

MPHASE TECHNOLOGIES INC  
Form 10-K  
September 24, 2012

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

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF  
1934 (NO FEE REQUIRED)

FOR THE YEAR ENDED **JUNE 30, 2012**

COMMISSION FILE NO. **000-30202**

**mPHASE TECHNOLOGIES, INC.**

(Name of issuer in its charter)

**NEW JERSEY**

(State or other jurisdiction of  
incorporation or organization)

**22-2287503**

(I.R.S. Employer  
Identification Number)

**587 CONNECTICUT AVE., NORWALK,**

(Address of principal executive offices)

**CT 06854-1711**

(Zip Code)

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

**SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:**

**COMMON STOCK, \$.01 PAR VALUE**

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

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Yes [ ] No [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]

Non-accelerated filer [X]

Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)

Yes [ ] No [X]

As of December 31, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$4,993,904 the closing sale price as of that date. As of July 26, 2012, there were 4,071,051,851 shares of common stock, \$.001 par value, outstanding.

**Documents Incorporated by Reference**

None.

**ANNUAL REPORT ON FORM 10-K**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
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**PART I**

**FORWARD-LOOKING STATEMENTS**

This report contains "forward-looking statements." In some cases, you can identify forward-looking statements by terms such as "may," "intend," "might," "will," "should," "could," "would," "expect," "believe," "estimate," "predict," "potential," or the negative of these terms and similar expressions intended to identify forward-looking statements. These statements reflect the Company's current views with respect to future events and are based on assumptions and subject to risks and uncertainties. The Company discusses many of these risks and uncertainties in greater detail in Part I, Item 1A of this 10-K under the heading "Risk Factors." These risks and uncertainties may cause the Company's actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. You should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent the Company's estimates and assumptions as of the date of this report. The Company is under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

The following discussion should be read in conjunction with mPhase Technologies' financial statements and related notes included elsewhere in this report.



## ITEM 1. BUSINESS

### General Description of the Business

mPhase Technologies, Inc. is a publicly-held New Jersey corporation founded in 1996. The Company has approximately 23,000 shareholders and approximately 4 billion shares of common stock outstanding as of June 30, 2012. The Company's common stock is traded on the Over the Counter Bulletin Board under the ticker symbol XDSL. The Company has offices in Little Falls, New Jersey as well as Norwalk, Connecticut.

mPhase is a development-stage company specializing in developing smart surfaces using materials science engineering, nanotechnology science and the principles of microfluidics and microelectromechanical systems (MEMS). The Company develops products for both commercial and military applications. The Company's flagship product is its Smart NanoBattery providing Power On Command . The new patent pending and patented 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 innovative products such as medical devices including heart pacemakers and pumping devices.

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. Such reserve battery can be activated by an electronic pulse. The Army has also successfully tested the Smart NanoBattery as an energy source activated by g forces for a guidance system for small munitions.

In a separate effort, mPhase has also developed a mechanically- activated reserve battery. As a result of a unique combination of battery and mechanical engineering, such reserve battery also has a potentially infinite shelf-life. The battery was part of the Company's pilot program for a new emergency flashlight product line that has been designed by and co-branded with Porsche Design Studio, a premiere world-class company specializing in high-end accessory products for the luxury automotive manufacturer. The Company is developing a second automotive product with Porsche Design studio.

### 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 repelling") state to a hydrophilic ("water attracting") 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 superhydrophobic 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 is also the basis for other possible applications such as self-cleaning surfaces, filtration and separation and liquid delivery systems.

mPhase has also developed a manually-activated lithium reserve battery using an innovative industrial and mechanically-engineered design. The battery is activated by a unique triggering mechanism that rapidly releases and distributes the liquid electrolyte held in a glass sealed reservoir inside the battery. By twisting a screw-like mechanism outside the battery the glass seal is broken and the electrolyte immediately contacts the battery's solid electrodes to produce electric power. Unlike conventional batteries that have relatively short shelf lives prior to initial use of the flashlight, the mPhase reserve battery has a shelf life of over 20 years.

## **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. The Company began its efforts by entering into a \$1.2 million 12 month Development Agreement in February of 2004 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). 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 extended its development effort twice for an additional 2 year period 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, AlwaysReady, 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 products. The Company decided in September of 2007 to transfer its development work out of Bell Labs (Alcatel/Lucent) in order to accelerate and broaden its nanotechnology product commercialization efforts. Bell Labs had engaged in its battery research and development for the Company for zinc-based batteries and was limited since it did not have facilities capable of handling lithium chemistry. mPhase has continued to work with Rutgers ESRG which has facilities capable of handling lithium based batteries and has also engaged in work with foundries and other companies to supply essential components, fabricate prototypes, and plan manufacturing approaches. These companies currently include Silex, a well-respected silicon foundry in Sweden, and



Eagle Picher, a well-known battery designer and manufacturer that focuses on high-end batteries for military applications located in Joplin, Missouri.

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 NanoBattery referred to as the multi-cell, micro-array reserve battery for a critical 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 will enable 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 radio frequency identification 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 this to have been a significant milestone in moving from a low energy density zinc-based battery to a higher energy density lithium-based battery towards proving that this mechanically-activated reserve battery would become economically and commercially viable.

In fiscal years ended June 30, 2009 and June 30, 2010, 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.

During fiscal year ended June 30, 2011, the Company completed work on its Phase II STTR grant for the U.S. army for a nano-reserve battery for a back-up computer memory application. In addition the Company engaged First Principals, Inc to perform an evaluation of each of its patents in order to identify a strategic partner whose products line will need the Company s SmartNanoBattery as a compelling solution.

On March 6, 2012, the Company announced that it is exploring the printing of its Smart NanoBattery on graphene and other new advanced materials. Graphene is a very strong material that has been described as the most conductive material known, making it a vast improvement over silicon. Graphene has the potential to lead to faster, cheaper and more flexible devices including power sources.

### **Emergency Flashlight**

On December 5, 2008, mPhase Technologies, Inc. signed a contract with Porsche Design Gesellschaft m.b.H., Flugplatzstrasse 29, A, S700 Zell am see, Austria ("Porsche Design Studio"), to design a premium emergency flashlight (the mPower Emergency Illuminator). 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.

### **Magnetometer**

In March of 2005, the Company entered into a second Development Agreement for 12 months at a cost of \$1.2 million per annum 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 on the same terms. Although proven to work in the lab, the magnetometer technology could not be scaled up as quickly and as cost effectively as the battery. The project was suspended in September 2007 so that all technical resources could be allocated to the battery project. The Company is entitled to certain royalties from the magnetometer if Alcatel/Lucent ultimately generates revenues from the product.

### **DISCONTINUED BUSINESS-Internet Protocol Television (IPTV)**

Historically, the Company, since its inception, had focused upon developing innovative solutions for the delivery of Broadcast Television as part of a "triple play" of services that would include voice and high-speed internet for telephone service providers globally. The Company, however, has not been able to derive any significant revenue from its TV+ solution and no active development of the product has occurred since fiscal year 2007. The Company determined to discontinue this line of business and all inventory has been written off. During the fourth quarter of the fiscal year ended June 30, 2010, the Company formally elected, for financial reporting purposes to treat its IPTV product line as a discontinued business.

### **Nanotechnology Products**

#### **Platform Technology**

The surface is an important part of virtually every physical object and often plays an overriding role in many processes, beyond mere connectivity and structural support, but more deeply into areas involving chemical and biological interactions. In some instances, the surface provides an easy entry into the chemical or biological systems; in others it protects the internal elements of the object, surrounded by the surfaces.

mPhase's current flagship platform technology is the *Smart Surface*. By being able to control the surface properties of materials down to the nanometer scale, new and improved devices can be designed and built that may lead to compelling business opportunities. One type of smart surface of particular interest allows properties to be changed in response to an external stimulus.

Initially, mPhase's development focused on MEMS devices by manipulating the surface of silicon materials – the same material used to make microelectronic materials and devices. Using physical and chemical processes, the surface of the silicon is modified to make solid porous structures known as membranes. This is where microfluidics comes into play. These membranes can be used to selectively control the flow of liquids through the pores or openings at the micrometer length scale.

Surfaces may be characterized as *hydrophilic* or *hydrophobic* depending on whether or not they attract or repel water (or other liquids). A hydrophilic surface can be wet and adsorbs water. A hydrophobic surface, on the other hand, cannot be wet. Hydrophilic and hydrophobic surfaces are abundant in nature and in synthetic materials, both organic and inorganic in chemical composition. A familiar example of a hydrophilic surface is a sponge that readily soaks up water. By contrast, many plant leaves and flower petals are hydrophobic, as are insect parts and bird feathers. Synthetic hydrophobic surfaces include Scotchgard® treated fabric, Teflon® coated metal, or Rain-X® coated glass. On a hydrophobic surface, water beads up and can move around without being absorbed by the solid material that it is resting on.

So-called *superhydrophobic* surfaces are also found in nature and can now be replicated in the lab. The lotus leaf and rose petal, for example, exhibit superhydrophobicity. Here water droplets form almost perfect spheres with hardly any contact with the underlying solid surface. This makes the liquid even easier to move and manipulate.

The synthesis of superhydrophobic surfaces has recently been made possible by advances in nanotechnology and mPhase is leading the way to better understand and create materials and devices incorporating these unique surface properties.

