MPHASE TECHNOLOGIES INC
Form 10-Q
November 14, 2012

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTER ENDED **September 30, 2012**

COMMISSION FILE NO. **000-30202**

FORM 10-Q

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)*

(203) 838-2741
ISSUER S TELEPHONE NUMBER

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 14, 2012 IS 4,307,622,165 SHARES, ALL OF ONE CLASS OF $.001 PAR VALUE COMMON STOCK.

mPHASE TECHNOLOGIES, INC.

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

	June 30, 2012	September 30, 2012 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash	$ 39,913	$ 4,802
Inventory	86,494	73,247
Prepaid and other current assets	26,653	23,042
TOTAL CURRENT ASSETS	**$ 153,060**	**$ 101,091**
Property and equipment, net	33,141	29,148
TOTAL ASSETS	**$ 186,201**	**$ 130,239**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 826,379	$ 851,811
Accrued expenses	91,591	106,640
Due to related parties	203,128	210,527
Accrued Wages Officers	68,751	98,750
Notes payable, related parties	1,189,552	1,219,970
Short term notes	65,000	65,000
Accounts Payable and Accrued Expenses-Discontinued Activities	863,594	863,594
Current Portion, Long term convertible debentures	522,980	714,564
Current Portion, Long term debt	12,864	13,234
TOTAL CURRENT LIABILITIES	**$ 3,843,839**	**$ 4,142,090**
Long term portion Equipment loan	3,451	-
OTHER OBLIGATIONS CONVERTIBLE TO EQUITY- (Note 3)		
Convertible debt derivative liability	898,734	127,493
Long term portion of Convertible debentures, net of discount of $128,793 and $36,255 on June 30, 2012 and September 30, 2012, respectively	942,944	808,898
COMMITMENTS AND CONTINGENCIES -(Note 4)		
STOCKHOLDERS' DEFICIT		
Common stock, par value $.001, 6,000,000,000 shares authorized, 3,666,051,851 and 4,232,622,165 shares issued and outstanding at June 30, 2012 and September 30, 2012, respectively	3,666,051	4,232,621
Additional paid in capital	194,468,219	194,120,649
Deferred Compensation	(198,157)	(155,694)
Deficit accumulated during development stage	(203,430,907)	(203,137,845)
Less-Treasury stock, 13,750 shares at cost	(7,973)	(7,973)
TOTAL STOCKHOLDERS' DEFICIT	$ (5,502,767)	$ (4,948,242)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	**$**	**186,201**	**$**	**130,239**

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

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

	For the Three Months Ended		2-Oct-96 (Date of Inception)
	September 30, 2011 (Unaudited)	September 30, 2012 (Unaudited)	To September 30, 2012 (Unaudited)
REVENUES	$ 0	$ 2,154	$ 747,295
COSTS AND EXPENSES			
Cost of Sales	571	13,279	143,763
Research and Development (including non-cash stock related charges of $0, $0 and $205,733 for the three months ended September 30, 2011 & 2012 and inception to date respectively)	41,403	993	12,311,929
General and Administrative (including non-cash stock related charges of $6,538,345, $42,463 and $19,501,094 for the three month ended September 30, 2011 & 2012 and inception to date respectively)	6,888,462	283,080	35,434,321
Depreciation and Amortization	3,681	3,000	595,827
TOTAL COSTS AND EXPENSES	6,934,117	300,352	48,485,840
OPERATING LOSS	$ (6,934,117)	$ (298,198)	$ (47,738,545)
OTHER INCOME (EXPENSE)			
Interest (Expense)	(70,690)	(69,943)	(3,041,035)
Net Reparation, Impairment and Other Income (Expense)	1,131	0	(6,709,781)
Net Charges related to Convertible Debt	824,454	661,203	(1,109,453)
TOTAL OTHER INCOME (EXPENSE)	$ 754,895	$ 591,260	$ (10,860,269)
Income (Loss) From Continuing Operations, before Income Taxes	$ (6,179,222)	$ 293,062	$ (58,598,814)
Income (Loss) From Discontinued Operations, Net of Income Taxes of $0 in 2011 and 2012, offset by benefit from tax loss carryforwards of $0 in 2011 and 2012 (including non-cash stock related charges of $0, $0 and $ 57,515,718 for the three months ended September 30, 2011 & 2012 and inception to date respectively)	-	-	(144,539,031)
Income Taxes			

Net Income (Loss)	$	(6,179,222)	$	293,062	$	(203,137,845)
Basic Net income (loss) per share from:						
Continuing Operations	$	(0.00)	$	0.00		
Discontinued Operations	$	(0.00)	$	-		
Diluted Net income (loss) per share from:						
Continuing Operations		N/A	$	0.00		
Discontinued Operations		N/A	$	-		
Weighted Average Number of Shares Outstanding;						
Basic		2,053,984,273		4,030,772,724		
Diluted		N/A		6,000,000,000		

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

mPHASE TECHNOLOGIES, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
(UNAUDITED)

	Common Stock						
	Shares	$.001 Par Value	Treasury Stock	Additional Paid in Capital	Deferred Compensation	Accumulated Deficit	Shareholders' (Deficit) Equity
Balance June 30, 2012	3,666,051,851	3,666,051	(7,973)	194,468,219	$ (198,157)	$ (203,430,907)	$ (5,502,767)
Issuance of Common Stock to accredited investors in private placement, net of $9,500 fees	561,250,000	561,250	-	(346,250)	-	-	215,000
Amortization of deferred stock compensation	-	-	-	-	42,463	-	42,463
Common Stock issued to cover the exercise of Put advances under Equity Line of Credit, net of $1,852 transacion fees	5,320,314	5,320	-	(1,320)	-	-	4,000
Net Income for the Three Months Ended September 30, 2012	-	-	-	-	-	293,062	293,062
Balance September 30, 2012	4,232,622,165	4,232,621	(7,973)	194,120,649	(155,694)	(203,137,845)	(4,948,242)

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

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

	For the Three Months Ended September 30 2011	September 30 2012	(Date of Inception) To September 30 2012
Cash Flow From Operating Activities:			
Net Income (Loss) From Continuing Operations	$ (6,179,222)	$ 293,062	$ (58,598,814)
Net Income (Loss) From Discontinued Operations	-	-	$ (144,539,031)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	4,176	3,993	$ 7,482,750
(Gain) loss on debt extinguishments	-	-	$ (1,350,301)
Non-cash charges relating to issuance of common stock, common stock options and warrants	6,520,500	-	$ 77,023,989
Reparation charges	-	-	$ 8,264,264
Derivative Value and Debt Discount charges	(824,454)	(678,703)	$ 1,725,104
Write off of Granita Inventory/ Sovereign Investment	-	-	$ 615,910
Other non cash charges including amortization of deferred compensation and beneficial conversion interest expense	17,845	42,463	$ 2,900,598
Changes in assets and liabilities:			
Accounts receivable	-	-	$ 427,876
Inventories	1,230	13,247	$ (583,718)
Prepaid expenses and Other current assets	(1,214)	3,611	$ 58,019
Other	-	-	$ 894,035
Accounts payable, Accrued expenses, Deferred revenue	84,381	68,612	$ 9,520,231
Due to/from related parties			
Microphase / Janifast//Lintel	4,191	5,399	$ 5,519,586
Officers and Other	-	30,000	$ 1,816,497
Net Cash used in operating activities	**$ (372,567)**	**$ (218,316)**	**$ (88,823,004)**
Cash Flow from Investing Activities:			
Payments related to patents and licensing rights	-	-	$ (450,780)
Purchase of fixed assets	(7,129)	-	$ (3,315,622)
Investment in Sovereign	-	-	$ (110,000)
Net Cash used in investing activities	**$ (7,129)**	**$ -**	**$ (3,876,402)**
Cash Flow from Financing Activities:			
Proceeds from issuance of common stock, exercises of warrants, net of finders fees	122,000	219,000	$ 83,680,807
Payment of short term notes & equipment loans	(2,751)	(3,081)	$ (1,313,366)
Advances from Microphase	-	-	$ 347,840
Issuance of Convertible Debentures	325,000	-	$ 1,411,500
Cash repayment of Convertible Debentures	-	(35,000)	$ (35,000)
Net Proceeds (Repayment) from notes payable related parties	21,000	2,286	$ (241,073)
Proceeds from the collection of Notes Receivable under securities purchase agreements	-	-	$ 8,339,500
Sale of minority interest in Granita subsidiary	-	-	$ 514,000

Net cash provided by financing activities	$	**465,249**	$	**183,205**	**$**	**92,704,208**
Net increase (decrease) in cash	$	**85,553**	$	(35,111)	$	4,802
CASH AND CASH EQUIVALENTS, beginning of period		1,744		39,913		-
CASH AND CASH EQUIVALENTS, end of period	$	**87,297**	$	**4,802**	**$**	**4,802**

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 and is in the development stage, as defined by Statement of Accounting Standards Codification ("ASC") 915-10-20, "Accounting and Reporting by Development Stage Enterprises." The Company s present activities are focused on developing new smart surface products through the sciences of microfluidics, microelectromechanical systems (MEMS) and nanotechnology. 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 considered necessary for a fair presentation have been included. Operating results for the three months ending September 30, 2012 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, as amended, for the year ended June 30, 2012.

Through September 30, 2012, the Company had incurred cumulative (a) development stage losses totaling $203,137,845, (b) shareholders deficit of $4,948,242 and (c) negative cash flow from operations equal to $88,823,004. At September 30, 2012, the Company had $4,802 of cash and $0 of trade receivables to fund short-term working capital requirements. In addition, the Company relies on the continuation of funding under certain convertible securities agreements (See Note 3). 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.

INVENTORY

The Company uses the First In First Out method (FIFO) to account for inventory which is carried at cost. As of June 30, 2012, inventory consisted primarily of Emergency Flashlights and their component parts and was valued at $86,494, net of a $12,810 reserve. As of September 30, 2012, (unaudited) inventory consisted primarily of Emergency Flashlights and was valued at $73,247, net of a $23,935 reserve. Appropriate reserves have been taken to assure that the cost of such inventory does not exceed the expected resale value of each configuration of the component parts as specified for the current and pending higher end models of the Emergency Flashlight line.

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.

MATERIAL EQUITY INSTRUMENTS

The Company has material equity instruments including convertible debentures and convertible notes that are accounted for as derivative liabilities (SEE BELOW) and options and warrants that are evaluated quarterly for potential reclassification as liabilities pursuant to by FASB Standards Codification Topic 815 (previously known as EITF 00-19). (SEE ALSO NOTE 3 under the caption "Other Equity".)

INCOME (LOSS) PER COMMON SHARE, BASIC AND DILUTED

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net loss adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The Company had warrants to purchase 16,780,689 shares of its common stock and options to purchase 104,760,000 shares of its common stock outstanding at September 30, 2012, as well as convertible debentures and convertible notes plus accrued interest thereon held by officers of the Company convertible into approximately 1,044,666,287 and 304,992,593 shares of the Company s common stock based upon the conversion terms at September 30, 2012. The convertible notes plus accrued interest thereon held by officers of the Company are convertible only when such shares are available. In periods reporting a loss the inclusion of warrants and potential common shares to be issued in connection with convertible debt have an anti-dilutive effect on diluted loss per share and have been omitted in such computation.

2. SUPPLEMENTAL CASH FLOW INFORMATION

	For the three months ended September 30, 2011	2012
Interest Accrued Unpaid	$ 38,413	$ 61,448
Non Cash Investing and Financing Activities:		
Conversion of Convertible Debt and Accrued Interest	$ 112,206	$ 0
Beneficial Conversion of Officers Notes	$ 2,320	$ 0

3. EQUITY TRANSACTIONS AND CONVERTIBLE DEBT

mPhase initially authorized capital of 50,000,000 shares of common stock with no par value. On February 23, 2000, the Board of Directors proposed, and on May 22, 2000 the shareholders approved, an increase in the authorized capital to 150,000,000 shares of common stock. On June 15, 2004, a Special Meeting of Shareholders of the Company approved a proposal by the Company to amend the Company s Certificate of Incorporation under New Jersey law to increase the authorized shares of common stock from 150 million to 250 million shares and change the par value of all shares of common stock from no par to $0.01 par stock and in December 2011 the par value was changed to $.001.

