes 26,666,667 shares issued in June 2009 in connection with which the Company, during the quarter ended September 30, 2009, recorded $586,667 in beneficial interest expense in respect of the conversion of $200,000 of accounts payable.

EXECUTIVE COMPENSATION

Our executive officers, directors and other significant employees and their ages and positions as of June 30, 2010 are as follows:

Name of Individual	**Age**	**Position with the Company and Subsidiaries**
Ronald A. Durando	52	Chief Executive Officer, Chairman of the Board
Gustave T. Dotoli (2)	74	Chief Operating Officer, Director
Victor Lawerence	60	Director
Anthony Guerino (1)(2)	65	Director
Abraham Biderman (1)(2)	62	Director
Martin Smiley	62	Executive Vice President, Chief Financial Officer,
		General Counsel, Director

(1) Member of Audit Committee

(2) Member of Compensation Committee

The following table sets forth, for the fiscal year ended June 30, 2010 and the three previous fiscal years, the compensation earned by mPhase's chief executive officer and the other executive officers whose compensation was greater than $100,000 for services rendered in all capacities to the Company.

SUMMARY EXECUTIVE COMPENSATION

NAME & PRINCIPAL POSITION	YEAR	SALARY	BONUS	STOCK AWARDS	OPTION AWARDS	NON-EQUITY INCENTIVE	PENSION VALUE	OTHER	TO
Ronald Durando									
President	2010	$ 200,000	$ 0	$ 0	$ 0	N/A	N/A	$ 56,483(4)	$ 2
Chief	2009	$ 275,718	$ 0	$ 1,541,700(5)	$ 1,944,912(6)	N/A	N/A	$ 61,473(4)	$ 3,8
Executive	2008	$ 393,600	$ 0	$ 0	$ 0	N/A	N/A	$ 19,490(4)	$ 4
Officer	2007	$ 393,600	$ 0	$ 860,000(5)	$ 196,000(6)	N/A	N/A	$ 7,500(1)	$ 1,4
Gustave Dotoli	2010	$ 180,000	$ 0	$ 0	$ 0	N/A	N/A	$ 39,375(4)	$ 2
Chief	2009	$ 229,000	$ 0	$ 913,600(5)	$ 1,166,947(6)	N/A	N/A	$ 62,514(4)	$ 2,3
Operating	2008	$ 282,000	$ 0	$ 0	$ 0	N/A	N/A	$ 4,156(4)	$ 2
Officer	2007	$ 282,000	$ 0	$ 450,000(5)	$ 126,000(6)	N/A	N/A	$ 7,538(2)	$ 8
Martin Smiley									
Executive									
V.President	2010	$ 175,000	$ 0	$ 0	$ 0	N/A	N/A	$ 24,536(4)	$
CFO and	2009	$ 182,292	$ 0	$ 571,000(5)	$ 700,168(6)	N/A	N/A	$ 21,048(4)	$ 1,4
General	2008	$ 200,000	$ 0	$ 0	$ 0	N/A	N/A	$ 18,752(4)	$ 2
Counsel	2007	$ 200,000	$ 0	$ 262,500(5)	$ 56,000(6)	N/A	N/A	$ 8,550(3)	$ 5

Footnotes

(1) Consists of directors fees of $7,500 in 2007.

(2) Consists of directors fees of $7,500 in 2007 plus interest of $38 in 2007 on loan to the Company.

(3) Consists of directors fees of $3,750 plus $4,800 interest on loans to the Company.

(4) Interest on loans to the Company.

(5) Share grants are valued at the share price on the date the grant was authorized by the board of directors. The shares under the 2009 grant to officers are restricted from resale through August, 2010.

(6) The fair value of options granted in fiscal years ended June 30, 2007 and 2009 was estimated as of the date of grant using the Black-Scholes stock option pricing model, based on the following weighted average assumptions: annual expected return of 0%, an average life of 5 years, annual volatility of 71% and 80.3% and a risk-free interest rate of 2.25% and 3.0% in the years 2007 and 2009 respectively.