As mPhase's research and development efforts evolve, in addition to silicon materials, the ability to control the surface properties of materials can be extended to other substances such as polymers, ceramics, metals, and fibers, as examples, providing opportunities for our platform technology to be used in a range of potential applications such as energy storage and power management for portable electronics and microelectronics, self-cleaning surfaces, filters for water purification or desalination systems, materials for environmental remediation that separate liquids or solvents, and other situations where the control of the interaction of a solid surface exposed to a liquid is vitally important.

### **Smart NanoBattery**

Battery technology has changed little in its fundamentals over the past 150 years. As a result, ordinary batteries begin dissipating energy as soon as they are assembled and therefore have limited shelf life. Chemistries are fixed inside the package so the user cannot interact with the contents to program functionality. The size and form of batteries have not kept pace with the miniaturization of electrical components, microprocessors and integrated circuits. As a result, the optimal implementation of an electronic device is not always achieved. Some batteries contain chemicals that are not considered safe or environmentally friendly ("green"). This makes disposal a potential issue.

mPhase is challenging this convention by using their proprietary superhydrophobic porous silicon membrane technology as the basis to build the Smart NanoBattery providing Power On Command .

Superhydrophobicity initially keeps the liquid electrolyte physically separated from the solid electrodes of the battery, thus preventing the chemical reactions from occurring that cause the battery to provide power. This gives the Smart NanoBattery the benefit of potentially infinite shelf life.

A conventional battery loses some capacity while sitting on the shelf in its package or stored in an electronic or electrical device, even before being used for the first time. On the other hand, the Smart NanoBattery is built so that it is inactive and remains that way indefinitely until it is turned on. No power is lost to self-discharge or leakage current prior to activation. When needed, the Smart NanoBattery can be activated on command via the phenomenon of electrowetting. The surface properties of the porous silicon membrane are selectively controlled to shift instantly from

a superhydrophobic to hydrophilic state. In other words, electrowetting acts as the triggering mechanism.

mPhase has successfully fabricated and demonstrated its first 3-volt lithium-based Smart NanoBattery, based on a design allowing either manual or remote activation by the user, the feature known as Power on Command .

By incorporating the phenomenon of electrowetting on nanostructured surfaces into a revolutionary way of storing energy, the Smart NanoBattery provides power to portable electronic and microelectronic devices exactly when and where it is needed. It is an alternative and an augmentation to conventional batteries, still converting stored chemical energy into usable electrical energy, but in a way that is potentially more reliable, more versatile, more environmentally friendly, and less expensive than the industry norm.

## Applications

mPhase is exploring military and commercial applications of smart surfaces in which the properties can be accurately and precisely controlled down to the nanometer scale. Electrowetting allows the switching from a hydrophobic to hydrophilic state as a result of an electronic stimulus.

The Smart NanoBattery, mPhase's first smart surface product, has a unique architecture that enables a shelf life of decades, remote activation, programmable control, scalable manufacturing, and adaptability to multiple configurations. The value proposition to the end user is to have a source of energy or power that is literally always ready - reliable, convenient, low cost - a battery guaranteed to work at full capacity when and where you need it.

The Smart NanoBattery can conceivably supply power "*on command*" to a wide variety of portable electronic and microelectronic devices used in military, medical, industrial, and consumer applications.

mPhase has demonstrated that the battery works in lab tests as well as in a significant field test conducted for the U.S. Army as part of a guided munitions project. The relationship with the Army also included an \$850,000 funded project to develop a battery for a mission critical computer memory backup application. The target was a small footprint, 3-volt lithium battery with a minimum shelf life of 20 years and uninterruptible power output during this time period. No other battery technology available today can deliver the long-term performance requirements specified by the U.S. Army for this application.

The Smart NanoBattery can potentially be designed to accommodate a variety of sophisticated portable electronic and microelectronic devices including next-generation cell phones, handheld gaming devices, wireless sensor systems, radio frequency identification tags, high-tech flashlights and beacons, health alert alarms, and non-implantable and implantable medical devices such as pacemakers.

Initial applications will address the need to supply emergency and backup power to a range of products for defense and security, with future applications in the commercial and consumer arenas.

## Other Potential Products

The Company has been in active discussions with Picatinny Arsenal, Picatinny, New Jersey to jointly obtain federal funding under SBIR grants to develop additional new products for military small munitions applications. The Company has a strong historic cooperative relationship for product development and testing.

In 2007 the Company entered into a Cooperative Research and Development Agreement ( CRADA ) with Picatinny Arsenal to test the single cell version of the Smart NanoBattery suitable for future research and development programs for projectile launched munitions. From 2007 through the first quarter of calendar year 2010, numerous internal laboratory air gun simulation tests were performed, including a live-air gun and live gun fired test at the United States Army s facility at Aberdeen Proving Grounds, Aberdeen, Maryland. A prototype of the Smart NanoBattery was the subject of a live fire test as part of a projectile fired out of an Abrams Tank. The results of the test indicated that the battery was activated by 10,000 G forces indicating that it could supply energy necessary to operate a guidance system for small munitions. In addition, the Smart NanoBattery demonstrated extreme resiliency to shock and acceleration since, it survived tests that subjected it to high acceleration of over 30,000 G forces.

On February 9, 2011, the Company announced that it had signed a 3 year 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.

## **BUSINESS OF THE COMPANY**

### **Business Development, Organization, and Acquisition Activities**

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

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

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

From June of 1997-December of 2007, the Company's main business was the development and sale of telecommunication products and equipment and middleware products for the delivery of television by telephone service providers. This business was formally discontinued by the Company for financial reporting as of June 30, 2010.

Effective February 3, 2004, the Company entered into a Development Agreement with the Bell Laboratories division of Lucent Technologies, Inc. for the development of micro power source arrays fabricated using nano textured super hydrophobic materials.

Effective March 5, 2005, the Company extended its Development Agreement with Bell Labs for an additional 12 months for the development of micro power source arrays fabricated using nano textured super hydrophobic materials.

Effective March 10, 2005, the Company entered into a Development Agreement with Bell Labs for the development of a new generation of magnetic field sensors using the science of nanotechnology.

In April of 2006, the Company renewed each of the nanotechnology Development Agreements with Bell Labs dated March 5, 2005 and March 10, 2005 respectively for an additional 12 months at the cost of \$100,000 per month for each agreement.

On February 3, 2007, the Company entered into Amendment No. 4 to a Development Agreement effective February 3, 2004, with Lucent Technologies, Inc. extending research and development through April 27, 2007, relating to micro-power source arrays fabricated using nano-textured superhydrophobic materials.

On February 17, 2007, the Company extended a Cooperative Research Agreement through December 31, 2007, originally entered into on July 15, 2005, with Rutgers, The State University of New Jersey governing cooperative research on a lithium nanostructured reserve battery.

On April 28, 2007, the Company extended its Development Agreement with Lucent Technologies relating to micro-power source arrays fabricated using nano-textured superhydrophobic materials originally entered into in February of 2004 with Amendment #5 through July 31, 2007.

On May 10, 2007, the Company entered into a Consulting Agreement with CT NanoBusiness Alliance to produce a report and assist the Company with respect to its strategy for development and marketing of its nano power cell product.

On July 18, 2007, the Company announced the award of a Phase I US Army Small Business Technology Transfer (STTR) Program Grant. This award was a Phase I six month research effort to develop a 30 plus year shelf life, low power, green battery (coin cell or similar) that would continuously power a static random access memory circuit for a computer device. SRAM is a common type of digital memory chip used in a wide variety of electronic systems for data storage. During the six month research period, the team was to characterize the design, conduct capacity and stability measurements of a reserve style power cell based on Lithium chemistry. Long term stability and shelf life is achieved by initially separating the active materials of the power cell during storage, and controlling the activation of the cell until needed to provide power. This research program extended the design of the company's smart battery to support the use of non-water based electrolytes that are commonly used in lithium based batteries. Lithium batteries are favored for powering many different types of electronic devices due to their higher voltage and power requirements than can be supplied by more common alkaline batteries. The Phase I grant, valued at \$100,000, enabled the Company to competitively compete for a Phase II award as an avenue used by U.S. government defense agencies to adopt advanced technology for commercialization and use. Rutgers University supported the Company and its newly formed subsidiary, AlwaysReady, Inc., during the award period as a subcontractor under the award guidelines.

On October 19, 2007, the Company announced that in connection with the settlement and dismissal of a civil law suit originally filed on November 16, 2005 by the Securities and Exchange Commission in the Federal District Court in the District of Connecticut, the SEC issued a Cease and Desist Order and certain remedial sanctions against two officers of mPhase Technologies, Inc. (the "Company"). The civil suit was filed against Packetport.com, Inc. a Nevada corporation, Microphase Corporation, a Connecticut corporation that provides administrative services to the Company and shares common management with the Company, and others. The two officers of the Company were Mr. Ronald A. Durando, President and Chief Executive Officer and Mr. Gustave T. Dotoli, the Chief Operating Officer. The civil suit by the SEC named as respondents Mr. Durando, Mr. Dotoli and others in connection with their activities as officers and directors of Packetport.com. The cease and desist order from the SEC found that (1) all parties had violated Section 5 of the Securities Act of 1933, as making unregistered offers or sales of Packetport.com common stock, (2) Mr. Durando and Mr. Dotoli had violated Section 16(a) of the Securities Exchange Act of 1934, as amended, and Rule 16(a) thereunder by failing to timely disclose the acquisition of their holdings on Form 3's, and (3) Mr. Durando had violated Section 13(d) of the Securities Exchange Act of 1934, as amended, for failing to disclose the acquisition of more than five percent of the stock of Packetport.com. Under the order Mr. Durando was required to disgorge \$150,000 and Mr. Dotoli was required to disgorge \$100,000. The Company was not named as a party to the civil suit. More information regarding the detailed terms of the settlement can be found in SEC release No 8858 dated October 18, 2007 promulgated under the Securities Act of 1933 and SEC Release No. 56672 dated October 18, 2007 promulgated pursuant to the Securities Exchange Act of 1934. Mr. Durando and Mr. Dotoli have continued to serve as officers and directors of the Company. Mr Durando and Mr. Dotoli together with Microphase corporation and others, without admitting or denying the findings of the SEC, except as to jurisdiction and subject matter, have consented to the entry of the Order Instituting Cease and Desist Proceedings, Making Findings and Imposing a Cease and Desist Order and Remedial Sanctions pursuant to Section 8A of the Securities Exchange Act of 1933 and Section 21C of the Securities Exchange Act of 1934.