Effective June 2005, June 2006, and June 2008, the Company received authorization to increase the number of authorized shares to 500 million, 900 million and 2 billion, respectively. On April 25, 2009, July 15, 2010, and again on November 1, 2010, the Board of Directors approved motions to further increase, subject to shareholder approval, the authorized shares of common stock to 3 billion shares, 4 billion shares and 6 billion shares, respectively. The latest increase in the number of authorized shares of common stock to 6 billion was approved at a Special Meeting of Shareholders of the Company held on June 29, 2011, so that as of September 30, 2012 the Company has 6 billion authorized shares of common stock.

Private Placements

During the three months ended September 30, 2011, the Company issued 20 million shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $80,000 and paying finder s fees in the amount of $8,000. The proceeds were used by the Company as working capital.

During the three months ended September 30, 2012, the Company issued 561,250,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $224,500 and paying finder s fees in the amount of $9,500. The proceeds were used by the Company as working capital.

Stock Based Compensation

During the three months ended September 30, 2011, the Company issued 1,035,000,000 shares of common stock to officers and directors, valued at $ 6,520,500, the entire amount of which is included general and administrative expenses in the Consolidated Statements of Operations for that period.

Also during the three months ended September 30, 2011, the Company did not issue any shares of its common stock to consultants and the Board of Directors revised the exercise price of options to purchase up to 98,000,000 shares of common stock previously granted to officers in September, 2008 (originally exercisable for 5 years with an exercise price of 5 cents per share). The exercise price of options to purchase up to 98,000,000 shares was revised to $.0040; the incremental cost of $339,700 was recorded as deferred compensation which will be amortized to expense through September 18, 2013.

During the three months ended September 30, 2012, the Company did not issue any stock-based compensation, warrants or options to officers or employees.

Conversion of Debt Securities

During the three months ended September 30, 2011, $112,206 of convertible debt and accrued interest thereon was converted into 26,748,476 shares of common stock.

During the three months ended September 30, 2012, no conversions were made of convertible debt and accrued interest thereon into shares of common stock.

Long Term Convertible Debentures / Debt Discount

The Company had 6 separate convertible debt arrangements with independent investors active during the quarter ended September 30, 2012, which are the result of the disposition of the following 10 arrangements.

During the three months ended September 30, 2012, no conversions were made of convertible debt and accrued interest thereon into shares of common stock.

These transactions are intended to provide liquidity and capital to the Company and are summarized below.

Arrangement #1(La Jolla Cove Investors, Inc.)

On Sept 11, 2008, the Company received proceeds of $200,000 under a Securities Purchase Agreement from La Jolla Cove Investors, Inc. This transaction involves three related agreements: 1) a Securities Purchase Agreement which could have, under certain circumstances, permitted the Company to draw up to $2,000,000 of funds, 2) a convertible debenture totaling $2,000,000, with an interest rate of 7 1/4% and a maturity date of September 30, 2011, and 3) a secured note receivable in the amount of $1,800,000 with an interest rate of 8 1/4% and maturity date of September 30, 2011 due from the holder of the convertible debenture.

Conversion of the outstanding debenture into common shares was 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. At the time of the transaction (September 11, 2008), the derivative value of this security was calculated to be $1,176,471. On June 30, 2011, the derivative value of this security was calculated to be $3,468.

On March 16, 2011, the holder and the Company entered into a termination agreement whereby $1,800,000 of the principal of both the note receivable and the convertible debenture, plus $90,291 in accrued interest receivable and $84,175 in accrued interest payable, was cancelled. Additionally, in connection with the termination, the Company paid the holder $17,000 and assigned to a consultant engaged by the Company the unconverted portion of the convertible debenture in the amount of $10,000, which had been fully funded in cash and which was converted in full together with accrued interest of $500 for 2,560,976 shares of common stock during the quarter ended September 30, 2011 and as of September 30, 2012, this convertible note had been satisfied in full.

Arrangement #2 (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 each) 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 $639,500 in cash and has issued 322,187,500 shares of common stock to the holder upon conversions of $325,440 of principle and $994,766 of conversion fees. The remaining $604,600 of cash which was to be received from the holder plus accrued and unpaid interest was 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 June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 222,142,857 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated. At June 1, this note was combined with arrangement #4 JMJ Financial, Inc.

During the year ended June 30, 2011 the holder converted $33,750 of principal into 10,000,000 shares of common stock and amortization of debt discount amounted to $412,332, reducing the debt discount balance to $100,000.

During the year ended June 30, 2012, the Company reduced the note payable and debt discount by $42,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $27,067 reducing the balance to $30,933. Also during the year ended June 30, 2012, the Company had incurred $994,766 of conversion fees which together with $291,690 of principle was converted into 322,187,500 shares of common stock. At June 30, 2012 this convertible note had $372,060 outstanding which was combined with arrangement #4 JMJ Financial, Inc.

Arrangement #3 (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 December15, 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. 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 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. The number of shares into which this convertible 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. Based upon the price of the Company s common stock on June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 285,714,286 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated.

The Company and the holder are presently negotiating potential amendments to this agreement, and funding and conversions have not occurred since April, 2011. For accounting purposes the note receivable has been fully reserved, and the liability is recorded, when netted against the debt discount and cumulative conversions, at the amount funded. Based upon the price of the Company s common stock on June 30, 2011, the net liability of this note is convertible into approximately 38,095,238 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was $542,714 and the debt discount was valued at $642,714. As of June 30, 2011, this value was calculated to be $607,994. During the year ended June 30, 2011, amortization of debt discount amounted to $418,552, reducing the balance to $100,000.

During the fiscal year ended June 30, 2012, the Company reduced the note payable and debt discount by $79,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $8,573 reducing the balance to $12,427. As of June 30, 2012, this convertible note has $321,000 outstanding which was combined with arrangement #4 JMJ Financial, Inc.

Arrangement #4 (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 each) and a maturity date of December 15, 2012. 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 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. The number of shares into which this convertible 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. Based upon the price of the Company s common stock on June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 228,571,429 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated.

For accounting purposes the note receivable has been fully reserved, and the liability is recorded, when netted against the debt discount and cumulative conversions, at the amount funded. Based upon the price of the Company s common stock on June 30, 2011, the net liability of this note is convertible into approximately 19,047,619 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was $421,891 and the debt discount was valued at $521,891. As of June 30, 2011, this value was calculated to be $486,795. During the year ended June 30, 2011, amortization of debt discount amounted to $378,761, reducing the balance to $ 100,000.

During the fiscal year ended June 30, 2012, the Company reduced the note payable and debt discount by $91,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $3,674 reducing the balance to $5,326.

As of June 30, 2012, this convertible note has $109,000 outstanding, which when combined with arrangements #8 and #9 totaled $802,060, which the company entered into an amended agreement on June 1, 2012 whereby the Company agreed to make payments of principle and interest of $37,018 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company s common stock would be available to the holder. Also as of June 30, 2012 the derivative value of the embedded conversion feature of this arrangement when combined with arrangements #2 and #3 totaled $0; which when compared to the combine value of $1,567,512 created a non-cash credit to earnings of $1,567,512 in fiscal 2012. As of June 30, 2012 and September 30, 2012 the combined arrangements with JMJ in this note would be convertible into 200,515,000 at the conversion floor price of $.004; and only so if the Company does not make the scheduled payments pursuant to the June 1, 2012 amended agreement. The Company has not made any payments of the $37,018 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance (see note 4).

Arrangement #5 (John Fife)

On March 5, 2010, the Company entered into an new financing agreement with J. Fife that consist 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 had a maturity date of one year from the date of issuance. In addition, the Company had committed to issue in the future 2 additional promissory notes each in the principal amount of $275,000 each with an interest rate of 7.5% each upon the receipt of $250,000 of cash funding in exchange for such notes. The issuance of each of such notes was expected to take place upon the full conversion of 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 October 22, 2010, the Company entered into a Forbearance Agreement with this convertible note holder in which the lender agreed not to convert any additional amounts under the convertible notes until January 15, 2011 in exchange for increasing the original principal amount of those notes by 10% from $550,000 to $605,000 resulting in a charge of $55,000 for debt extension fees corresponding with the addition to the note principal. At the time of the

October 22, 2010 transaction, the embedded conversion feature of this security for this incremental liability and loan discount was calculated to be $20,005. This note, which was originally scheduled to mature on March 4, 2011, was extended to June 30, 2012 on September 13, 2011. These increases in the convertible note will also be convertible into common stock of the Company 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.

At the time of the transaction (March 5, 2010) the derivative value of this security was calculated to be $193,767 and the debt discount was valued at $243,767. As of June 30, 2011 and 2012 this liability was estimated to be $78,059 and $0, respectively, creating a non-cash credit to earnings of $78,059 in fiscal 2012. During the year ended June 30, 2011 the holder converted $398,245 of principal into 65,280,866 shares of common stock and amortization of debt discount amounted to $ 227,621, reducing the balance of the debt discount to $ 0. During the year ended June 30, 2012 the holder converted the remaining principal of $234,755, contractual charges of $74,848 and accrued interest of $77,895 into 161,041,617 shares of common stock and $0 remains outstanding at June 30, 2012.

Arrangement #6 (Jay Wright)

On August 11, 2011 the Company issued to Jay Wright a Convertible Note plus a Warrant in a Private Placement pursuant to Section 42) of the Securities Act of 1933 and received $25,000 in gross proceeds. The purpose for this transaction was to provide working capital for the Company to use for a portion of the interim financing needed by Energy Innovative Products during the course of due diligence by the Company of a proposed acquisition of EIP. The acquisition was subsequently terminated by EIP in January of 2012.

Interest only is payable under the original terms of the Convertible Note at the rate of 1% per month by the Company to the holder. The Convertible Note was originally convertible at a price of $.0068 per share subject to a downward adjustment if the Company issues common stock below such price as long as the Convertible Note is outstanding (anti-dilution protection). The Warrant gives the holder the right to purchase up to 3,676,471 shares of the Company s common stock at a price of $.0068 per share subject also to a downward adjustment for anti-dilution protection.

The Company and the holder had negotiations with respect to a final repayment arrangement of the Convertible Note. The Company has issued the holder 18 million shares of its common stock for repayment through a conversion and the holder has disputed the conversion and the amount of shares issued in satisfaction of the obligation.

All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $4,660 and the debt discount totaled the same.

The Company has taken the position that this note was converted in full during the fiscal year ended June 30, 2012 together with accrued interest of $1,900 for 18,000,000 shares of common stock.

Arrangement #7 (John Fife dba St. George Investors)

On September 13, 2011, the Company issued a second Convertible Note to John Fife founder and president of St. George Investments, in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933. The initial principal amount of the first funded tranche of the Convertible Note was $357,500 and the Company received cash proceeds of $300,000. A second tranche of the Convertible Note in the amount of $200,000 cash is funded upon the filing by the Company of a Registration Statement on Form S-1 with the Securities and Exchange Commission providing for the registration of 185,400,000 shares of common stock that may be converted into from time to time by the holder of the Convertible Note.

The instrument is convertible into the Company s common stock at 75% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 20 day trading period immediately preceding such conversion. Absent an effective Registration Statement, the holder of the Convertible Note may not sell any common stock prior to 6 months from the date of funding of each of the respective tranches of such instrument under Rule 144 of the Securities Act of 1933.