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Compensation of Directors

During fiscal years ended June 30, 2010 and June 30, 2009, mPhase did not compensate any directors with cash stipends. During the fiscal year ended June 30, 2010 directors did not receive any stock options or stock grants. During the fiscal year ended June 30, 2009, inside directors were compensated for services both as officers and directors with stock options and stock grants. The Company did award Messrs. Durando, Dotoli, Smiley, Biderman, Guerino, and Lawrence five year stock options at an exercise price of $.05 each on September 2, 2008, none of which have been exercised through this date.

Option Exercises and Stock Vesting FYE June 30, 2010.

None

Option Exercises and Stock Vesting FYE June 30, 2009

	OPTION AWARDS		STOCK AWARDS	
Name	Number of shares to be acquired on exercise	Value realized on exercise	Number of shares awarded	Value*
Ronald Durando President CEO	50,000,000	N/A	27,000,000	$ 1,541,700
Gustave Dotoli COO	30,000,000	N/A	16,000,000	$ 1,166,947
Martin Smiley Executive VP CFO Chief Legal Counsel	18,000,000	N/A	10,000,000	$ 700,168
Abraham Biderman Director	2,000,000	N/A	4,000,000	$ 228,400
Anthony Guerino Director	100,000	N/A	100,000	$ 5,710
Victor Lawrence Director	100,000	N/A	100,000	$ 5,710

* Share grants are valued at the share price on the date the grant was authorized by the board of directors. The shares under the 2009 grant to officers are restricted from resale through August, 2010.

During fiscal year ended June 30, 2008, mPhase did not compensate inside or outside directors with any cash stipends, stock options, stock awards or other compensation for their service as directors of the Company.

Option Exercises and Stock Vesting FYE June 30, 2008

	OPTION AWARDS		STOCK AWARDS	
Name	Number of shares to be acquired on exercise	Value realized on exercise	Number of shares awarded	Value
Ronald Durando President CEO	0	N/A	0	N/A
Gustave Dotoli COO	0	N/A	0	N/A
Martin Smiley Executive VP CFO Chief Legal Counsel	0	N/A	0	N/A
Abraham Biderman Director	0	N/A	0	N/A
Anthony Guerino Director	0	N/A	0	N/A
Victor Lawrence Director	0	N/A	0	N/A

OUTSTANDING EQUITY AWARDS at FISCAL YEAR END JUNE 30, 2010

	Number of Securities Underlying Unexercised Options (Exercisable)	Number of Securities Underlying Unexercised Options (Unexercisable)	Equity Incentive Plan Awards Number of Securities	Option Exercise Price	Option Expiration Date	Number of Shares Not Vested	Market Value of Shares Not Vested	Equity Incentive
Ronald Durando President CEO	550,000	0	0	$ 0.18	2/23/2011	0	0	0
	3,450,000	0	0	$ 0.18	2/23/2011	0	0	0
	475,000	0	0	$ 0.21	2/23/2011	0	0	0
	3,525,000	0	0	$ 0.21	2/23/2011	0	0	0
	1,000,000	0	0	$ 0.21	3/28/2011	0	0	0
	750,000	0	0	$ 0.25	6/14/2011	0	0	0
	25,000	0	0	$ 0.25	6/14/2011	0	0	0
	1,400,000	0	0	$ 0.21	8/24/2011	0	0	0
	50,000,000	0	0	$ 0.05	9/16/2013	0	0	0
Gustave Dotoli COO	550,000	0	0	$ 0.18	2/23/2011	0	0	0
	1,250,000	0	0	$ 0.18	2/23/2011	0	0	0
	475,000	0	0	$ 0.21	2/23/2011	0	0	0
	1,325,000	0	0	$ 0.21	2/23/2011	0	0	0
	750,000	0	0	$ 0.21	3/28/2011	0	0	0
	500,000	0	0	$ 0.25	6/14/2011	0	0	0
	25,000	0	0	$ 0.25	6/14/2011	0	0	0
	900,000	0	0	$ 0.21	8/24/2011	0	0	0
	30,000,000	0	0	$ 0.05	9/16/2013	0	0	0
Martin Smiley	550,000	0	0	$ 0.18	2/23/2011	0	0	0
	475,000	0	0	$ 0.21	2/23/2011	0	0	0
	25,000	0	0	$ 0.21	2/23/2011	0	0	0