On February 20, 2008, the Company announced that a prototype of its smart reserve nanobattery was successfully deployed and activated by the resulting g-force in a gun-fired test at the Aberdeen Proving Grounds in Maryland. The test was conducted by the U.S. Army Armament Research, Development, and Engineering Center (ARDEC) of Picatinny New Jersey. In this test, the AlwaysReady battery delivered power to the test load inside the standard military anti-tank round (M830A1 or HEAT-High Explosive Anti-Tank) and demonstrated extreme resiliency, surviving the harsh environment as well as the high acceleration at a g-force in excess of 45,000 (one "g" is equal to the pull of gravity at sea level). The gun-fired test was part of a prototype evaluation process that the U.S. Army was conducting as part of its CRADA (Cooperative Research and Development Agreement). The Company's Engineers collaborated with those at Picatinny involved in the development of precision guidance components to successfully package this reserve electrochemical storage system to operate during the gun-firing and flight environment of a very high "g" round. The developmental qualification work, prior to the live test firing, was performed using Picatinny's air gun test facilities by subjecting battery prototypes to various launch accelerations and various design iterations. The test validated the performance of the AlwaysReady battery with a current armament used by the Army. The Company stated that its goal was to potentially incorporate this battery technology into smart, gun-fired munitions programs being developed by Picatinny.

On May 2, 2008, the Company announced that it had produced its first lithium-based battery that can be manually activated by providing power on command with a significantly longer shelf life prior to initial activation than those found in other batteries. The battery can be activated by command wirelessly from a remote location by a radio frequency signal giving it added mobility for sensor and similar applications.

On September 9, 2008, the Company announced that it had been awarded a Phase II Small Business Technology Transfer Program (STTR) grant, part of the Small Business Innovation Research (SBIR) program, from the U.S. Army for continued development of a reserve Smart NanoBattery for a critical computer memory application.

On September 17, 2008, the Company announced that its breakthrough research in microfluidics on understanding how micro- and nanostructured surfaces could be engineered to have properties for repelling water and other types of

liquids could potentially be used in consumer applications to enable self-cleaning surfaces such as shower doors or windows and other materials used in self-cleaning systems.

On September 23, 2008, the Company announced that it had produced compact reserve lithium battery prototypes with a manually activated breakable separator capable of powering a high-intensity emergency flashlight for more than two hours continuously at full brightness. The work was done in conjunction with Eagle Picher, a respected battery design and development firm located in Joplin, Missouri. mPhase stated that it was pursuing the concept of using a reserve battery with a breakable separator in a high-intensity emergency flashlight either as the primary power supply or as a reliable source of backup power. Cylindrical and planar battery and flashlight designs are possible. These flashlights may be equipped with either a krypton bulb or light emitting diode (LED), the choice depending on the required brightness and runtime characteristics. A manually activated breakable separator technology has been created that is analogous to that of the AlwaysReady Smart NanoBattery with the patented electrowettable membrane, both of which keep the liquid electrolyte separate from the solid electrodes until the battery is actually needed. This provides a battery with potentially infinite shelf-life that will not lose power while sitting on the shelf or in storage. Whereas the electrowettable membrane is activated by applying a voltage at the interface between the liquid and membrane surface, the breakable separator is manually activated through a well-defined physical force. The result in both cases is that the liquid electrolyte mixes with the solid electrodes, thus releasing the stored energy and 3 volts of power when lithium chemistry is employed.

On December 5, 2008, the Company announced that it had signed a contract with Porsche Design Gesellschaft m.b.H., Flugplatzstrasse 29, A, S700 Zell am see, Austria ["Porsche Design Studio"], to design a premium version of the AlwaysReady emergency flashlight. The flashlight was to use mPhase's proprietary 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 was designed to have an almost infinite shelf life making it ideal for emergency lighting applications. The premium flashlight was to be marketed as an accessory for automobile roadside emergency kits.

On January 15, 2009, the Company announced that its Smart NanoBattery being developed pursuant to a Phase II Army Grant for a critical mission computer backup reserve battery may also have wider application for unattended electronic ground sensors that provide mission critical information for military operatives.

On January 29, 2009, the Company announced that it had contracted EaglePicher Technologies to manufacture the reserve battery for use in its 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.

On March 18, 2009, the Company announced that it had received the first working model for the emergency flashlight from the Porsche Design Studio in Zell am See, Austria, representing a major step forward as the Company prepared for the initial product launch.

On June 23, 2009, the Company announced that it had achieved a major milestone in the development of its Smart NanoBattery Technology. mPhase reported that it had successfully manufactured a six-inch silicon-based wafer containing its key membrane (separator) technology. This separator is responsible for keeping the Smart NanoBattery's chemicals separated until activated. The membrane's unique surface and structure allows for control of a liquid on a nanostructured surface.

On August 5, 2009, the Company announced that it had completed the first functional prototype of its lithium reserve battery intended for use in the Company's emergency flashlight. The prototype is the first time the mPhase battery technology had come together in a "ready for production" prototype. The mPhase lithium reserve battery stores energy until it is literally "turned on." It is manually activated by a unique triggering mechanism that rapidly releases and distributes the liquid electrolyte inside the battery. The electrolyte immediately contacts the solid electrode materials to produce 3 volts. The reserve battery is designed for backup power and emergency applications. With a shelf life of over 20 years, the mPhase lithium reserve battery allows the emergency flashlight to function as a reliable emergency light source in countless situations.

On August 6, 2009, the Company announced that it had completed the first fully functional prototype of its emergency flashlight. A world renowned automobile design firm created a sleek design to accompany the flashlight's unparalleled functionality. The new illuminator features mPhase's first reserve battery that allows for backup power to be always ready through a simple activation method.

On August 27, 2009, the Company announced that its Phase II grant from the United States Army had been renewed for a second year.

On November 2, 2009, the Company reported that it had been granted a United States patent for its concept for a battery that is safer for the environment in that it is based on the idea of neutralizing the harmful chemistry inside the battery by dispensing a neutralizing agent or containment polymer located inside the battery fixture and dispensed once the battery is depleted. This reduces the risk of potentially harmful chemicals leaking through the battery container and polluting the ground or air after the battery has been discarded.

On March 9, 2010, the Company announced that its mPower On Command Reserve Battery had successfully met all United Nations/US Department of Transportation safety standards and had received UN DOT certification for the safe transport of lithium-containing batteries. Certification required successful passage of eight tests, altitude, thermal, vibration, shock, impact, overcharge, forced discharge, and external short circuit.

On May 14, 2010, the Company announced that both its mPower Emergency Illuminator and the Power On Command reserve battery technology passed a series of rigorous tests necessary to qualify for CE marking. The CE mark certifies that a product has met European Union consumer safety requirements and allows both products to be sold in the European Economic Area, which includes members and non-members of the European Union.

On June 14, 2010, the Company reported that it had been granted a United States patent for the concept of the porous membrane made from silicon that is capable of controlling the flow of a wide range of liquids, including electrolytes, used in both primary and rechargeable batteries. This is the concept used in the development of the Company's Smart NanoBattery. The issued patent is jointly held between the Company and Alcatel Lucent and is based on a prior cooperative research and development agreement between the two companies.

On July 31, 2010, the Company announced that its scalable smart reserve cell technology is one of the items included in the Fiscal Year 2011 Defense Appropriations Bill that was passed out of subcommittee by the U.S. House of Representatives to receive approximately \$2,500,000 in federal funding.

On August 25, 2010, the Company announced that it signed a representative agreement with Trittech Lt. of Hod HaSharon, Israel, a leading stocking representative and distributor of major manufacturers of electronic components serving the Military, Communication, Medical, Industrial Control and Security Industries to promote the Company's products exclusively in Israel.

On November 9, 2010, the Company announced that it has successfully assembled its first functional multi-cell Smart NanoBattery. This was achieved by bonding an electrolyte reservoir to mPhase's patented, porous, silicon based smart surface. The combined multi-cell reservoir and honeycomb porous smart surface assembly is then bonded to a glass and silicon electrode assembly and populated with the electrode stacks consisting of lithium and carbon monofluoride materials (Li/CFx). Fully assembled units are then filled with the electrolyte and sealed, making them air tight. They are finally attached to special circuit boards for testing and characterization studies, which will include triggering and activation of each of the independent battery cells via a technique called electrowetting, which gives the mPhase reserve battery one of its key attributes -- programmable triggering. Because of the unique design of the multi-cell battery, each cell in the battery has very long shelf until it is triggered. The development of the Smart NanoBattery has been undertaken with funding support from a Phase II STTR Army award.