All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $137,481 and the loan discount totaled $194,981 for the initial tranche and the embedded conversion feature of this security and the warrant for a second tranche of the Convertible Note was calculated to be $46,379. On June 30, 2012, given the changes in the Company s stock price during the 20 day look-back period for June 30, 2012 and conversions during the period this estimated liability had increased from $183,860 to $771,079, an increase this period of $587,219, creating a non-cash charge to earnings for the twelve months ended June 30, 2012 of that amount. During the twelve month period ended June 30, 2012 amortization of debt discount amounted to $185,456 reducing the combined balance to $55,903. On September 30, 2012, given the changes in the Company s stock price during the 20 day look-back period for September 30, 2012 this estimated liability had decreased to $110,455, a decrease this period of $660,624, creating a non-cash credit to earnings for the three months ended September 30, 2012 of that amount. During the three month period ended September 30, 2012 amortization of debt discount amounted to $42,813 reducing the combined balance to $13,090.

The company entered into an amended agreement on June 1, 2012, when principle of $557,500 accrued interest of $66,338 and $95,611 of contractual charges totaled $719,449; with this noteholder whereby the Company agreed to make payments of principle and interest of $33,238 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company s common stock would be available to the holder. As of September 30, 2012 this note would be convertible into 789,645,351 shares of common stock at the original terms. The Company has not made any payments of the $33,238 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance (see note 4).

Arrangement#8- (Asher Enterprises, Inc.)

On November 17, 2011 the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $53,000 in gross proceeds, net of $3,000 closing fees. The instrument is in the principal amount of $53,000 and matures on November 17, 2012. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company s common stock at 60% of the volume weighted average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $47,970 and the loan discount totaled the same. During the fiscal year ended June 30, 2012 this Convertible Note was converted, in full, into 162,749,128 shares of common stock.

Arrangement#9- (Asher Enterprises, Inc II.)

On January 5, 2012 the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $35,000 in gross proceeds, net of $2,500 closing fees. The instrument is in the principal amount of $35,000 and matures on January 5, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company s common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

On July 11, 2012, the Company prepaid in full, in cash, this Convertible Note.

Arrangement#10- (Asher Enterprises, Inc. III)

On May 5, 2012 the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $37,500 in gross proceeds, net of $2,500 closing fees. The instrument is in the principal amount of $33,000 and matures on January 5, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company s common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $18,137 and the loan discount totaled the same. On June 30, 2012, given the changes in the Company s stock price during the 10 day look-back period for this estimated liability had increased to $66,029, an increase this period of $47,892 creating a non-cash charge to earnings of that amount. During the twelve month period ended June 30, 2012 amortization of debt discount amounted to $3,601 reducing the balance to $14,536. Based upon the price of the Company s common stock on June 30, 2012, this note is convertible into approximately 115,030,675 shares of common stock.

On September 30, 2012, given the changes in the Company s stock price during the 10 day look-back period for this estimated liability had decreased to $17,038, an decrease this period of $48,991 creating a non-cash credit to earnings of that amount. During the three month period ended September 30, 2012 amortization of debt discount amounted to $6,201reducing the balance to $8,335. Based upon the price of the Company s common stock on September 30, 2012, this note is convertible into approximately 54,505,814 shares of common stock.

The following table summarizes notes payable under convertible debt and debenture agreements as of June 30, 2012 and September 30, 2012 (unaudited):

		30-Jun-12 Amount		30-Sep-12 (unaudited) Amount
Arrangement #4 - JMJ Financial, Inc	$	802,060	$	802,060
Arrangement #7 - St. George Investments	$	720,157	$	720,157
Arrangement#9 Asher Enterprises, Inc.	$	35,000	$	-
Arrangement#10 Asher Enterprises, Inc.	$	37,500	$	37,500
total notes payable	$	1,594,717	$	1,559,717
less: unamortized debt discount	$	(128,793)	$	(36,225)
Convertible debentures, net of discount	$	1,465,924	$	1,523,462
Convertible Notes payable-short term portion	$	522,980	$	714,564
Convertible Notes payable-long term portion	$	942,944	$	808,898

DERIVATIVE LIABILITY

The Company has estimated the value of the derivative liability associated with its convertible debt. Such estimate is based on a Black Scholes calculation at the time the debt was issued. At each reporting period, the value of this liability is marked to market and adjusted accordingly. Such adjustments are included in Other Income (Expense).

EQUITY LINE OF CREDIT

The Company entered into a $10,000,000 equity line of Credit with Dutchess Opportunity Fund II, LLC in December of 2011. Under the equity line, the Company is eligible to PUT to the fund, 20,000,000 shares of its common stock during any pricing period. The Company has registered a total of 250,000,000 shares of its common stock on a Form S-1 Registration Statement with the Securities and Exchange Commission that was declared effective on January 17, 2012 in connection with the Dutchess Equity Line. As of September 30, 2012, the Company has received $149,428 of proceeds under the Equity Line relating to the resale of 94,907,761 shares of the Company s common stock, net of $15,352 transaction fees, of which $145,428 and $4,000 was received during FYE June 30, 2012 and the three months ended September 30, 2012, respectively. The amount of proceeds to be received under the Equity Line will depend upon the stock price of the Company at the various points in time it exercises the Put Option.

OTHER EQUITY

During the years ended June 30, 2009, the Company reevaluated warrants contracts to purchase 13,104,168 shares at fixed prices ranging from $.05 to $.15 per share originally issued during fiscal year ended June 30, 2008 pursuant to FASB Standards Codification Topic 815 (previously known as EITF 00-19), which reevaluation was to review if the Company should record an additional Derivative Liability. Such liability would be recordable if the other convertible instruments the Company had outstanding, primarily the convertible debentures and notes discussed above, would limit or prevent the Company from honoring the conversion of these fixed price warrants during their contract term.

The evaluation was performed on a contract by contract basis to equity instruments subject to FASB Standards Codification Topic 815 (previously known as EITF 00-19), namely warrants discussed above and the convertible debenture and convertible note agreements. The Company utilized a sequencing method prescribed by FASB Standards Codification Topic 815 (previously known as EITF 00-19) based upon applying shares available to contracts with the earliest inception date first.

During the fiscal year ended June 30, 2008, the Company reclassified contracts for warrants to purchase 12,604,168 shares at fixed prices ranging from $.13 to $.15 per share to contingent liabilities. Contracts for warrants to purchase 11,111,112 shares of the Company s common stock at $.14 per share were reclassified to permanent equity in May of 2009, and contracts for warrants to purchase 1,604,168 shares of the Company s common stock at fixed prices ranging from $.13 to $.15 per share were reclassified to permanent equity in September, 2009.

The liability was recorded at the fair market value, which estimated value was based upon the contractual life of the free standing warrants, using the Black Scholes pricing model, based on the following weighted average assumptions: annual expected return of 0%, an average life of 5 years, annual volatility of 81% and a risk-free interest rate of 2.25%. At the issuance date of the free standing warrants, which warrants were issued during the fourth quarter of fiscal June 30, 2008, the estimated value approximated $1,006,200 and, as recalculated on the quarterly measurement dates, at June 30, 2008 the estimated value approximated $433,300. During the fiscal year ended 2009, the estimated value was determined to no longer be material. The net change in the contingent liability was credited to the change in derivative value in the Consolidated Statement of Operations for the fiscal years ended June 30, 2008 and 2009 in the amounts of $572,900 and $433,300, respectively, for each of these periods in accordance FASB Standards Codification Topic 815 (previously known as EITF 00-19).

Subsequent to September 30, 2009, the Company had not entered into any contracts for warrants or other equity instruments subject to reclassification to liabilities as prescribed by FASB Standards Codification Topic 815 (previously known as EITF 00-19) until August 10, 2011 when it entered into a Convertible Note for $25,000 with Jay Wright which concurrently provided the note holder a warrant and recorded an additional derivative liability for the warrant.

4. COMMITMENTS AND CONTINGENCIES

The Company has offered and sold convertible notes to JMJ Financial in the aggregate principal amount plus accrued interest of $$10,270,400 through September 30, 2012. Such convertible notes were to provide cash funding to the Company of up to $9,500,600. Through September 30, 2012, approximately $6,472,000 of cash has been received by the Company, $6,273,050 of which has been converted by JMJ Financial into a substantial number of shares of common stock without registration under the Securities Act of 1933, as amended, or qualification under state securities laws. The Company believes that any sales of common stock by JMJ are in full compliance with Rule 144 of the Securities Act of 1933, as amended, and has obtained an opinion of outside counsel regarding such compliance.

Nevertheless, it is possible such compliance could be challenged in the future by either regulatory agencies or shareholders. In particular, questions regarding the economic risk of JMJ Financial with respect to the collateral required under the secured note delivered by JMJ Financial in payment of the purchase price for the Company s convertible note could be raised since the secured note contains a prepayment provision allowing JMJ to prepay such note, in full, by returning the convertible note. If a court of law determines that any offer or sale of common stock of the Company received in a conversion by JMJ Financial was not in compliance with Rule 144 then JMJ could be deemed to be an underwriter. The result would be that the Company would have been engaged in a primary offering of common stock through an underwriter in violation of the registration requirements of the Securities Act of 1933, as amended.

The Securities Act of 1933, as amended, requires that any claim for rescission is brought within one year of the violation. The time periods within which claims for rescission must be brought under state securities laws vary and may be two years or more from the date of the violation. At September 30, 2012, approximately 85 million shares of our outstanding common stock issued in respect of our convertible note transactions with JMJ Financial could still be subject to rescission with a potential liability approximating $988,100, including a liability of approximately $210,400 for interest at 10% per annum.

On June 5, 2012 the Company announced that it had reached separate agreements with John Fife and JMJ Financial (collectively, the Holders) to a standstill and restructuring of the convertible securities held by each of them. Under terms of each of the respective amendments, the Holders have agreed not to convert any additional principal of such convertible instruments into common stock and restructure such instruments to be repaid, in cash or common stock, a the option of the Company, over a 2 year period of time commencing in October of 2012. The Company is obligated to pay, commencing October1, 2012, approximately $70,000 per month to the Holders for a period of two years. The Company was to make the payments owed for October 1 and November 1 of 2012 and has only accrued interest while it hopes to negotiate a new arrangement with the Holders. The Company believes that it will be unable to raise sufficient funds to pay off the Convertible Debentures under a cash arrangement unless and until the Company is successful in its efforts to have the Depository Trust Company remove the Chill with respect to its common stock that has been in effect since June of 2011. Failure to remove the DTC could impact the Company s ability to continue as a going concern.

Legal Proceedings

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

5. FAIR VALUE MEASUREMENTS

Effective July 1, 2008, we adopted Accounting Standards Codification (ASC) 820-10-20, *Fair Value Measurements* , which provides a framework for measuring fair value under GAAP. ASC 820-10-20 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10-20 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10-20 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. For certain long-term debt, the fair value was based on present value techniques using inputs derived principally or corroborated from market data. Financial assets and liabilities using level 3 inputs were primarily valued using management s assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

The table below presents reconciliation for liabilities measured at fair value on a recurring basis at September 30, 2012 and September 30, 2011:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivative Liability	
30-Sep-11	30-Sep-12

Balance at July 1	$	1,664,575	$	898,734
Decrease in Derivative Liability		(853,499)		(771,241)
Debt Discounts		142,141		2,700
Balance at September 30	$	953,218	$	127,493

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

Some of the Company s financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature, such as cash and cash equivalents, receivables and payables.

We have determined that it is not practical to estimate the fair value of our notes payable because of their unique nature and the costs that would be incurred to obtain an independent valuation. We do not have comparable outstanding debt on which to base an estimated current borrowing rate or other discount rate for purposes of estimating the fair value of the notes payable and we have not been able to develop a valuation model that can be applied consistently in a cost efficient manner. These factors all contribute to the impracticability of estimating the fair value of the notes payable. At September 30, 2012, the carrying value of the notes payable and accrued interest for convertible agreements and officers notes was approximately $2.75million. The JMJ convertible notes, which are due at various times through December 31, 2012, yield an interest rate of 12%. Refer to Note 3 of these financial statements for more information about the Company s notes payable.