Executive VP									
CFO	250,000	0	0	$	0.25	6/14/2011	0	0	0
Chief Legal	400,000	0	0	$	0.21	6/24/2011	0	0	0
Counsel	18,000,000	0	0	$	0.05	9/16/2013	0	0	0

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OUTSTANDING EQUITY AWARDS at FISCAL YEAR END JUNE 30, 2009

	Number of Securities Underlying Unexercised Options (Exercisable)	Number of Securities Underlying Unexercised Options (Unexercisable)	Equity Incentive Plan Awards Number of Securities	Option Exercise Price	Option Expiration Date	Number of Shares Not Vested	Market Value of Shares Not Vested	Equity Incentive
Ronald	2,500,000	0	0	$ 0.35	12/31/2009	0	0	0
Durando	550,000	0	0	$ 0.18	2/23/2011	0	0	0
President	3,450,000	0	0	$ 0.18	2/23/2011	0	0	0
CEO	475,000	0	0	$ 0.21	2/23/2011	0	0	0
	3,525,000	0	0	$ 0.21	2/23/2011	0	0	0
	1,000,000	0	0	$ 0.21	3/28/2011	0	0	0
	750,000	0	0	$ 0.25	6/14/2011	0	0	0
	25,000	0	0	$ 0.25	6/14/2011	0	0	0
	1,400,000	0	0	$ 0.21	8/24/2011	0	0	0
	50,000,000	0	0	$ 0.05	9/16/2013	0	0	0
Gustave	1,000,000	0	0	$ 0.35	12/31/2009	0	0	0
Dotoli	550,000	0	0	$ 0.18	2/23/2011	0	0	0
COO	1,250,000	0	0	$ 0.18	2/23/2011	0	0	0
	475,000	0	0	$ 0.21	2/23/2011	0	0	0
	1,325,000	0	0	$ 0.21	2/23/2011	0	0	0
	750,000	0	0	$ 0.21	3/28/2011	0	0	0
	500,000	0	0	$ 0.25	6/14/2011	0	0	0
	25,000	0	0	$ 0.25	6/14/2011	0	0	0
	900,000	0	0	$ 0.21	8/24/2011	0	0	0
	30,000,000	0	0	$ 0.05	9/16/2013	0	0	0
Martin	550,000	0	0	$ 0.18	2/23/2011	0	0	0
Smiley	475,000	0	0	$ 0.21	2/23/2011	0	0	0
Executive	25,000	0	0	$ 0.21	2/23/2011	0	0	0
VP								
CFO	250,000	0	0	$ 0.25	6/14/2011	0	0	0
Chief								
Legal	400,000	0	0	$ 0.21	6/24/2011	0	0	0
Counsel	18,000,000	0	0	$ 0.05	9/16/2013	0	0	0

OUTSTANDING EQUITY AWARDS at FISCAL YEAR END JUNE 30, 2008

	Number of Securities Underlying Unexercised Options (Exercisable)	Number of Securities Underlying Unexercised Options (Unexercisable)	Incentive Plan Awards Number of Securities	Option Exercise Price	Option Expiration Date	Number of Shares Not Vested	Market Value of Shares Not Vested	Equity Incentive
Ronald Durando	500,000	0	0	$ 0.45	6/19/2009	0	0	0
President CEO	1,000,000	0	0	$ 0.45	6/19/2009	0	0	0
	2,500,000	0	0	$ 0.35	12/31/2009	0	0	0
	550,000	0	0	$ 0.18	2/23/2011	0	0	0
	3,450,000	0	0	$ 0.18	2/23/2011	0	0	0
	475,000	0	0	$ 0.21	2/23/2011	0	0	0
	3,525,000	0	0	$ 0.21	2/23/2011	0	0	0
	1,000,000	0	0	$ 0.21	3/28/2011	0	0	0
	750,000	0	0	$ 0.25	6/14/2011	0	0	0
	25,000	0	0	$ 0.25	6/14/2011	0	0	0
	1,400,000	0	0	$ 0.21	8/24/2011	0	0	0
Gustave Dotoli	250,000	0	0	$ 0.45	6/19/2009	0	0	0
COO	500,000	0	0	$ 0.35	6/19/2009	0	0	0
	1,000,000	0	0	$ 0.35	12/31/2009	0	0	0
	550,000	0	0	$ 0.18	2/23/2011	0	0	