On November 10, 2010, the Company announced that it is developing a second new automotive product with a major European automobile manufacturer that is based on advanced battery technology and that work on the first prototype of the product commenced. A feasibility study was concluded and the product is expected to have broad appeal to both the OEM and aftermarket automobile industry.

On November 11, 2010, the Company announced that it has completed the engineering and safety testing of a new Active Reserve Battery for its award winning mPower Emergency Illuminator. The new battery features a military-style housing with active Lithium-Manganese Dioxide (Li-MnO<sub>2</sub>). The battery provides up to 20 years of shelf life under normal operating temperatures and replaces our first Reserve Battery technology featured in the successful pilot run of the mPower Emergency Illuminator. The new Active Reserve Battery (illustration included) acts as a direct replacement for the Company's first twist to activate Reserve Battery and is available for sale on the mPower website for \$29.99 USD. Included is the specification sheet for the new mPower On Command Active Reserve Battery.

#### **mPower On Command Active Reserve Battery Specifications**

- Nickel Plated Steel Air Tight Cylindrical Can
- Voltage Range 1.5V to 3.3V
- Average Voltage 3V
- Nominal Capacity 3.2 Ah @ 100mA to 2V @ 23 degrees C
- Max discharge 1.5A continuous



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- Pulse Capacity up to 2.0A varies according to pulse characteristics, temperature, cell history and the application
- Operating Temp -40 degrees C to 72 degrees C
- Storage Temp -40 degrees C to 95 degrees C
- Nominal dimensions of case: L 2.56" x D 0.730" (L 65mm x D 18.6mm)
- Weight: 1.65 oz (41.3 grams)
- Insulating Red Protective Cap

- A hermetic glass to metal seal that ensures up to 20-year shelf life
- Active Reserve Battery chemistry: Lithium-Manganese Dioxide (Li-MnO<sub>2</sub>)
- Weight of metallic lithium in each battery: Approximately 1.10 grams of lithium

Complies with both US and EU safety regulations

On November 12, 2010, the Company reported that it had successfully triggered and activated its first functional multi-cell Smart NanoBattery, achieved by applying a brief pulse of electrical energy to a porous, smart surface membrane, located inside each cell in the battery, which caused the electrolyte to come in contact with the cell's electrodes, creating the chemical reaction to produce voltage inside the cell of the multi-cell battery. The mPhase multi-cell battery consists of a matrix of 12 individual cells populated with an electrode stack consisting of lithium and carbon monofluoride materials (Li/CF<sub>x</sub>), with each cells rated at 3.0 volts. Using a specially designed circuit board for testing and characterization studies, 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. Because of the unique design of the multi-cell battery, each cell in the battery has very long shelf until it is triggered.

On December 8, 2010, the Company announced that it has successfully completed the technical work under the Phase 2 STTR grant awarded by the US Army for the multi-cell Smart NanoBattery. The team achieved this milestone by completing the work sponsored by the Army Research Office, which encourages deep technical exploration, by funding small business involved in innovative research projects for miniature energy storage designs, by helping accelerate research and development concepts for long term commercialization efforts. The STTR funding enabled the mPhase technical team to develop functional prototypes and to conduct detailed analysis of the novel multi-cell reserve battery designs. The funding allowed the mPhase team to create a substantial IP portfolio and to achieve a Technical Readiness Level (TRL level) 4/5, which conventionally means that the original Smart Nanobattery design and technology used in its implementation progressed to the extent that they now meet the criteria for prototype testing in both laboratory and simulated deployment environments. The completed Smart Nanobattery is based on a complex MEMS device consisting of layers of silicon and glass fabricated to the exact specifications of the mPhase team by its commercial foundry partner. The mPhase team finished the assembly by populating each battery with the electrode stacks of lithium and carbon monofluoride materials (Li/CF<sub>x</sub>), that delivered 3 volts per cell. Because of the unique design of the multi-cell battery, each cell in the battery has very long shelf until it is activated via a technique called electrowetting, which gives the mPhase reserve battery one of its key attributes -- programmable triggering. The development of the Smart NanoBattery has been undertaken with funding support from a Phase II STTR Army award.

On February 9, 2011, the Company announced that it signed a 3 year CRADA (Cooperative Research and Development Agreement) 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 and functionally appropriate for DoD based systems requiring portable power sources. The army researchers would further evaluate the prototypes using the Army's testing facilities at Picatinny Arsenal in New Jersey in order to potentially incorporate the technologies into research and development and other programs sponsored by Picatinny.

On April 5, 2011, the Company announced that it has begun to ship branded orders of its award winning Emergency Illuminator to a luxury-design firm based in Europe. The Emergency Illuminator is a precision instrument with a powerful 180 Lumens LED and two separate battery tubes. One tube is for everyday use and holds two CR123 batteries, while the other tube holds mPhase's Power On Command active reserve battery. If the regular CR123 batteries run down, the active reserve battery takes over -- even after laying idle for 20 years. The Emergency Illuminator also features a USB port that can be used for charging portable devices such as a cell phone.

On May 20, 2011, the Company reported that it had been granted a United States patent for the unique concept of a smart battery design that could contain different battery chemistries within the same battery configuration or battery

pack. The techniques described in the patent are based on the idea of creating individual cells within a battery system, where each cell could contain a custom combination of electrolyte and electrode materials. The patent describes how individual cells in a battery could be activated based on conditions such as the surrounding temperatures or other conditions such as power drain requirements, which can be used in determining which cells in the battery to activate. The concepts behind this patent could be used to create a new type of reserve battery that would work in a wide range of applications, such as electronic devices and sensors used in very high and low temperature environments, where the temperature conditions may change over time, or in other environments where optimal battery performance is not easily achieved based on a single non optimized battery chemistry.

On June 15, 2011, the Company announced that it had engaged First Principals, Inc. (FPI), a world-class technology appraisal and commercialization enterprise located in Cleveland, Ohio, to perform a complete economic and strategic evaluation of mPhase's Patent Portfolio and identify a broad array of potential innovative products for "smart surfaces." In addition, FPI is to assist the Company in identifying strategic partners leading to additional commercialization applications and opportunities with respect to its Smart NanoBattery.

On June 29, 2011, the Company received approval from its shareholders at a Special Meeting of Shareholders to amend the Company's Articles of Incorporation to increase the Company's authorized shares of common stock from 2 billion to 6 billion shares.

On October 19, 2011 the Company announced that an independent patent valuation of its technology estimates a minimum valuation of \$40 million for its portfolio of patents and intellectual property. The technical study of the Company's intellectual property commenced in June of 2011 and was performed by FIRST PRINCIPALS, INC., a world-class technology appraisal and commercialization firm located in Cleveland, Ohio.

On November 28, 2011 the Company amended the par value of its common stock from \$.01 to \$.001, the Balance Sheet at June 30, 2011 was restated to reflect this change with a reduction of \$14,656,520 to the value of common stock and a corresponding increase to additional paid in capital for the same amount. Transactions recorded in the Consolidated Statement of Changes in Stockholders' Deficit were presented at the \$.001 par value for the Fiscal Year Ended June 30, 2012.

On February 11, 2012, the Company announced that it had filed a new patent based upon its Smart Surface technology for a novel drug delivery system. The drug delivery patent is based on the ability of mPhases's Smart Surface technology to electronically control the precise flow of a fluid on a nano-structured surface.

On February 14, 2012, the Company announced that it was enhancing its patent portfolio for products beyond reserve battery applications. The core of the portfolio is the unique architecture relating to its Smart NanoBattery that enables a shelf life of decades, remote activation, programmable control and adaptability to multiple chemistries within the same container. These attributes which are developed by the Company's focus on Smart Surfaces lend themselves to potential applications in the areas of medical devices and portable electronic applications.

During the first three quarters of the fiscal year ended June 30, 2012, the Company attempted to acquire Energy Innovative Products, ( EIP ) a privately-held company that is a developer of proprietary technologies for reducing energy usage in refrigeration and cooling systems with both commercial and consumer applications. The transaction was terminated in February of 2012 by EIP prior to the Company completing its due diligence review of EIP's assets, patents contracts and other necessary records. The Company is entitled to a breakage fees and restitution of certain monies advanced to EIP during the due diligence period and is seeking to determine the solvency of EIP and enforce certain contractual remedies under an Amended Letter of Intent.

On March 6, 2012, the Company announced that it is exploring the printing of its Smart NanoBattery on graphene and other new advanced materials. Graphene is a very strong material that has been described as the most conductive material known, making it a vast improvement over silicon. Graphene has the potential to lead to faster, cheaper and more flexible devices including power sources.

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 in the area of energy storage devices, micro fluidics and nanotechnology. The Company is continuing exploratory negotiations with 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.

## **Products & Services**

Since its inception in 1996, mPhase has been a development stage company focused on the development of intellectual property involving high technology innovative solutions and products with high-growth potential. The Company has served as an incubator for exploratory research and initial development for products that are best characterized as having a high risk/high reward profile since they involve exploratory research to achieve significant scientific breakthroughs from existing products that can have a substantial economic impact and benefit upon successful commercialization.