6. RELATED PARTY TRANSACTIONS

MICROPHASE CORPORATION

mPhase s President is also an officer and shareholder of Microphase and mPhase s Chief Operating Officer is also an employee of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase whereby it would 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 would reimburse 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 for technical and research development, $5,000 per month for administrative services and $5,000 per month under the office space agreement. Beginning July 1, 2006, billings for all of the above services have been $5,000 per month and in July 2008; such fees were reduced to $3,000 per month. As of July 1, 2011, the fees have increased to $3,630 per month. In addition, Microphase also charges fees for specific projects on a project-by-project basis. During the three months ended September 30, 2011 and September 30, 2012 and from inception (October 2, 1996), $13,191, $5,399 and $9,488,788 respectively, have been charged to expense. As a result of the foregoing transactions, as of September 30, 2012, the Company had a $58,526 payable to Microphase.

JANIFAST LTD.

The Company historically has purchased products and incurred certain research and development expenses with Janifast Ltd that had offices in Hong Kong and a manufacturing operation in the Peoples Republic of China in connection with products associated with its former telecommunications business that was discontinued. Janifast Ltd was owned by a company in which two directors and one former director of mPhase were significant shareholders. In March of 2009, Janifast Ltd ceased operations owing to financial distress and adverse global financial and credit conditions.

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 cancellation in loan obligations of $181,901 to Mr. Durando in connection with the plan of its liquidation.

During the three months ended September 30, 2011 and 2012 and the period from inception (October 2, 1996), $0, $0 and $16,031,811 respectively, have been charged by Janifast to inventory or is included in operating expenses in the accompanying statements of operations in Discontinued Operations.

OTHER RELATED PARTIES

Mr. Abraham Biderman was employed until September 30, 2003 by our former investment-banking firm Lipper & Company. On September 30, 2012, Mr. Biderman s affiliated firms of Palladium Capital Advisors and Eagle Strategic Advisers were owed unpaid finders fees in the amount of $152,000, which is included in due to related parties.

During the three months ended September 30, 2012, the Company issued no shares to consultants who are not considered related parties.

Transactions with Officers

At various points during past fiscal years the Messrs. Durando, Dotoli and Smiley provided bridge loans to the Company evidenced by individual promissory notes and deferred compensation so as to provide working capital to the

Company. All of the notes are payable on demand. Total compensation (including the value of stock awards) to related parties and payables to officers and Microphase are summarized as follows:

Total compensation and payables to related parties and to officers is summarized below:

Summary of compensation to related parties for the Three Months Ended September 20, 2012

	Durando	Dotoli	Smiley	Biderman	Microphase	Total
Consulting / Salary	$ 21,691	$ 21,691	$ 21,691			$ 65,072
Interest	$ 15,857	$ 11,026	$ 9,086			$ 35,969
Rent					$ 3,353	$ 3,353
G&A					$ 2,046	$ 2,046
Finders Fees				$ 9,500		$ 9,500
Total compensation for the Three Months Ended September 30, 2012	**$ 37,548**	**$ 32,716**	**$ 30,777**	**$ 9,500**	**$ 5,399**	**$ 115,940**

Summary of compensation to related parties for the Three Months Ended September 30, 2011

	Durando	Dotoli	Smiley	Biderman	Lawrence	Microphase	Total
Consulting / Salary	$ 37,500	$ 34,167	$ 33,333				$ 105,000
Interest	$ 13,116	$ 8,679	$ 6,337				$ 28,132
Rent						$ 10,890	$ 10,890
G&A						$ 2,301	$ 2,301
Finders Fees				$ 8,000			$ 8,000
Stock based compensation (shares issued)*	$ 2,488,500	$ 1,858,500	$ 1,858,500	$ 252,000	$ 63,000		$ 6,520,500
Stock based compensation (options previously issued & repriced)**	$ 173,316	$ 103,990	$ 62,394				$ 339,700
Total compensation	**$ 2,712,432**	**$ 2,005,336**	**$ 1,960,564**	**$ 260,000**	**$ 63,000**	**$ 13,191**	**$ 7,014,523**

Common stock issued*

Option sissued (5 years @ 5 cents)**

Summary of payables to related parties as of September 30, 2012	**Durando**	**Dotoli**	**Smiley**	**Payable**	**Biderman**	**Microphase**	**Total**
Notes payable	$ 464,723	$ 321,813	$ 271,327	$ 1,057,863			$ 1,057,863
Accrued Wages Officers	$ 39,167	$ 39,167	$ 20,416	$ 98,750			$ 98,750
Due to Officers / Affiliates					$ 152,000	$ 58,526	$ 210,526
Interest Payable	$ 74,628	$ 49,770	$ 37,709	$ 162,108			$ 162,108
Total Payable to Officers / Affiliates as of September 30, 2012	**$ 578,519**	**$ 410,750**	**$ 329,452**	**$ 1,318,720**	**$ 152,000**	**$ 58,526**	**$ 1,529,246**

Summary of payables to related parties as of June 30, 2012	**Durando**	**Dotoli**	**Smiley**	**Payable**	**Biderman**	**Microphase**	**Total**
Notes payable	$ 456,573	$ 333,663	$ 273,177	$ 1,063,413			$ 1,063,413
Accrued Wages Officers	$ 29,167	$ 29,167	$ 10,417	$ 68,751			$ 68,751
Due to Officers / Affiliates					$ 150,000	$ 53,128	$ 203,128
Interest Payable	$ 58,771	$ 38,745	$ 28,623	$ 126,139			$ 126,139
Total Payable to Officers / Affiliates as of June 30, 2012	**$ 544,511**	**$ 401,575**	**$ 312,217**	**$ 1,258,303**	**$ 150,000**	**$ 53,128**	**$ 1,461,431**

7. SUBSEQUENT EVENTS

From October 1 through November 9, 2012, the Company sold 175,000,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $70,000. The proceeds were used by the Company as working capital.

On November 13, 2012, the Company prepaid the sum of $57,729.45 to Asher Enterprises, Inc. to redeem its 8% Convertible Note in the principal amount of $37,500 dated May 7, 2012.

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 SECURITIES LITIGATION REFORM ACT OF 1995:

Some of the statements contained in or incorporated by reference in this Form 10-Q 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.

RESULTS OF OPERATIONS OVERVIEW

mPhase, a New Jersey corporation founded in 1996, is a publicly-held company with over 23,000 shareholders and approximately 4.4 billion 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. mPhase shares common office space with Microphase Corporation, a privately held company. Microphase is a leader in the field of radio frequency and filtering technologies within the defense and telecommunications industry. It has been in operation for over 50 years and supports mPhase with both engineering and administrative and financial resources as needed.

mPhase is a development stage company specializing in microfluidics, microelectromechanical systems (MEMS) and nanotechnology. mPhase is in the process of commercializing its first nanotechnology-enabled product for military and commercial applications - The Smart NanoBattery providing Power On Command . The new patented and patent pending battery technology, based on the phenomenon of electrowetting, offers a unique way to store energy and manage power. Features of the Smart NanoBattery include potentially infinite shelf life, environmentally friendly design, fast ramp to power, programmable control, and direct integration with microelectronic devices.

The platform technology behind the Smart NanoBattery is a porous nanostructured material used to repel and precisely control the flow of liquids. The material has a *Smart Surface* that can potentially be designed for other product applications including medical oxygen generation, hot/cold packs and emergency lighting.

mPhase has completed a Phase II Small Business Technology Transfer Program (STTR) grant, part of the Small Business Innovation Research (SBIR) program, with the U.S. Army for continued development of a reserve Smart NanoBattery for a critical computer memory application.

Since our inception in 1996, we have been a development-stage company and operating activities have related primarily to research and development, establishing third-party manufacturing relationships and developing product brand recognition, and since July 1, 2007, we have focused primarily upon development of our smart reserve battery and other battery and illuminator products.

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Description of Operations Microfluidics, MEMS, and Nanotechnology

In February of 2004, mPhase entered the business of developing new products based on materials whose properties and behavior are controlled at the micrometer and nanometer scales. (For reference, a micrometer or micron is equal one millionth (10^{-6}) of a meter and a nanometer is one billionth (10^{-9}) of a meter the scale of atoms and molecules. A human hair is approximately 50 microns in diameter, or 50,000 nanometers thick.) The Company has expertise and capabilities in microfluidics, microelectromechanical systems (MEMS), and nanotechnology. Microfluidics refers to the behavior, precise control and manipulation of fluids that are geometrically constrained to a small, typically micrometer scale. MEMS is the integration of mechanical elements, sensors, actuators, and electronics on a common silicon substrate through microfabrication technology. Nanotechnology is the creation of functional materials, devices and systems through control of matter (atoms and molecules) on the nanometer length scale (1-100 nanometers), and exploitation of novel phenomena and properties (physical, chemical, biological, mechanical, electrical) at that length scale. In its Smart NanoBattery, mPhase exploits the physical phenomenon of electrowetting by which a voltage is used to change the wetting properties of a liquid/solid interface at the nanometer scale. Consider water as the liquid. Through electrowetting, mPhase can change a surface from what is referred to as a hydrophobic ("water fearing") state to a hydrophilic ("water loving") state. In the hydrophobic state, the water beads up or is repelled by the surface. In the hydrophilic state, the water spreads out or is absorbed by the surface. The ability to electronically control the wetting characteristics of a surface at the nanometer scale forms the basis of mPhase s nanotechnology operations and intellectual property portfolio.

In the Smart NanoBattery application, mPhase uses electrowetting as a new technique to activate or literally "turn on" a battery once it is ready to be used for the first time. At the heart of the Smart NanoBattery is a porous, nanostructured superhydrophic or superlyophobic membrane designed and fabricated by mPhase. The so-called superhydrophobic membrane applies to water and the superlyophobic membrane applies to nonaqueous or organic liquids such as ethanol or mineral oil. The difference between the two membrane types lies in the nanoscale architecture at the surface. By virtue of its superhydrophobic or superlyophobic character, the membrane, although porous, is able to physically separate the liquid electrolyte from the solid electrodes so that the battery remains dormant or inactive, thus providing no voltage or current until called upon. This electrolyte-electrode separation gives the battery the feature of potentially unlimited shelf life and the benefit of being always ready when needed, which is not necessarily the case for conventional batteries. Electrowetting alters the liquid/membrane interface so that the liquid is now able to flow over the membrane s surface and rapidly move through the pores where it is able to contact the solid electrode materials located on the other side of the membrane.

mPhase uses MEMS to precisely control the machining of silicon-based materials at the micrometer and nanometer scales. This ability has led to the Company s proprietary membrane design that controls the wetting and movement of liquids on a solid surface. mPhase uses microfluidics to control the flow of liquid electrolyte through the porous membrane and this is also the basis for other possible applications such as self-cleaning surfaces, filtration and separation and liquid delivery systems.

History of Nanotechnology Operations Smart NanoBattery

mPhase Technologies along with Bell Labs jointly conducted research from February 2004 through April of 2007 that demonstrated control and manipulation of fluids on superhydrophobic and superlyophobic surfaces to create a new type of battery or energy storage device with power management features obtained by controlling the wetting behavior of a liquid electrolyte on a solid surface. The scientific research conducted set the ground work for continued development of the Smart NanoBattery and formed a path to commercialization of the technology for a broad range of market opportunities. During 2005 and 2006, the battery team tested modifications and enhancements to the internal design of the battery to optimize its power and energy density characteristics, as well as making engineering improvements that were essential in moving the battery from a zinc-based chemistry to a commercial lithium-based chemistry that can be manufactured on a large scale. The Company began its efforts by entering into a $1.2 million 12 month Development Agreement with the Bell Labs division of Alcatel/Lucent for exploratory research of control and manipulation of fluids on superhydrophobic surfaces to create power cells (batteries) by controlling wetting behavior of an electrolyte on nanostructured electrode surfaces. The goal was to develop a major breakthrough in battery technology creating batteries with longer shelf lives as the result of no direct electrode contact (meaning no power drain prior to activation). The Company extended its development effort twice for an additional 2 years ending in March of 2007 and for two additional periods thereafter through July 31, 2007. During this time, the technical focus shifted from trying to separate the liquid electrolyte from nanostructured electrodes to developing a nanostructured membrane that could physically separate the liquid electrolyte from the solid electrodes.

mPhase also began working with the Rutgers University Energy Storage Research Group (ESRG) in July of 2005 to conduct contract research in advanced battery chemistries involving lithium. This work involved characterizing and testing materials that could be used in the mPhase battery. In July of 2007, the relationship shifted to a collaboration focused on developing a memory backup battery needed by the U.S. Army. The work was funded through a Phase I Small Business Technology Transfer Program (STTR) grant.