### **NanoBattery**

The Smart NanoBattery is an outgrowth of the science of nanotechnology that the Company began in February of 2004 with the entry into a Project Development Agreement with the Bell Labs Division of Lucent Technologies, Inc. The Company has historically outsourced its Research and Development of new products to larger companies or institutions with significant scientific resources and experience in exploratory research. mPhase Technologies along with Alcatel/Lucent/Bell Labs jointly conducted research from February 2004 through April of 2007 that demonstrated control and manipulation of fluids on superhydrophobic surfaces to create power cells by controlling wetting behavior of electrolytes on nano structured electrode surfaces. This scientific research set the ground work for continued exploration in the development of intelligent nanotechnology power cells (nano-batteries), 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 engineering improvements that were essential in moving the battery from a zinc based chemistry to a design using lithium based chemistry. The Company established a strategic research working relationship with the Energy Storage Research Group (ESRG), a center of excellence in Rutgers University that has lab research facilities capable of handling lithium based battery development.

mPhase's current flagship product is its Smart NanoBattery that has a significantly longer shelf life prior to initial activation than that of conventional batteries. The Smart NanoBattery has potentially significant applications for critical mission power sources that must be reliable and available upon command by the electronic device it is powering. Such applications involve emergency flashlights and beacons, back-up power sources for computers and life support products, as well as significant military applications where critical mission backup power is essential for weapons control computers and electronic warfare equipment used in combat. Other potential military applications include power sources activated by g-forces for guided munitions.

The Smart NanoBattery utilizes a proprietary technology developed over a period of 5 years. The battery design, prior to initial activation, has a membrane that separates the electrolyte and electrodes used to generate power. Conventional batteries do not provide for such separation and therefore their power begins to dissipate prior to the first time they are activated causing them to lose capacity. Conventional batteries have significant limits on how long they can be stored prior to their first activation and in providing a reliable source of power needed for critical

applications requiring portable power supplies.

### **Mechanically-Activated Reserve Battery**

In April of 2008, mPhase successfully produced its first lithium-based breakable separator. This provided the basis of a new reserve battery product that relies on mechanical rather than electrical activation to provide Power on Command. In contrast to the Company's Smart NanoBattery product that is being developed using the science of nanotechnology and relies on an electro wetting membrane, this reserve battery is designed for mechanical rather than electrical activation. Such reserve battery is based upon an innovative mechanical and battery engineering design that is activated by puncturing a soft pouch containing electrolyte. Such reserve battery was especially designed to be used in the Company's new emergency flashlight product. It was designed for the Company by Eagle Picher, a major U.S. battery designer, and the flashlight was designed for the Company by Porsche Design Studio. The Company transitioned the flashlight's backup battery from the Eagle Picher battery to a cost-reduced modified primary battery with an extended shelf life.

### **Magnetometer: Development Suspended in 2007**

In March of 2005, the Company engaged the Bell Labs division of Lucent Technologies, Inc. to develop, using the science of nanotechnology, both a low and high sensitivity magnetometer for both military and commercial use.

Magnetometers can be used in a wide range of applications for the detection of magnetic fields in applications that include military surveillance, securing the retail environment, automotive sensors and actuators, industrial processing, medical imaging, scientific measurements, detection of mineral deposits and even air and space exploration. In sensor networks ultra-sensitive magnetometers can be used, for example, to detect and accurately pinpoint battlefield objects or they might also be used to study the workings of the human brain.

Magnetometers work by sensing changes in magnetic fields due to the motion of magnetic objects or changes in electrical currents generated by those objects. The magnetometer detects these objects by measuring time-varying magnetic signals that are superimposed on the combination of earth's background field used to orient compasses) and static magnetic fields due to near-by magnetic objects. In March of 2007, the Company ceased development with Alcatel/Bell Labs of its magnetometer product in order to conserve financial resources.

### **Competitive Business Conditions**

#### **Battery Segment**

The design and functionality of the mPhase/AlwaysReady lithium Smart NanoBattery make it unique to the portable electronics battery market segment. To the best of our knowledge, there is no existing product that directly competes with the Smart NanoBattery in terms of its combination of small size and reserve design. As a reserve battery, the Smart NanoBattery remains dormant until it is activated on command. It does not self-discharge or die prior to its first activation, thereby offering extremely long shelf life prior to use as either a primary or backup battery in a device. Shelf life is projected to be in excess of twenty years.

There are numerous thin film batteries based on lithium metal, lithium ion and lithium polymer, as well as other chemistries, used in military devices, portable electronics, RFID tags and wireless sensor networks, that are similar in size to the Smart NanoBattery, often referred to as microbatteries. None of these designs is based on reserve battery architectures. Thin film batteries are manufactured by companies including Cymbet Corporation, Front Edge Technology, Infinite Power Solutions, ITN Energy Systems, Johnson Research and Development Company, KSW Microtec, Lithium Technology Corporation, MPower Solutions, Oak Ridge Micro-Energy, Power Paper, Solicore, VoltaFlex Corporation. Large companies such as Energizer, Ultralife, Varta and Proctor & Gamble are also involved with developing thin film batteries. Thin film battery markets are anticipated to grow substantially as the result of a wide expansion of portable devices in that time frame. With 3.5 billion cell phone users and 67 billion RFID tags per year anticipated during year 2012, it is expected that there will be substantial commercial demand for thin film batteries.

Traditional reserve batteries are distinct from the mPhase/AlwaysReady Smart NanoBattery in terms of size and activation mechanism. The market for reserve batteries has largely been limited to the military for supplying power to munitions and other mission-critical electronic devices. The traditional reserve battery tends to be larger and certain types are built by hand and contain mechanical parts to activate the battery. The Smart NanoBattery relies on the phenomenon of electrowetting to initiate activation or a mechanical barrier that can be broken, in the case of the breakable barrier design. Traditional reserve batteries for military applications have been supplied by companies such as EaglePicher, Yardney and Storage Battery Systems, Inc. The Company believes that it may be able to significantly reduce the cost of its Smart Nanobattery with the recent discovery of the potential of printing the battery on a form of graphite rather than traditional silicon surface. The Company, through its working relationship with Stevens Institute, began in fiscal year 2012 to investigate the feasibility of the use of graphite which is much stronger, flexible and inexpensive than traditional silicon.



### **Flashlight and Automotive Product Market**

The Company believes that there may be a significant market for a high-end emergency flashlight containing its mechanically activated reserve battery. The need for absolute reliability in many emergency situations includes those of fire, police and other emergency service providers. In addition to providing an emergency light source, when needed, the flashlight developed with such lithium reserve battery has, as an alternative to providing light, a port capable of recharging a cellular telephone produced by Porsche Design Studio as well as those of other major cellular telephone providers. Since the market for new and innovative portable electronic batteries continues to expand, especially in the field of wireless hand-held devices, the Company believes that its emergency flashlight and reserve battery may benefit significantly from this trend. The Company is currently financially constrained with respect to establishing a global marketing and distribution network for the product. The Company plans to address this issue in fiscal year 2013 in conjunction with the roll-out of a new, to be announced, world class automotive product.

## **Outsourcing**

### **Research and Development**

The Company practices an outsourcing model whereby it contracts with third party vendors to perform research and development rather than performing the bulk of these functions internally. For current development of its flashlight and reserve battery, the Company has outsourced the majority of the work. From February of 2004 through March of 2007, the Company engaged Lucent/Bell Labs to develop, using the science of nanotechnology, micro power cell arrays creating a structure for zinc batteries that separated the chemicals or electrolytes prior to initial activation. This was done by suspending on nano grass or small spoke-like pieces of silicon a liquid electrolyte taking advantage of a superhydrophobic effect that occurs as a result of the ability to manipulate materials of a very small size or less than 1/50,000 the size of a human hair. The Company has, as a result of outsourcing, been able to have access to facilities, equipment and research capabilities that the Company would not be able to develop on its own given the financial resources and time that would be required to build or acquire such research capabilities. The Company has also been able to achieve key strategic alliances with the U.S. Army to successfully test, under military combat conditions, its SmartBattery design, leading to further validation of its path to product development under a Cooperative Research and Development Agreement (CRADA). In addition, the Company has formed a relationship with Energy Storage Research Group, a center of excellence at Rutgers University, in New Jersey, that has enabled the Company to expand its battery development from a zinc to a lithium battery capable of delivering significantly more power. During fiscal years 2009 and 2010, the Company outsourced considerable foundry work for final development of the Smart NanoBattery to Silex, a Swedish company.

During the period from March of 2005 to April of 2007, the Company engaged the Bell Labs division of Lucent Technologies, Inc. to develop a magnetometer or electronic sensor also using the science of nanotechnology. Although the Company has, in order to conserve financial resources, currently suspended further development of its magnetometer product line, we believe that the intellectual property developed from the research to date could be resumed to develop viable military and industrial products depending upon future financial resources of the Company and future competitive market conditions.

As previously noted, the Company outsourced to Eagle Picher company most of the prototype development of its mechanically-activated reserve battery and Porsche Design Studio the prototype development and MKE for its design and manufacturing of its pilot program Emergency Flashlight product. The Company continued its outsourcing model in fiscal year ended June 30, 2012 with the complete outsourcing for the design and development of its new automotive product.

During fiscal year ended June 30, 2012, the Company significantly advanced its working relationship with Stevens Institute which could serve as an additional outsourcing entity. In addition the Company had an independent appraisal of its patent portfolio performed by First Principals Inc. during fiscal year 2012 and based upon such appraisal and analysis the Company was invited in March to visit a major French Government sponsored technology cluster in Grenoble France. Membership in the Cluster would enable the Company to utilize the extensive laboratory and other research facilities sponsored by the French government and many large multinational companies that could establish strategic partnerships with the Company. The Company has been invited for a follow-up visit in September of 2012 to further establish the fit with a number of potential strategic partners that are larger companies already members of the cluster.