In July of 2007, mPhase formed a new wholly-owned subsidiary, Always Ready, Inc., to focus on the development of its nanotechnology products. The Company has used this subsidiary as a division of the Company in order to develop increasing brand recognition of its battery product. The Company decided in September of 2007 to transfer its development work out of Bell Labs (Alcatel/Lucent) in order to broaden its nanotechnology product commercialization efforts. Prior to such time mPhase was limited to development using zinc-based batteries since Bell Labs did not have facilities to handle lithium chemistry. mPhase continued to work with Rutgers ESRG that has facilities capable of handing lithium battery development and also engaged in work with other companies to supply essential components, fabricate prototypes, and plan manufacturing approaches. These companies included a well-respected silicon foundry and battery manufacturer.

In February of 2008, the Company announced that a prototype of its Smart NanoBattery was successfully deployed in a gun-fired test at the Aberdeen Proving Ground at Maryland. The test was conducted by the U.S. Army Armament Research and Development and Engineering Center (ARDEC) of Picatinny, New Jersey. The battery not only survived the harsh conditions of deployment at a gravitational force in excess of 45,000 g, but was also flawlessly activated in the process.

In March of 2008, mPhase announced that it had been invited to submit a proposal for a Phase II STTR grant based upon the successful work it had performed on the Phase I grant to develop a version of the Smart NanoBattey referred to as the multi-cell, micro-array reserve battery for a critical U.S. Army memory backup application. The Phase II grant in the gross amount of $750,000 (net $500,000) was granted to the Company in the middle of September of 2008. In March of 2008, the Company also announced the successful transfer to a commercial foundry of certain processes critical to the manufacturing of its Smart NanoBattery. This enabled fabrication of the porous membranes for the multi-cell, micro-array reserve battery mentioned above. The Company successfully manufactured nanostructured membranes at the foundry that are essential to commercial production of the battery. By achieving a series of delayed activations, the shelf-life and continuous run-time of such battery is increased to a period of time in excess of twenty years. In April of 2008, the Company announced that it had successfully activated its first Smart NanoBattery prototype by electrowetting using a hard-wired configuration and a remotely-activated device. Remote activation plays a key role in providing power to wireless sensors systems and RFID tags.

Also, in April of 2008, the Company announced that it had successfully produced its first lithium-based reserve battery with a soft or pouch package and breakable separator (in place of the electrowettable membrane) that relies on mechanical rather than electrical activation to provide Power On Command . The Company believes that it is a significant milestone in moving from a low energy density zinc-based battery to a higher energy density lithium-based battery towards proving that the Smart NanoBattery will eventually be economically and commercially viable.

In fiscal years ended June 30, 2009 and June 30, 2011, the Company focused upon further development of its Smart Nano Battery under a Phase II STTR grant from the U.S. Army as a potential reserve battery for a back-up computer memory application for a weapons system. The Company has recently completed such Phase II Army grant. On November 12, of 2010, the Company announced that it had successfully triggered and activated its first functional multi-cell smart nano battery. Triggering and activation of the cells of the battery were achieved by using the technique of electrowetting or programmable triggering. Triggering was accomplished by applying a pulse of electrical energy to a porous, smart surface membrane located inside each cell in the battery causing the electrolyte to come in contact with the cell s electrodes, creating the chemical reaction to produce voltage inside of the multi-cell battery. The multi-cell battery consists of a matrix of 12 individual cells populated with an electrode stack consisting of lithium and carbon monofluoride materials with each rated at 3.0 volts. Using a custom designed circuit board for testing, each of the cells in the battery were independently triggered and activated without affecting any of the non-activated cells in the multi-cell configuration. Each cell in the battery has a very long shelf-life prior to triggering.

On February 9, 2011, the Company announced that it had signed a 3 year Cooperative Research and Development Agreement (CRADA) with the U.S. Army Armament Research, Development, and Engineering Center (ARDEC) at Picatinny, New Jersey, to continue to cooperatively test and evaluate the mPhase Smart NanoBattery, including new design features functionally appropriate for DoD based systems requiring portable power sources. The army researchers are evaluating the prototypes using the Army s testing facilities at Picatinny Arsenal in New Jersey in order to determine applicability of the technology to gun fired munitions and potentially to incorporate the technologies into research and development and other programs sponsored by Picatinny. The Research Agreement is supported by the Fuze & Precision Armaments Technology Directorate.

In March of 2012, the Company accepted an invitation to visit a Cluster of International Technology research and development in Grenoble, France. The Cluster is made up on multinational companies and sponsored by various agencies of the French Government to perform advanced technology research is the area of energy storage devices, micro fluidics and nanotechnology. The Company is continuing exploratory negotiations with 3 potential strategic partners each of which is a member of the cluster to custom tailor its intellectual property and component products for use in a commercial end product.

On June 6, 2012, the Company announced that negotiations with two creditors have led to a standstill agreement and restructuring of approximately $1,500,000 in floating rate convertible securities into 8% fixed rate debt instruments with payments commencing on October 1, 2012 at an aggregate amount of approximately $70,000 per month for two years The beneficial effect of restructuring of the variable convertibility feature should give the Company the control it needs to cease the automatic dilution outside of the Company s control of its issued and outstanding common stock. The debt restructuring should allow the company the flexibility it needs to obtain other funding.

During fiscal year ended June 30, 2012 the Company announced that it had successfully completed a prototype of a new automotive and marine product designed by a premiere European automotive company of luxury cars. A series of prototypes has resulted in a significant reduction in size and increased functionality of the product. The Company believes that the small footprint and distinguished designed may have significant appeal to both original equipment manufacturers and the automotive and marine aftermarket. The Company, pending establishment of a complete marketing and distribution network for the product, has not disclosed the product s identity in order to first establish a first to market presence against potential competitors. The Company has identified and had discussions with a marketing agency and launch firm for the new product.

On July 17, 2012, the Company announced that it has executed a Memorandum Of Understanding with Stevens Institute of Technology in Hoboken NJ. The Memorandum of Understanding establishes a framework formalizing a cooperative collaboration to jointly pursue business opportunities, research and development (R&D) projects, and other appropriate cooperative arrangements between the parties. The Parties anticipate joint efforts towards achieving mutually beneficial goals and objectives with the intent of working together collaboratively in the design and fabrication of an advanced battery technology utilizing intellectual property and know-how from both parties with the possibility of integrating and advancing mPhase s Smart NanoBattery Technology with Stevens graphene based inkjet printing method for printing electrodes and electronic circuits. The parties also wish to explore the possibility of funding Stevens research activities relative to graphene based research projects to advance the inkjet printing of electronics utilizing advanced materials. Stevens and mPhase also agreed to pursue joint collaborations with Government Research Agencies and other Corporations.

On August 7, 2012 the Company announced its intention to explore the possibility of complementing its Smart NanoBattery with new printing technologies utilizing graphene and other advanced materials.

On August 16, 2012 the Company announced that it has received a Notice of Allowance from the U.S. Patent & Trademark Office (USPTO) for a Reserve Battery System Utility patent.The techniques described in the patent are for creating a battery system that is easily activated via a low energy mechanical force, thus allowing the reserve battery to be used in a wide variety of consumer related and non-consumer related electrical devices. The invention generally relates to a reserve battery, which includes a battery case having an electrolyte compartment at a first end and an electrode compartment at a second end, a first terminal having an external button connected to the case at the first end, and a second terminal connected to the case at the second end. A movable ampoule is movably positioned within the electrolyte compartment. A bias member is located within the case between the external button and the ampoule, and a porous cutter is positioned within the case between the electrodes and the ampoule and supported by an inverted U-shaped support structure. When an external force is applied to the external button, the bias member transfers an internal force to the ampoule to cause the ampoule to engage the cutter and allow the electrolyte to release thus activating the battery.

On September 13, 2012 the Company announced the receipt of a Notice of Allowance from the USPTO for a Modular Device patent. The invention generally relates to a handheld, powered device containing at least one power module having at least one battery, wherein the power module is removable and separately connects to each of the load modules. The patent relates to a modular device for providing multiple modular components that may be interchanged as desired. A system for providing a modular device for use in emergency or everyday applications and having a plurality of modular components that are interchangeable with one another depending on the particular desired use.

Emergency Flashlight

On December 5, 2008, mPhase Technologies, Inc. signed a contract with Porsche Design Gesellschaft m.b.H. in Austria (Porsche Design Studio), to design a premium version of the AlwaysReady Emergency Flashlight. A pilot program that began in March of 2010 has resulted in the sale of approximately 56 emergency flashlights. The flashlight sold in the pilot program contained mPhase s proprietary mechanically-activated lithium reserve battery. The battery contains a breakable barrier that separates the solid electrodes from the liquid electrolyte until the battery is manually activated. Unlike traditional batteries, the mPhase battery remains in an inert state with no leakage or self-discharge until activation. The mPhase battery is designed to have an almost infinite shelf life making it ideal for emergency lighting applications. The premium flashlight will be marketed as an accessory for automobile roadside emergency kits.

On January 29, 2009, the Company announced that it had contracted with EaglePicher Technologies to design and manufacture, in small quantities, its mechanically-activated battery that were used in the pilot program of sales of the Company s new Emergency Flashlight. EaglePicher was selected for the project because of their experience in custom and standardized power solutions for the extreme environments of aerospace and military applications as well as medical and commercial applications.

The reserve battery is a manually activated lithium cell designed to provide Power On Command. The battery remains dormant until turned on by the user. It is built to the highest standards with a minimum storage life of 20 years. Once activated, the reserve battery is expected to deliver the electrical performance of a standard primary CR123 battery used in many portable electronic applications today.

EaglePicher Technologies, LLC, along with EaglePicher Company, is a world leader in custom and standardized power solutions for the extreme environments of aerospace and military applications as well as medical and commercial applications. The company specializes in design and manufacture of battery cells, battery packaging, battery management systems (BMS), analysis, environmental testing, and energetic devices. Active in battery development and testing since 1922, EaglePicher Technologies has the most experience and broadest capability in battery electrochemistry of any battery supplier.

Owing to cost considerations, the Company has decided to utilize a cost reduced active-reserve battery in its current version of its emergency flashlight product for potential sales after the pilot program. Such active reserve battery also has a very long shelf life and enables the Company to significantly reduce the selling price of the Emergency Flashlight. In March 2011,the Company received an initial order from Porsche Design Group in Germany for mPhase s Porsche design branded mPower Emergency illuminators to be sold in Porsche Design stores in Germany, Great Britain and the United States and it began shipments of the Emergency Illuminators in April of 2011.

The Company is planning a cost-reduction of its luxury illuminator product in order to penetrate a higher volume sales channel beyond the higher end market.

Magnetometer

In March of 2005, the Company entered into a second Development Agreement for 12 months at a cost of $1.2 million with the Bell Labs to develop MEMS-based ultrasensitive magnetic sensor devices, also known as magnetometers, that could be used in military and commercial electronics (*e.g.,* cell phones) for determining location, as well as in portable security and metal detection applications. The agreement was renewed in April of 2006 for another 12 months. Although proven to work in the lab, the magnetometer technology could not be scaled up as quickly and as cost effectively as the Company s nano battery. The project was suspended in September 2007 so that all technical resources could be allocated to the nano battery project.

Jump Starter

On October 17, 2011 the Company announced that it has developed a new product with Porsche Design Studio for the automotive and marine markets. The product is a rechargeable jump starter designed to recharge a dead automotive or similar battery that is small enough to fit into the glove compartment of a car. The Company, subject to adequate financing, is examining avenues for the production and marketing of the product. The Company believes there may be a significant market for this product since it is quickly rechargeable and is substantially smaller than other competing products in the market.