### **Prototype Development**

As the Company moved from development to commercialization of its emergency flashlight products utilizing its mechanically activated reserve battery, the Company outsourced the creation of prototypes to Porsche Design Studio in December of 2008 and MKE, a mechanical design company in Austria that works closely with them. The reserve battery prototype development work was outsourced to Eagle Picher in early 2009. The Company engaged

Microphase Corporation, a related party, under contract for project management and testing of its new Emergency Flashlight and the mechanically- activated reserve battery initially used in such flashlight at a cost of \$50,000 per month for 6 months beginning April 1, 2009 and ending on September 30, 2009. From October 1, 2009 through June 30, 2012 the Company has paid Microphase Corporation a total of \$225,000 in connection with its Emergency Flashlight pilot sales program. As of June 30, 2012, the Company has an outstanding payable of approximately \$230,000 and an outstanding purchase commitment of approximately \$70,000 to Porsche Design Studio for existing and new product prototype development work.

## **Manufacturing**

mPhase subcontracts all of the manufacturing of its products to outside sources including related parties such as Microphase Corporation. During fiscal year ended June 30, 2012 the Company paid \$0 for product manufacturing of its Emergency Illuminator. During the fiscal year ended June 30, 2011, the Company paid MKE \$87,766 for the manufacture and packaging of its Emergency Illuminator. During the fiscal year ended June 30, 2010, the Company engaged MKE in connection with the manufacture and packaging of its Emergency Illuminator at a cost of \$199,092. From April 1, 2009 through August 31, 2009, we paid \$50,000 per month to Microphase for project management services in connection with development of the Company's flashlight with Porsche Design Studio and the concurrent development of its mechanically-activated reserve battery by Eagle Picher. The Company believes that such payments are the same as would be charged by other management services provided by non-affiliated third party providers of such services. By using contract manufacturers, mPhase avoids the substantial capital investments required for internal production.

## **Patents and Licenses**

We have filed and intend to file United States patents, in some cases EU patents and/or copyright applications relating to some of our proposed products and technologies, either with our collaborators, strategic partners or on our own. There can be no assurance however, that any of the patents obtained will be adequate to protect our technologies or that we will have sufficient resources to enforce our patents.

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

The Company has intellectual property as follows:

### **Nano Technology, Micro Electrical Mechanical Systems (MEMS) and Battery Portfolio:**

Various aspects of the mPhase technology are protected by patents either owned directly by the Company or with respect to which the Company has full sub-licensing rights. The Company's current battery related patent portfolio consists of seven issued patents, of which one is jointly owned with Rutgers University, two are jointly owned with Lucent Technologies and four are licensed from Lucent Technologies. These cover such aspects of the technology as the ability to use electrowetting to create a moveable liquid lens, methodology and apparatus for reducing friction between a fluid and a body, methodology for etching planar silicon substrates to develop a reserve battery device, methodology and apparatus for controlling the flow resistance of a fluid on nanostructured or microstructured surfaces, methodology for creating a structured membrane with controllable permeability, methodology for a nanostructured battery with end of life cells, and methodology for making a multi-cell battery system with multiple chemistries in each individual cell of the battery pack. Some of these patents are specific to the development of a battery device while others are more generalized. The Company also has four patent applications related to the Smart Surfaces technology that have been filed with the United States Patent Office and other foreign patent offices and that are in various stages of examiner review, as well as four additional patent applications related to other Smart Surfaces technologies under review.

The Company has obtained trademark protection for its mPower Emergency Illuminator and mPower on Command, and it currently has one additional trademark application pending.

**Other Patents**

On July 12, 2005, mPhase announced that it had been granted a U.S. patent that covers a series of techniques for splitting different voice and data signals in DSL access networks that is used in its Broadband Loop Watch product. The Company has discontinued further development and marketing of this product owing to the lack of demand for loop diagnostics systems by telephone service providers.

Various aspects of the mPhase technology are protected by patents either owned directly by the Company or with respect to which the Company has full sub-licensing rights. The Company's current battery related patent portfolio consists of seven issued patents, of which one is jointly owned with Rutgers University, two are jointly owned with Lucent Technologies and four are licensed from Lucent Technologies. These cover such aspects of the technology as the ability to use electrowetting to create a moveable liquid lens, methodology and apparatus for reducing friction between a fluid and a body, methodology for etching planar silicon substrates to develop a reserve battery device, methodology and apparatus for controlling the flow resistance of a fluid on nanostructured or microstructured surfaces, methodology for creating a structured membrane with controllable permeability, methodology for a nanostructured battery with end of life cells, and methodology for making a multi-cell battery system with multiple chemistries in each individual cell of the battery pack. Some of these patents are specific to the development of a battery device while others are more generalized. The Company also has four patent applications related to the Smart Surfaces technology that have been filed with the United States Patent Office and other foreign patent offices and that are in various stages of examiner review, as well as four additional patent applications related to other Smart Surfaces technologies under review.

The Company has obtained trademark protection for its mPower Emergency Illuminator and mPower on Command, and it currently has one additional trademark application pending.

In July of 2009, the Company filed for 3 new patents covering the unique design features of its manually-activated lithium reserve battery and emergency flashlight products.

On May 20, 2011, the Company announced that it had been granted a U.S. patent for multi-chemistry battery architecture.

As of fiscal year ended June 30, 2012, the Company has filed the following patents:

	Title	Awarded	Pending
1	Electrical Device Having A Reserve Battery Activation System		X
2	Combined Wetting/Non-Wetting Element for Low & High Surface Tension Liquids		X
3	Non-Pump Enabled Drug Delivery System		X
4	Device For Fluid Spreading & Transport		X
5	Adjustable Barrier For Regulating Flow of a Liquid		X
6	Reserve Battery System		X
7	Modular Device		X
8	Event Activated Micro Control Devices		X
9	Portable Battery Booster		X
10	Battery System	X	
11	Reserve Battery		X
12	Tunable liquid microlens with lubrication assisted electrowetting	X	
13		X	

	Method and apparatus for reducing friction between a fluid and a body		
14	Battery having a nano structured electrode surface	X	
15	Method and apparatus for controlling the flow resistance of a fluid on nano structured or micro structured surfaces	X	
16	Structured membrane with controllable permeability	X	
17	Nanostructure battery having end of life cells	X	

We also rely on unpatented proprietary technology, and we can make no assurance that others may not independently develop the same or similar technology or otherwise obtain access to our unpatented technology.

## Research and Development

From March of 2005 through March of 2007, the Company had engaged Bell Labs under separate Development Agreements for the development of a new generation of ultra-magnetic sensors (magnetometers) using the science of nanotechnology with a total cost of \$2.4 million. The Company did not renew such its engagement with Bell Labs upon expiration and did not incur any further costs with respect to its magnetometer since the Company has suspended further development of the product to conserve financial resources.

On September 23, 2008, the Company announced that its internal research and development effort had resulted in the successful creation of a compact lithium reserve battery reserve battery prototype with a breakable separator capable of powering a high-intensity emergency flashlight. The manually-activated reserve battery is based upon the same principles of separation of liquid electrolyte from solid electrodes as the Company's Smart NanoBattery but was developed based upon traditional mechanical engineering technology.

Our Smart NanoBattery and power cell technology research and development was performed by the Bell Labs division of Alcatel/Lucent from February of 2004 through March of 2007 at an aggregate cost of \$3.8 million. The Company paid Bell Labs \$300,000 covering the period from April 27, 2007 through July 30, 2007, at which time it determined that, in order to develop a lithium battery for higher density energy than zinc, it required facilities capable of handling lithium battery research that Bell Labs does not have. The Company engaged a number of small foundries during fiscal year ended June 30, 2008 for commercialization of its Smart NanoBattery at a cost of approximately \$150,000. In fiscal year ended June 30, 2009, the Company engaged Eagle Picher at a cost of \$75,000 to design and engineer a prototype of its manually-activated lithium reserve battery and Porsche Design studio at a cost of \$79,123 for design of its emergency flashlight product. In addition, the Company secured a Co-Branding Agreement with Porsche Design Studio for its emergency flashlight product. In fiscal year ended June 30, 2010, the Company paid \$950,018 in connection with producing and bringing this product to market, and in fiscal year ended June 30, 2011, the Company incurred \$33,254 of expenses in connection with this product. During the fiscal year ended June 30, 2009, the Company engaged Silex, a silicon foundry in Sweden, at a cost of \$21,200 for further development of its Smart NanoBattery; payments to Silex for fiscal year ended June 30, 2010 in connection with the Smart NanoBattery amounted to \$396,780, and for fiscal year ended June 30, 2011 they were \$40,800.

During fiscal years ended June 30, 2008, June 30, 2009 and June 30, 2010, the Company engaged in joint research with Rutgers University in connection with a \$750,000 STTR Grant from the United States Army for purposes of developing an emergency reserve battery to back-up a computer memory application.

During fiscal years ended June 30, 2009, June 30, 2010 and June 30, 2011, the Company engaged MKE, an approved vendor of Porsche Design Studio to manufacture prototypes as well as a series of commercialized emergency flashlights utilizing the design developed for the Company by Porsche Design Studio.