FINANCIAL OVERVIEW

Revenues. Since July 1, 2007, quarterly revenue, if any, has primarily been attributable to grants from the United States Army and testing arrangements involving its nanotechnology products. The Company is not currently working on any research in connection with government grants. The Company plans to apply for further STTR and SBIR grants with respect to its nanotechnology research and product development efforts. The Company also derived minor revenues in connection with sales of its emergency flashlight product under an initial pilot program that commenced in March of 2010.

Cost of revenues. Cost associated with revenues from Army Grants and fees for testing our nanotechnology products is currently very low. It is anticipated that the Company s cost of revenues will increase significantly as the Company moves forward with the commercialization and distribution of its emergency flashlight product and other potential products associated with its mechanically-activated reserve battery.

Research and development. Research and development expenses have consisted principally of direct labor and payments made to MKE manufacturing (an approved vendor of Porsche), Porsche Design Studio and Microphase Corporation in connection with the Company s Emergency Illuminator product and to Silex, a foundry located in Sweden, as well as other third party vendors involved in the development of the nanotechnology products. All research and development costs are expensed as incurred. Such expenses are expected to increase in the next fiscal year as the Company introduces a second automotive product into the market and pursues design and development of a cost reduced flashlight product.

General and administrative. General and administrative expenses consist primarily of salaries and related expenses for personnel engaged in its nanotechnology product line, legal and accounting personnel. In addition the Company from time to time will use outside consultants. Certain administrative activities are outsourced on a monthly fee basis to Microphase Corporation and mPhase leases its office in Norwalk, Connecticut from Microphase Corporation.

Non-cash compensation charges . The Company makes extensive use of stock, stock options and warrants as a form of compensation to employees, directors and outside consultants. We incurred non-cash compensation charges totaling $19,501,094 from inception (October 2, 1996) through September 30, 2012.

Other Income (Expense). Included in Other Expense are non-recurring items related to the change in the value of derivative securities and amortization as related debt discount. Such amounts will fluctuate significantly and should not be considered as recurring or in any way indicative of operating results. In addition, it has been the Company s policy to record as an expense the cost of re-pricing securities (Reparation Cost) to raise capital.

Cumulative losses, net worth and capital needs

The Company has incurred cumulative development stage losses of $203,137,845 and negative cash flow from operations of $88,823,004 from inception through September 30, 2012. The auditors report for the fiscal year ended June 30, 2012 includes the statement that "there is substantial doubt of the Company s ability to continue as a going concern". As of September 30, 2012, the Company had a negative net worth of ($4,948,242) compared to a negative net worth of ($5,502,767) as of June 30, 2012 as a result of continuing net losses, reduced in the current three months primarily by conversions of convertible notes and accrued interest in excess of the net loss for the current period.

The Company has convertible notes funded under a number of facilities with Accredited Investors. Draws under this facility for the three months ended September 30, 2012 amounted to $0 (accounted for as a pay-down of notes receivable) and also the collection of $0 of accrued interest (included in the statement of operations). The Company has significant overhang from funded and unconverted portion of these convertible notes in excess of $1,523,462 convertible into 1,044,666,287 shares of common stock. On June 6, 2012 the Company announced the restructuring of all of its convertible securities that were issued to JMJ Financial and John Fife of approximately $1,500,000. The result of the restructuring is that such debt is now 8% fixed rate debt payable in equal monthly payments over a two year period of time commencing October of 2012. The monthly payments that must be made by the Company amount to approximately $70,000 per month. The Company intends to raise funds in the equity private placement market and though its equity line of credit to meet this obligation as well as short term operating needs. The Company has not, as of the date hereof, made any of the monthly payments, in cash and the holders have continued to accrue interest on the convertible notes.

The Company anticipates it will need to establish new and additional funding sources for the remaining portion of fiscal year 2013. The Company raised $215,000 in net proceeds from private placements of 561,250,000 shares of its common stock during the three months ended September 30, 2012. In addition the Company has entered into an Equity Line with a fund sponsored by Dutchess Capital and has registered a total of 250 million shares of common stock on a Form S-1 Registration Statement that is effecitve. Under the terms of the Equity Line, the Company is eligible to PUT from time to time up to 20 million shares to the Dutchess fund at a price equal to 94% of the proceeds received from periodic sales of the common stock in the open market by the Dutchess fund. The Company has received $4,000 in net proceeds from the exercise of a 7th partial PUT options during the three months ended September 30, 2012.

The Company has been unable to fund short term capital needs for the approximately $70,000 it needs to pay in cash on the convertible notes. The Company is seeking new sources of short term funding to make such payments. In the longer term, we estimate that the Company will need to raise approximately $300,000 and $5,000,000 of additional capital above these funds through June 30, 2013 and June 30, 2014 respectively in order to fund commercialization of its products.

The Company does not expect to derive any material revenue from its nanotechnology product development during the current fiscal year. The Company estimates that material revenues from its SmartNanoBattery could occur in 18 months depending upon the Company s ability to secure federal funding in the form of SBIR grants and adoption and custom tailoring of such product as a reserve battery to a computer memory or other function for a specific weapons system. Additional revenues may be derived as early as the first quarter of fiscal year 2013 from further sales of the Company s emergency flashlight product depending upon the establishment of a successful licensing arrangement with a major high-end product distributor.

THREE MONTHS ENDED SEPTEMBER 30, 2012 VS. SEPTEMBER 30, 2011

REVENUE

Total revenues were $2,154 for the three months ended September 30, 2012 compared to $0 for the three months ended September 30, 2011.The absence in revenue was the result of completion of the Phase II Army grant by the Company and the fact that during the quarter the Company did not receive any awards of new government grants.

RESEARCH AND DEVELOPMENT

Research and development expenses were $993 for the three months ended September 30, 2012 as compared to $41,403 during the comparable period in 2011 or a decrease of $40,410. This decrease in spending is a result of completion of its smart nano battery prototype and its emergency flashlight using its mechanically-activated reserve battery as brought to market in its pilot program as well as the Company s current austerity program with respect to costs. This was offset, in part, by development of a second automotive product by the Company to be introduced in the market, assuming the availability of sufficient funding, during the fiscal year 2013.

Subject to available funds, the Company expects to increase its research and development efforts throughout fiscal years 2013 and 2014. Such research is expected to focus on other applications for smart surfaces including the Smart Nano Battery. The initial applications for the nano power cell technology will address the need to supply emergency and reserved power to a wide range of electronic devices for both commercial and defense applications.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative (G&A) expenses were $283,080 for the three months ending September 30, 2012, down from $6,888,462 or a decrease of $6,605,382 from the comparable period in 2011. Administrative expenses were held in check as the Company has made a concentrated effort to freeze or otherwise reduce administrative costs while it seeks to commercialize its smartnanobattery product capabilities and secure more substantial research funding for possible applications of its smart surfaces technology.

OTHER (EXPENSE) AND INCOME

Included in this category are non-cash gains and costs associated with convertible debt that include a non-cash gain for the change in derivative value of $771,241 offset by amortization of debt discount costs of $92,538 and $17,500 of prepayment fees and charges, resulting in a net credit of $661,203 from derivative liabilities associated with the Company s convertible debt and is not indicative of operating results. Additionally, net interest expense of $69,943 brought the total other income (expense) to $591,260 in the current period. For the same period ended September 30, 2011, net other income (expense) totaled $754,895, consisting primarily of net credits of $824,454 from derivative liabilities and other income of $1,131, reduced by interest expense of $70,690.

NET INCOME AND (LOSS)

The Company recorded net income of $293,062 for the three months ended September 30, 2012 as compared to a loss of $6,179,222 for the three months ended September 30, 2011. This represents a net income per common share of $0.00 and loss per share of $(0.00) for the three month periods ended September 30, 2012 and 2011 respectively. The net loss recorded in the current period as compared to the net loss reported for the same period last year is directly attributable to the magnitude of the net gain from derivative liabilities associated with the Company s convertible debt recorded for the three months ended September 30, 2012 and is not indicative of operating results.

CRITICAL ACCOUNTING POLICIES

REVENUE RECOGNITION

As required, mPhase has adopted ASC 605-10-525 "Revenue Recognition in Financial Statements", which provides guidelines on applying generally accepted accounting principles to revenue recognition based upon the interpretations and practices of the SEC.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to operations as incurred in accordance with ASC 730 "Research and Development."

MATERIAL EQUITY INSTRUMENTS

The Company has material equity instruments including convertible debentures and convertible notes that are accounted for as derivative liabilities (SEE BELOW) and options and warrants that are evaluated quarterly for potential reclassification as liabilities pursuant to FASB Standards Codification Topic 815 (previously known as EITF 00-19) (SEE ALSO NOTE 3 under the caption "Other Equity"). The Company utilized a sequencing method prescribed by EITF 00-19, based upon applying shares available to contracts with the earliest inception date first. During the fiscal year ended June 30, 2008, the Company reclassified contracts for warrants to purchase 12,604,168 shares at fixed prices ranging from $.13 to $.15 per share to liabilities.

The liability was recorded at the fair market value, which estimated value was based upon the contractual life of the free standing warrants, using the Black Scholes pricing model, based on the following weighted average assumptions: annual expected return of 0%, an average life of 5 years, annual volatility of 81% and a risk-free interest rate of 2.25%. At the issuance date of the free standing warrants, which warrants were issued during the fourth quarter of fiscal June 30, 2008, the estimated value approximated $1,006,200 and, as recalculated on the quarterly measurement dates, at June 30, 2008 the estimated value approximated $433,300. During fiscal year ended 2009, the estimated value was reduced to zero. The net change in the liability was credited to the change in derivative value in the Consolidated Statement of Operations for the fiscal years ended June 30, 2008 and 2009 for $572,900 and $433,300, respectively, for each of these periods in accordance with FASB Standards Codification Topic 815 (previously known as EITF 00-19). Effective May, 2009, warrants to purchase 11,111,112 shares, and effective September, 2009, warrants to purchase 1,493,056 shares, representing all of the contracts for warrants to purchase 12,604,168 shares that were reclassified to liabilities during the fiscal year ended June 30, 2008, were reclassified to permanent equity.

Subsequent to September 30, 2009, the Company has not entered into, and presently the Company does not have, any contracts for warrants or other equity instruments subject to reclassification to liabilities as prescribed by FASB Standards Codification Topic 815 (previously known as EITF 00-19) until August 10, 2011, when it entered into a Convertible Note for $25,000, which concurrently provided the note holder a warrant and recorded an additional derivative liability for the warrant.

DERIVATIVE LIABILITY

The Company has estimated the value of the derivative liability associated with its convertible debt. Such estimate is based on a Black Scholes calculation and is initially recorded for each convertible debt agreement at the time the debt was issued. At each reporting period, the value of this liability is marked to market and adjusted accordingly. Such adjustments are included in Other Income (Expense).

STOCK-BASED COMPENSATION

On July 1, 2005, the Company adopted the provisions of ASC 718 "Compensation - Stock Compensation" which requires companies to measure and recognizes compensation expense for all employee stock-based payments at fair value over the service period underlying the arrangement. Therefore, the Company is now required to record the grant-date fair value of its stock-based payments (i.e., stock options and other equity-based compensation) in the statement of operations. The Company adopted the "modified prospective" method, whereby fair value of all previously-granted employee stock-based arrangements that remained unvested at July 1, 2005 and all grants made on or after July 1, 2005 have been included in the Company s determination of stock-based compensation expense.

MATERIAL RELATED PARTY TRANSACTIONS

MICROPHASE CORPORATION

mPhase s President is also an officer and shareholder of Microphase and mPhase s Chief Operating Officer is also an employee of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase whereby it would 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 would reimburse 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 for technical and research development, $5,000 per month for administrative services and $5,000 per month under the office space agreement. Beginning July 1, 2006, billings for all of the above services has been $5,000 per month and in July, 2008, such fees were reduced to $3,000 per month. As of July 1, 2011, the fees have increased to $3,630 per month. In addition, Microphase also charges fees for specific projects on a project-by-project basis.

During the three months ended September 30, 2011 and September 30, 2012 and from inception (October 2, 1996), $13,191, $5,399 and $9,488,788 respectively, have been charged to expense. As a result of the foregoing transactions as of September 30, 2012, the Company had a $58,526 payable to Microphase.

JANIFAST LTD.

The Company historically has purchased products and incurred certain research and development expenses with Janifast Ltd that had offices in Hong Kong and a manufacturing operation in the Peoples Republic of China in connection with products associated with its former telecommunications business that was recently discontinued as a business. Janifast Ltd was owned by a company in which two directors and one former director of mPhase were significant shareholders. In March of 2009 Janifast Ltd ceased operations owing to financial distress and adverse global financial and credit conditions.

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 cancellation of loan obligations of $181,901 to Mr. Durando in connection with the plan of its liquidation.

During the three months ended September 30, 2011 and 2012 and the period from inception (October 2, 1996), $0, $0 and $16,031,811 respectively, have been charged by Janifast to inventory or is included in operating expenses in the accompanying statements of operations.

OTHER RELATED PARTIES

Mr. Abraham Biderman was employed until September 30, 2003 by our former investment-banking firm Lipper & Company. On December 31, 2011, Mr. Biderman s affiliated firms of Palladium Capital Advisors and Eagle Strategic Advisers were owed unpaid finders fees in the amount of $152,000, which is included in due to related parties.

During the three months ended September 30, 2012, the Company issued no shares to consultants who are not considered related parties.

Transactions with Officers

At various points during past fiscal years Messrs, Durando, Dotoli and Smiley provided bridge loans to the Company evidenced by individual promissory notes and deferred compensation so as to provide working capital to the Company. All of the notes are payable on demand. During the fourth quarter of the fiscal year ended June 30, 2009, the Board of Directors authorized a conversion feature on these notes into shares of commons stock at the discretion of the holder provided such shares are authorized and available at a conversion price of $.0075 per share, and subsequently reduced such price to $.0040 per share which was comparable to private placements done during that quarter.

Total compensation and payables to related parties and to officers is summarized below:

Summary of compensation to related parties for the Three Months Ended September 20, 2012

	Durando	Dotoli	Smiley	Biderman	Microphase	Total
Consulting / Salary	$ 21,691	$ 21,691	$ 21,691			$ 65,072
Interest	$ 15,857	$ 11,026	$ 9,086			$ 35,969
Rent					$ 3,353	$ 3,353
G&A					$ 2,046	$ 2,046
Finders Fees				$ 9,500		$ 9,500
Total compensation for the Three Months Ended September 30, 201	**$ 37,548**	**$ 32,716**	**$ 30,777**	**$ 9,500**	**$ 5,399**	**$ 115,940**

Summary of compensation to related parties for the Three Months Ended September 30, 2011

	Durando	Dotoli	Smiley	Biderman	Lawrence	Microphase	Total
Consulting / Salary	$ 37,500	$ 34,167	$ 33,333				$ 105,000
Interest	$ 13,116	$ 8,679	$ 6,337				$ 28,132
Rent						$ 10,890	$ 10,890
G&A						$ 2,301	$ 2,301
Finders Fees				$ 8,000			$ 8,000
Stock based compensation (shares issued)*	$ 2,488,500	$ 1,858,500	$ 1,858,500	$ 252,000	$ 63,000		$ 6,520,500
Stock based compensation (options previously issued & repriced)**	$ 173,316	$ 103,990	$ 62,394				$ 339,700
Total compensation	**$ 2,712,432**	**$ 2,005,336**	**$ 1,960,564**	**$ 260,000**	**$ 63,000**	**$ 13,191**	**$ 7,014,523**

Commonstockissued*
Optionsissued(5years@5cents)**

Summary of payables to related parties as of September 30, 2012	**Durando**	**Dotoli**	**Smiley**	**Payable**	**Biderman**	**Microphase**	**Total**
Notes payable	$ 464,723	$ 321,813	$ 271,327	$ 1,057,863			$ 1,057,863
Accrued Wages Officers	$ 39,167	$ 39,167	$ 20,416	$ 98,750			$ 98,750
Due to Officers / Affiliates					$ 152,000	$ 58,526	$ 210,526
Interest Payable	$ 74,628	$ 49,770	$ 37,709	$ 162,108			$ 162,108
Total Payable to Officers / Affiliates as of September 30,	**$ 578,519**	**$ 410,750**	**$ 329,452**	**$ 1,318,720**	**$ 152,000**	**$ 58,526**	**$ 1,529,246**

2012

Summary of payables to related parties as of June 30, 2012	**Durando**	**Dotoli**	**Smiley**	**Payable**	**Biderman**	**Microphase**	**Total**
Notes payable	$ 456,573	$ 333,663	$ 273,177	$ 1,063,413			$ 1,063,413
Accrued Wages Officers	$ 29,167	$ 29,167	$ 10,417	$ 68,751			$ 68,751
Due to Officers / Affiliates					$ 150,000	$ 53,128	$ 203,128
Interest Payable	$ 58,771	$ 38,745	$ 28,623	$ 126,139			$ 126,139
Total Payable to Officers / Affiliates as of June 30, 2012	**$ 544,511**	**$ 401,575**	**$ 312,217**	**$ 1,258,303**	**$ 150,000**	**$ 53,128**	**$ 1,461,431**

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LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred cumulative development stage losses of $203,137,845, and negative cash flow from operations of $88,823,004 as of September 30, 2012. The auditors report for the fiscal year ended June 30, 2012 includes the statement that "there is substantial doubt of the Company s ability to continue as a going concern". As of September 30, 2012, the Company had a negative net worth of ($4,948,242) compared to a negative net worth of ($5,502,767) as of June 30, 2012 as a result of continuing net losses, reduced in the current three months primarily by conversions of convertible notes and accrued interest in excess of the net loss for the current period.

The Company raised $215,000 in net proceeds from private placements of 561,250,000 shares of its common stock during the three months ended September 30, 2012. The Company entered into a $10,000,000 equity line of Credit with Dutchess Opportunity Fund II, LLC in December of 2011. Under the equity line, the Company is eligible to PUT to the fund, 20,000,000 shares of its common stock during any pricing period. The Company has registered a total of $250,000,000 shares of its common stock on a Form S-1 Registration Statement with the Securities and Exchange Commission that was declared effective on January 17, 2012 in connection with the Dutchess Equity Line. As August 27, 2012, the most recent funding under this agreement, the Company has received $149,428 of net proceeds under the Equity Line. The amount of proceeds to be received under the Equity Line will depend upon the stock price of the Company at the various points in time it exercises the Put Option.

The Company anticipates accessing the Equity Line in combination with private placements of its common stock to be issued from time to time will fund short term capital needs. As a result of the restructuring the Convertible Notes with JMJ Financial and John Fife, the Company is obligated to make monthly payments, in cash of approximately $70,000 commencing October 1, 2012 over a period of two years. The Company has not been able to raise sufficient funds to make the first payment due on October 1, 2012 and the holders of the Convertible Notes have continued to accrue interest on the outstanding balance. The Company is continuing its discussions with the two major holders of the Company s Convertible Notes in order to meet its obligations.. We estimate that the Company will need to raise approximately $200,000 of cash per month through private placements of its common stock with Accredited Investors as well as accessing, from time to time, the Equity Line. The Company is currently in discussions with a major French multinational company to custom tailor its Smart NanoBattery through further research and development and have such multinational company provide funding for such effort. The Company does not expect to derive any material revenue from its nanotechnology product development until after a deployment and custom tailoring of its Smart Nanobattery takes place for such French multinational corporation.

In addition the Company has established a relationship with Stevens Institute and together with its work with Picatinny Arsenal plans to seek additional funding, on a combined basis from the United States Army for custom tailoring its SmartNanoBattery as a reserve battery for either a source of energy for critical mission guidance systems for small scale smart munitions as well as energy source for critical mission computer devices used in weapons systems..

MANAGEMENT S PLANS

The Company has shifted its focus to the development of its smart surfaces using the science of nanotechnology. The Company does not expect to derive any material revenue from its nanotechnology product development during the next 18 months. In addition, the Company relies on the continuation of funding under the Equity Line of Credit (See Note 4). This will depend upon the trading volume and liquidity to the Company s common stock as well as its price. 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 including, but not limited to its obligations to pay approximately $70,000, (2) continue its research and development efforts, and (3) allow the successful wide scale development, deployment and marketing of its products.

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, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as 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, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

All proceeds received from the following financings were used by the Company for working capital needs.

Private Placements

During the three months ended September 30, 2011, the Company issued 20 million shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $80,000 and paying finder s fees in the amount of $8,000. The proceeds were used by the Company as working capital.

During the three months ended September 30, 2012, the Company issued 561,250,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $224,500 and paying finder s fees in the amount of $9,500. The proceeds were used by the Company as working capital.

Stock Based Compensation

During the three months ended September 30, 2011, the Company issued 1,035,000,000 shares of common stock to officers and directors, valued at $ 6,520,500, the entire amount of which is included general and administrative expenses in the Consolidated Statements of Operations for that period.

Also during the three months ended September 30, 2011, the Company issued no shares of its common stock to consultants and the Board of Directors revised the exercise price of options to purchase up to 98,000,000 shares of common stock previously granted to officers in September, 2008 (originally exercisable for 5 years with an exercise price of 5 cents per share). The exercise price of options to purchase up to 98,000,000 shares was revised to $.0040; the incremental cost of $339,700 was recorded as deferred compensation which will be amortized to expense through September 18, 2013.

During the three months ended September 30, 2012, the Company did not issue any stock-based compensation, warrants or options to officers or employees.

Conversion of Debt Securities

During the three months ended September 30, 2011, $112,206 of convertible debt and accrued interest thereon was converted into 26,748,476 shares of common stock.

During the three months ended September 30, 2012, no conversions were made of convertible debt and accrued interest thereon into shares of common stock.

Long Term Convertible Debentures / Notes Receivable / Debt Discount

The Company had 6 separate convertible debt arrangements with independent investors active during the quarter ended September 30, 2012, which are the result of the disposition of the following 10 arrangements.

During the three months ended September 30, 2012, no conversions were made of convertible debt and accrued interest thereon into shares of common stock.

These transactions are intended to provide liquidity and capital to the Company and are summarized below.

Arrangement #1(La Jolla Cove Investors, Inc.)

On Sept 11, 2008, the Company received proceeds of $200,000 under a Securities Purchase Agreement from La Jolla Cove Investors, Inc. This transaction involves three related agreements: 1) a Securities Purchase Agreement which could have, under certain circumstances, permitted the Company to draw up to $2,000,000 of funds, 2) a convertible debenture totaling $2,000,000, with an interest rate of 7 1/4% and a maturity date of September 30, 2011, and 3) a secured note receivable in the amount of $1,800,000 with an interest rate of 8 1/4% and maturity date of September 30, 2011 due from the holder of the convertible debenture.

Conversion of the outstanding debenture into common shares was 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. At the time of the transaction (September 11, 2008), the derivative value of this security was calculated to be $1,176,471. On June 30, 2011, the derivative value of this security was calculated to be $3,468.

On March 16, 2011, the holder and the Company entered into a termination agreement whereby $1,800,000 of the principal of both the note receivable and the convertible debenture, plus $90,291 in accrued interest receivable and $84,175 in accrued interest payable, was cancelled. Additionally, in connection with the termination, the Company paid the holder $17,000 and assigned to a consultant engaged by the Company the unconverted portion of the convertible debenture in the amount of $10,000, which had been fully funded in cash and which was converted in full together with accrued interest of $500 for 2,560,976 shares of common stock during the quarter ended September 30, 2011 and as of September 30, 2012, this convertible note had been satisfied in full.

Arrangement #2 (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 each) 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 $639,500 in cash and has issued 322,187,500 shares of common stock to the holder upon conversions of $325,440 of principle and $994,766 of conversion fees. The remaining $604,600 of cash which was to be received from the holder plus accrued and unpaid interest was 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 June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 222,142,857 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated. At June 1, this note was combined with arrangement #4 JMJ Financial, Inc.