Commencing in fiscal year ended June 30, 2011, the Company engaged Porsche Design Studio to develop a second automotive product for the Company. During fiscal year ended June 30, 2012, the Company continued the development of its Smart Nano Battery and progressed in the development of a final prototype of its second automotive product.

## Employees

mPhase and its subsidiary companies presently have a total of 5 full-time employees and consultants, two of whom are also employed by Microphase Corporation. See the description in the section entitled Certain Relationships and Related Transactions.





## ITEM 1A. RISK FACTORS

### Risks Relating to the Company's Early Stage of Development

*Our business is at an early stage of development and we may not develop products that can be commercialized.*

We have derived very limited revenues from a Phase I Army Grant of approximately \$100,000 and a Phase II Army Grant of approximately \$750,000 with respect to our Smart NanoBattery product from inception of development in February 2004 through March 30, 2011. We have derived revenues of only \$41,283 from our Emergency Flashlight product from inception of sales in April of 2010 through June 30, 2012 and we have been forced to discontinue product development and marketing of our magnetometer product owing to limited financial resources.

*We have limited manufacturing, marketing, distribution and sales capabilities which may limit our ability to generate revenues.*

Due to the relatively early stage of our products, we have not yet invested significantly in manufacturing, marketing, distribution or product sales resources. We cannot assure you that we will be able to invest or develop any of these resources successfully or as expeditiously as necessary. The inability to do so may inhibit or harm our ability to generate revenues or operate profitably.

*We have a history of operating losses and we may not achieve future revenues or operating profits.*

We have generated modest revenue to date from our operations. Historically we have had net operating losses each year since our inception. As of June 30, 2012, we have an accumulated deficit of \$(203,430,907) and a stockholders' deficit of \$(5,502,767) and incurred a net loss of \$8,786,952. We incurred net losses of \$8,786,952 and \$486,391 for the years ended June 30, 2012 and June 30, 2011, respectively. The Company does not generate significant revenue outside of STTR grants and minor sales of its emergency illuminator product. Additionally, even if we are able to commercialize our technologies or any products or services related to our technologies it is not certain that they will result in revenue or profitability.

*We have a limited operating history on which investors may evaluate our operations and prospects for profitable operations.*

If we continue to suffer losses as we have in the past, investors may not receive any return on their investment and may lose their entire investment. Our prospects must be considered speculative in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of development, particularly in light of the uncertainties relating to the new, competitive and rapidly evolving markets in which we anticipate we will operate. To attempt to address these risks, we must, among other things, further develop our technologies, products and services, successfully implement our research, development, marketing and commercialization strategies, respond to competitive developments and attract, retain and motivate qualified personnel. A substantial risk is involved in investing in us because, as an early stage company we have fewer resources than an established company, our management may be more likely to make mistakes at such an early stage, and we may be more vulnerable operationally and financially to any mistakes that may be made, as well as to external factors beyond our control.

### Risks Relating to Technology

*We are dependent on new and unproven technologies.*

Our risks as an early stage company are compounded by our heavy dependence on emerging and sometimes unproven technologies. If these technologies do not produce satisfactory results, our business may be harmed.

***We may not be able to commercially develop our technologies and proposed product lines, which, in turn, would significantly harm our ability to earn revenues and result in a loss of investment.***

Our ability to commercially develop our technologies will be dictated in large part by forces outside our control which cannot be predicted, including, but not limited to, general economic conditions, the success of our research and field testing, the availability of collaborative partners to finance our work in pursuing applications of smart surfaces using materials science engineering, nanotechnology science and the principles of microfluidics and MEMS and technological or other developments in the field which, due to efficiencies or technological breakthroughs may render one or more areas of commercialization more attractive, obsolete or competitively unattractive. It is possible that one or more areas of commercialization will not be pursued at all if a collaborative partner or entity willing to fund research and development cannot be located. Our decisions regarding the ultimate products and/or services we pursue could have a significant adverse effect on our ability to earn revenue if we misinterpret trends, underestimate development costs and/or pursue wrong products or services. Any of these factors either alone or in concert could materially harm our ability to earn revenues or could result in a loss of any investment in us.

***If we are unable to keep up with rapid technological changes in our field or compete effectively, we will be unable to operate profitably.***

We are engaged in activities in the nanotechnology and microfluidics field, which is characterized by extensive research efforts and rapid technological progress. If we fail to anticipate or respond adequately to technological developments, our ability to operate profitably could suffer. We cannot assure you that research and discoveries by other companies will not render our technologies or potential products or services uneconomical or result in products superior to those we develop or that any technologies, products or services we develop will be preferred to any existing or newly-developed technologies, products or services.

### **Risks Related to Intellectual Property**

***Certain aspects of our technology are not protectable by patent.***

Certain parts of our know-how and technology are not patentable. To protect our proprietary position in such know-how and technology, we require all employees, consultants, advisors and collaborators with access to our technology to enter into confidentiality and invention ownership agreements with us. We cannot assure you; however, that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Further, in the absence of patent protection, competitors who independently develop substantially equivalent technology may harm our business.

***Patent litigation presents an ongoing threat to our business with respect to both outcomes and costs.***

It is possible that litigation over patent matters with one or more competitors could arise. We could incur substantial litigation or interference costs in defending ourselves against suits brought against us or in suits in which we may assert our patents against others. If the outcome of any such litigation is unfavorable, our business could be materially adversely affected. To determine the priority of inventions, we may also have to participate in interference proceedings declared by the United States Patent and Trademark Office, which could result in substantial cost to us. Without additional capital, we may not have the resources to adequately defend or pursue this litigation.

***We may not be able to protect our proprietary technology, which could harm our ability to operate profitably.***

Patent and trade secret protection is critical for the new technologies we utilize, nanotechnology and microfluidics, as well as the products and processes derived through them. Our success will depend, to a substantial degree, on our ability to obtain and enforce patent protection for our products, preserve any trade secrets and operate without infringing the proprietary rights of others. We cannot assure you that:

- we will succeed in obtaining any patents in a timely manner or at all, or that the breadth or degree of protection of any such patents will protect our interests,
- the use of our technology will not infringe on the proprietary rights of others,

- patent applications relating to our potential products or technologies will result in the issuance of any patents or that, if issued, such patents will afford adequate protection to us or not be challenged, invalidated or infringed, and
  - patents will not issue to other parties, which may be infringed by our potential products or technologies.
  - we will continue to have the financial resources necessary to prosecute our existing patent applications, pay maintenance fees on patents and patent applications, or file patent applications on new inventions.
- The fields in which we operate have been characterized by significant efforts by competitors to establish dominant or blocking patent rights to gain a competitive advantage, and by considerable differences of opinion as to the value and legal legitimacy of competitors' purported patent rights and the technologies they actually utilize in their businesses.

***Patents obtained by other persons may result in infringement claims against us that are costly to defend and which may limit our ability to use the disputed technologies and prevent us from pursuing research and development or commercialization of potential products.***

If third party patents or patent applications contain claims infringed by either our technology or other technology required to make and use our potential products and such claims are ultimately determined to be valid, there can be no assurance that we would be able to obtain licenses to these patents at a reasonable cost, if at all, or be able to develop or obtain alternative technology. If we are unable to obtain such licenses at a reasonable cost, we may not be able to develop some products commercially. We may be required to defend ourselves in court against allegations of infringement of third party patents. Patent litigation is very expensive and could consume substantial resources and create significant uncertainties. Any adverse outcome in such a suit could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties, or require us to cease using such technology.

***We may not be able to adequately defend against piracy of intellectual property in foreign jurisdictions.***

Considerable research in the areas of micro fluid dynamics is being performed in countries outside of the United States, and a number of potential competitors are located in these countries. The laws protecting intellectual property in some of those countries may not provide adequate protection to prevent our competitors from misappropriating our intellectual property. Several of these potential competitors may be further along in the process of product development and also operate large, company-funded research and development programs. As a result, our competitors may develop more competitive or affordable products, or achieve earlier patent protection or product commercialization than we are able to achieve. Competitive products may render any products or product candidates that we develop obsolete.

**We may incur substantial expenditures in the future in order to protect our intellectual property.**

We believe that our intellectual property with respect to our Smart NanoBattery and our proprietary rights with respect to the Company's permeable membrane design consisting of both micro and nano scale silicon features that are coated with a monolayer chemistry used to repel liquids is critical to our future success. The Company's current battery related patent portfolio consists of seven issued patents, of which one is jointly owned with Rutgers University, two are jointly owned with Lucent Technologies and four are licensed from Lucent Technologies. We also have four patent applications related to the Smart Surfaces technology that have been filed with the United States Patent Office and other foreign patent offices that are in various stages of examiner review, as well as four additional patent applications related to other Smart Surfaces technologies under review. Our pending patent applications may never be granted for various reasons, including the existence of conflicting patents or defects in our applications. Even if additional U.S. patents are ultimately granted, there are significant risks regarding enforcement of patents in international markets. There are many patents being filed as the science of nanotechnology develops and the Company

has limited financial resources compared to large, well established companies to bring patent litigation based upon claims of patent infringement.

***Our products may not be accepted in the marketplace.***

The degree of market acceptance of those products will depend on many factors, including:

- Our ability to manufacture or obtain from third party manufacturers sufficient quantities of our product candidates with acceptable quality and at an acceptable cost to meet demand, and
- Marketing and distribution support for our products.