During the year ended June 30, 2011 the holder converted $33,750 of principal into 10,000,000 shares of common stock and amortization of debt discount amounted to $412,332, reducing the debt discount balance to $100,000.

During the year ended June 30, 2012, the Company reduced the note payable and debt discount by $42,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $27,067 reducing the balance to $30,933. Also during the year ended June 30, 2012, the Company had incurred $994,766 of conversion fees which together with $291,690 of principle was converted into 322,187,500 shares of common stock. At June 30, 2012 this convertible note had $372,060 outstanding which was combined with arrangement #4 JMJ Financial, Inc.

Arrangement #3 (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 December15, 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. 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 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. The number of shares into which this convertible 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. Based upon the price of the Company s common stock on June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 285,714,286 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated.

The Company and the holder are presently negotiating potential amendments to this agreement, and funding and conversions have not occurred since April, 2011. For accounting purposes the note receivable has been fully reserved, and the liability is recorded, when netted against the debt discount and cumulative conversions, at the amount funded. Based upon the price of the Company s common stock on June 30, 2011, the net liability of this note is convertible into approximately 38,095,238 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was $542,714 and the debt discount was valued at $642,714. As of June 30, 2011, this value was calculated to be $607,994. During the year ended June 30, 2011, amortization of debt discount amounted to $418,552, reducing the balance to $100,000.

During the fiscal year ended June 30, 2012, the Company reduced the note payable and debt discount by $79,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $8,573 reducing the balance to $12,427. As of June 30, 2012, this convertible note has $321,000 outstanding which was combined with arrangement #4 JMJ Financial, Inc.

Arrangement #4 (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 each) and a maturity date of December 15, 2012. 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 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. The number of shares into which this convertible 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. Based upon the price of the Company s common stock on June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 228,571,429 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated.

For accounting purposes the note receivable has been fully reserved, and the liability is recorded, when netted against the debt discount and cumulative conversions, at the amount funded. Based upon the price of the Company s common stock on June 30, 2011, the net liability of this note is convertible into approximately 19,047,619 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was $421,891 and the debt discount was valued at $521,891. As of June 30, 2011, this value was calculated to be $486,795. During the year ended June 30, 2011, amortization of debt discount amounted to $378,761, reducing the balance to $ 100,000.

During the fiscal year ended June 30, 2012, the Company reduced the note payable and debt discount by $91,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $3,674 reducing the balance to $5,326.

As of June 30, 2012, this convertible note has $109,000 outstanding, which when combined with arrangements #8 and #9 totaled $802,060, which the company entered into an amended agreement on June 1, 2012 whereby the Company agreed to make payments of principle and interest of $37,018 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company s common stock would be available to the holder. Also as of June 30, 2012 the derivative value of the embedded conversion feature of this arrangement when combined with arrangements #2 and #3 totaled $0; which when compared to the combine value of $1,567,512 created a non-cash credit to earnings of $1,567,512 in fiscal 2012. As of June 30, 2012 and September 30, 2012 the combined arrangements with JMJ in this note would be convertible into 200,515,000 at the conversion floor price of $.004; and only so if the Company does not make the scheduled payments pursuant to the June 1, 2012 amended agreement. The Company has not made any payments of the $37,018 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance

Arrangement #5 (John Fife)

On March 5, 2010, the Company entered into an new financing agreement with J. Fife that consist 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 had a maturity date of one year from the date of issuance. In addition, the Company had committed to issue in the future 2 additional promissory notes each in the principal amount of $275,000 each with an interest rate of 7.5% each upon the receipt of $250,000 of cash funding in exchange for such notes. The issuance of each of such notes was expected to take place upon the full conversion of 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 October 22, 2010, the Company entered into a Forbearance Agreement with this convertible note holder in which the lender agreed not to convert any additional amounts under the convertible notes until January 15, 2011 in exchange for increasing the original principal amount of those notes by 10% from $550,000 to $605,000 resulting in a charge of $55,000 for debt extension fees corresponding with the addition to the note principal. At the time of the October 22, 2010 transaction, the embedded conversion feature of this security for this incremental liability and loan discount was calculated to be $20,005. This note, which was originally scheduled to mature on March 4, 2011, was extended to June 30, 2012 on September 13, 2011. These increases in the convertible note will also be convertible into common stock of the Company 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.

At the time of the transaction (March 5, 2010) the derivative value of this security was calculated to be $193,767 and the debt discount was valued at $243,767. As of June 30, 2011 and 2012 this liability was estimated to be $78,059 and $0, respectively, creating a non-cash credit to earnings of $78,059 in fiscal 2012. During the year ended June 30, 2011 the holder converted $398,245 of principal into 65,280,866 shares of common stock and amortization of debt discount amounted to $ 227,621, reducing the balance of the debt discount to $ 0. During the year ended June 30, 2012 the holder converted the remaining principal of $234,755, contractual charges of $74,848 and accrued interest of $77,895 into 161,041,617 shares of common stock and $0 remains outstanding at June 30, 2012.

Arrangement #6 (Jay Wright)

On August 11, 2011 the Company issued to Jay Wright a Convertible Note plus a Warrant in a Private Placement pursuant to Section 42) of the Securities Act of 1933 and received $25,000 in gross proceeds. The purpose for this transaction was to provide working capital for the Company to use for a portion of the interim financing needed by Energy Innovative Products during the course of due diligence by the Company of a proposed acquisition of EIP. The acquisition was subsequently terminated by EIP in January of 2012.

Interest only is payable under the original terms of the Convertible Note at the rate of 1% per month by the Company to the holder. The Convertible Note was originally convertible at a price of $.0068 per share subject to a downward adjustment if the Company issues common stock below such price as long as the Convertible Note is outstanding (anti-dilution protection). The Warrant gives the holder the right to purchase up to 3,676,471 shares of the Company s common stock at a price of $.0068 per share subject also to a downward adjustment for anti-dilution protection.

The Company and the holder had negotiations with respect to a final repayment arrangement of the Convertible Note. The Company has issued the holder 18 million shares of its common stock for repayment through a conversion and the holder has disputed the conversion and the amount of shares issued in satisfaction of the obligation.

All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $4,660 and the debt discount totaled the same.

The Company has taken the position that this note was converted in full during the fiscal year ended June 30, 2012 together with accrued interest of $1,900 for 18,000,000 shares of common stock.

Arrangement #7 (John Fife dba St. George Investors)

On September 13, 2011, the Company issued a second Convertible Note to John Fife founder and president of St. George Investments, in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933. The initial principal amount of the first funded tranche of the Convertible Note was $357,500 and the Company received cash proceeds of $300,000. A second tranche of the Convertible Note in the amount of $200,000 cash is funded upon the filing by the Company of a Registration Statement on Form S-1 with the Securities and Exchange Commission providing for the registration of 185,400,000 shares of common stock that may be converted into from time to time by the holder of the Convertible Note.

The instrument is convertible into the Company s common stock at 75% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 20 day trading period immediately preceding such conversion. Absent an effective Registration Statement, the holder of the Convertible Note may not sell any common stock prior to 6 months from the date of funding of each of the respective tranches of such instrument under Rule 144 of the Securities Act of 1933.

All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $137,481 and the loan discount totaled 194,981 for the initial tranche and the embedded conversion feature of this security and the warrant for a second tranche of the Convertible Note was calculated to be $46,379. On June 30, 2012, given the changes in the Company s stock price during the 20 day look-back period for June 30, 2012 and conversions during the period this estimated liability had increased from $183,860 to $771,079, an increase this period of $587,219, creating a non-cash charge to earnings for the twelve months ended June 30, 2012 of that amount. During the twelve month period ended June 30, 2012 amortization of debt discount amounted to $185,456 reducing the combined balance to $55,903. On September 30, 2012, given the changes in the Company s stock price during the 20 day look-back period for September 30, 2012 this estimated liability had decreased to $110,455, a decrease this period of $660,624, creating a non-cash credit to earnings for the three months ended September 30, 2012 of that amount. During the three month period ended September 30, 2012 amortization of debt discount amounted to $42,813 reducing the combined balance to $13,090.

The company entered into an amended agreement on June 1, 2012, when principle of $557,500 accrued interest of $66,338 and $95,611 of contractual charges totaled $719,449; with this noteholder whereby the Company agreed to make payments of principle and interest of $33,238 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company s common stock would be available to the holder. As of September 30, 2012 this note would be convertible into 789,645,351 shares of common stock at the original terms. The Company has not made any payments of the $33,238 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance.

Arrangement#8- (Asher Enterprises, Inc.)

On November 17, 2011 the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $53,000 in gross proceeds, net of $3,000 closing fees. The instrument is in the principal amount of $53,000 and matures on November 17, 2012. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company s common stock at 60% of the volume weighted average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $47,970 and the loan discount totaled the same. During the fiscal year ended June 30, 2012 this Convertible Note was converted, in full, into 162,749,128 shares of common stock.

Arrangement#9- (Asher Enterprises, Inc II.)

On January 5, 2012 the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $35,000 in gross proceeds, net of $2,500 closing fees. The instrument is in the principal amount of $35,000 and matures on January 5, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company s common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

On July 11, 2012, the Company prepaid in full, in cash, this Convertible Note.

Arrangement#10- (Asher Enterprises, Inc. III)

On May 5, 2012 the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $37,500 in gross proceeds, net of $2,500 closing fees. The instrument is in the principal amount of $33,000 and matures on January 5, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company s common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $18,137 and the loan discount totaled the same. On June 30, 2012, given the changes in the Company s stock price during the 10 day look-back period for this estimated liability had increased to $66,029, an increase this period of $47,892 creating a non-cash charge to earnings of that amount. During the twelve month period ended June 30, 2012 amortization of debt discount amounted to $3,601 reducing the balance to $14,536. Based upon the price of the Company s common stock on June 30, 2012, this note is convertible into approximately 115,030,675 shares of common stock.

On September 30, 2012, given the changes in the Company s stock price during the 10 day look-back period for this estimated liability had decreased to $17,038, an decrease this period of $48,991 creating a non-cash credit to earnings of that amount. During the three month period ended September 30, 2012 amortization of debt discount amounted to $6,201reducing the balance to $8,335. Based upon the price of the Company s common stock on September 30, 2012, this note is convertible into approximately 54,505,814 shares of common stock.

EQUITY LINE OF CREDIT

The Company entered into a $10,000,000 equity line of Credit with Dutchess Opportunity Fund II, LLC in December of 2011. Under the equity line, the Company is eligible to PUT to the fund, 20,000,000 shares of its common stock during any pricing period. The Company has registered a total of 250,000,000 shares of its common stock on a Form S-1 Registration Statement with the Securities and Exchange Commission that was declared effective on January 17, 2012 in connection with the Dutchess Equity Line. As of September 30, 2012, the Company has received $149,428 of proceeds under the Equity Line relating to the resale of 94,907,761 shares of the Company s common stock, net of $15,352 transaction fees, of which $145,428 and $4,000 was received during FYE June 30, 2012 and the three months ended September 30, 2012, respectively. The amount of proceeds to be received under the Equity Line will depend upon the stock price of the Company at the various points in time it exercises the Put Option.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company has failed to make two cash payments due to St George Investments under a Standstill and Restructuring Agreement dated as of May 31, 2012 each in the amount of $33,238.12 due on October 1, 2012 and November 1, 2012. In addition the Company has failed to make two cash payments due to JMJ Financial each in the amount of $37,018.31 due on October 1, 2012 and November 1, 2012 under a similar Standstill and Restructuring Agreement dated as of June 1, 2012. The Total Amount owed to St. George Investments is $720,156.56 plus accrued interest at 8% from June 5, 2012 and the Total Amount owed to JMJ Financial is $802,060.49 plus accrued interest at 8% from the same date.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None.

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.

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: November 14, 2012	By: /s/ Martin S. Smiley Martin S. Smiley Executive Vice President Chief Financial Officer and General Counsel