We cannot predict or guarantee that either military or commercial entities, in general, will accept or utilize any of our product candidates. Failure to achieve market acceptance would limit our ability to generate revenue and would have a material adverse effect on our business. In addition, if any of our product candidates achieve market acceptance, we may not be able to maintain that market acceptance over time if competing products or technologies are introduced that are received more favorably or are more cost-effective.

**Risks Related to Third Party Reliance**

***We depend on third parties to assist us in the development of new products extensively, and any failure of those parties to fulfill their obligations could result in costs and delays and prevent us from successfully commercializing our product candidates on a timely basis, if at all.***

We engage consultants and contract research organizations to help design, and to develop our products. The consultants and contract research organizations we engage provide us critical skills and resources that we do not have within our own company. As a result, we depend on these consultants and contract research organizations to perform the necessary research and development to create new products. We may face delays in developing and bringing new products to market if these parties do not perform their obligations in a timely or competent fashion or if we are forced to change service providers.

***We depend on our collaborators to help us develop and test our proposed products, and our ability to develop and commercialize products may be impaired or delayed if collaborations are unsuccessful.***

Our strategy for the development, testing and commercialization of our proposed products requires that we enter into collaborations with corporate partners, licensors, licensees and others. We are dependent upon the subsequent success of these other parties in performing their respective responsibilities and the continued cooperation of our partners. Under agreements with collaborators, we may rely significantly on such collaborators to, among other things:

- Fund research and development activities with us;
- Pay us fees upon the achievement of milestones under STIR and SBIR programs; and
- Market with us any commercial products that result from our collaborations.

Our collaborators may not cooperate with us or perform their obligations under our agreements with them. We cannot control the amount and timing of our collaborators' resources that will be devoted to our research and development activities related to our collaborative agreements with them. Our collaborators may choose to pursue existing or alternative technologies in preference to those being developed in collaboration with us.

***The development and commercialization of potential products will be delayed if collaborators fail to conduct these activities in a timely manner, or at all.***

If various outside vendors and collaborators do not achieve milestones set forth in our agreements, or if our collaborators breach or terminate their collaborative agreements with us, our business may be materially harmed.





***Our reliance on the activities of our non-employee consultants, research institutions, and scientific contractors, whose activities are not wholly within our control, may lead to delays in development of our proposed products.***

We rely extensively upon and have relationships with outside consultants and companies having specialized skills to conduct research. These consultants are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. We have limited control over the activities of these consultants and, except as otherwise required by our collaboration and consulting agreements to the extent they exist, can expect only limited amounts of their time to be dedicated to our activities. These research facilities may have commitments to other commercial and non-commercial entities. We have limited control over the operations of these collaborators and can expect only limited amounts of time to be dedicated to our research and product development goals.

### **Product Development Risks**

***We have limited resources to manage development activities.***

Our limited resources in conducting and managing development activities might prevent us from successfully designing or implementing new products. If we do not succeed in conducting and managing our development activities, we might not be able to commercialize our product candidates, or might be significantly delayed in doing so, which will materially harm our business.

Our ability to generate revenues from any of our product candidates will depend on a number of factors, including our ability to successfully complete and implement our commercialization strategy. In addition, even if we are successful in bringing one or more product candidates to market, we will be subject to the risk that the marketplace will not accept those products. We may, and anticipate that we will need to, transition from a company with a research and development focus to a company capable of supporting commercial activities and we may not succeed in such a transition.

***Because of the numerous risks and uncertainties associated with our product development and commercialization efforts, we are unable to predict the extent of our future losses or when or if we will become profitable.***

Our failure to successfully commercialize our product candidates or to become and remain profitable could depress the market price of our Common Stock and impair our ability to raise capital, expand our business, diversify our product offerings and continue our operations.

### **Risks Related to Competition**

***The market for energy storage products is highly competitive.***

We expect that our most significant competitors will be large more established companies. These companies are developing products that compete with ours and they have significantly greater capital resources in research and development, manufacturing, testing, obtaining regulatory approvals, and marketing capabilities. Many of these potential competitors are further along in the process of product development and also operate large, company-funded research and development programs. As a result, our competitors may develop more competitive or affordable products, or achieve earlier patent recognition and filings.

***Our industry is characterized by rapidly evolving technology and intense competition. Our competitors include major multinational energy-storage device and battery companies as well as nanotechnology companies that specialize in micro fluid dynamics and smart surfaces.***

Many of these companies are well-established and possess technical, research and development, financial and sales and marketing resources significantly greater than ours. In addition, certain smaller nanotechnology companies have formed strategic collaborations, partnerships and other types of joint ventures with larger, well established industry competitors that afford these companies' potential research and development and commercialization advantages. Academic institutions, governmental agencies and other public and private research organizations are also conducting and financing research activities which may produce products directly competitive to those we are developing. Moreover, many of these competitors may be able to obtain patent protection, obtain regulatory approvals and begin commercial sales of their products before we do.

***In the general area of energy storage and micro fluid dynamics, we compete with a variety of companies, including Duracell, Eveready and Ultralife.***

Each of these companies is well-established and has substantial technical and financial resources compared to us. Many smaller companies may also be developing products in the rapidly changing area of energy storage and advanced micro fluid dynamics. These smaller companies may become significant competitors through rapid evolution of new technologies. Any of these companies could substantially strengthen their competitive position through strategic alliances or collaborative arrangements with larger companies.

***Our competition includes both public and private organizations and collaborations among academic institutions and large companies, most of which have significantly greater experience and financial resources than we do.***

Private and public academic and research institutions also compete with us in the research and development of nanotechnology products based on micro-fluid dynamics. In the past several years, the nanotechnology industry has selectively entered into collaborations with both public and private organizations to explore the development of new products evolving out of research in micro-fluid dynamics.

***The energy storage device and battery business are each characterized by intense competition. We compete against numerous companies, both domestic and foreign, many of which have substantially greater experience and financial and other resources than we have.***

Companies such as Duracell, Eveready and Ultralife, as well as others, many of which have substantially greater resources and experience in our fields than we do, are well situated to effectively compete with us. Any of the world's largest battery companies represents a significant actual or potential competitor with vastly greater resources than ours. These and other competitive enterprises have devoted, and will continue to devote, substantial resources to the development of technologies and products in competition with us.

## **RISKS RELATED TO FINANCIAL ASPECTS OF OUR BUSINESS**

***We may not be able to raise the required capital to conduct our operations and develop and commercialize our products.*** We require substantial additional capital resources in order to conduct our operations and develop and commercialize our products and run our facilities. We will need significant additional funds or collaborative partners, or both, to finance the research and development activities of our potential products. Accordingly, we are continuing to pursue additional sources of financing. Our future capital requirements will depend upon many factors, including:

- The continued progress and cost of our research and development programs,
- The costs in preparing, filing, prosecuting, maintaining and enforcing patent claims,
- The costs of developing sales, marketing and distribution channels and our ability to sell the products if developed,
- The costs involved in establishing manufacturing capabilities for commercial quantities of our proposed products,
- Competing technological and market developments,
- Market acceptance of our proposed products,
- The costs for recruiting and retaining employees and consultants.



Additional financing through strategic collaborations, public or private equity financings or other financing sources may not be available on acceptable terms, or at all. Additional equity financing could result in significant dilution to our shareholders. Further, if additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of our technologies, product candidates or products that we would otherwise seek to develop and commercialize on our own. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of our programs or potential products, any of which could have a material adverse effect on our financial condition or business prospects.

### **Risks Relating to Our Debt Financings**

***If we are required for any reason to repay our outstanding convertible debt we would be required to deplete our working capital, if available, or raise additional funds. Our failure to repay the convertible debentures, if required, could result in legal action against us, which could require the sale of substantial assets or liquidation of the Company.***

We had outstanding, as of June 30, 2012, \$1,606,523 aggregate principal amount plus accrued interest of convertible debt, of which \$74,158 is immediately convertible and \$1,532,365 would become convertible if the Company failed to make monthly payments of approximately \$70,000 per month commencing in October 2012.

***There are a large number of shares underlying our convertible debt in full. The sale of these shares may depress the market price of our Common Stock.***

As of June 30, 2012, on an aggregated basis our convertible debt financings may result in conversions into 222,392,638 and 1,857,316,902 shares of our Common Stock of which \$74,158 is immediately convertible and \$1,532,365 would become convertible if certain payments were not made, and warrants and options that may be converted into approximately 121,540,639 shares of our Common Stock.

Sales of a substantial number of shares of our Common Stock in the public market could adversely affect the market price for our Common Stock and make it more difficult for you to sell shares of our Common Stock at times and prices that you feel are appropriate.

***The issuance of shares upon conversion of the convertible debt will cause immediate and substantial dilution to our existing stockholders.***

The issuance of shares upon conversion of the convertible debt and shares issued under our equity line of credit will result in substantial dilution to the interests of other stockholders since the selling security holders may ultimately convert and sell the full amount issuable on conversion. Although no single selling security holder may convert its convertible debentures and/or exercise its warrants if such conversion or exercise would cause it to own more than 4.99% of our outstanding Common Stock, this restriction does not prevent each selling security holder from converting some of its holdings and then converting the rest of its holdings. In this way, each selling security holder could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued, which will have the effect of further diluting the proportionate equity interest and voting power of holders of our Common Stock.

***The Company could face certain regulatory challenges with respect to its reliance on Rule 144 of the Securities Act of 1933, as amended, with respect to certain of its convertible debenture financings entered into with JMJ Financial ( JMJ ) that could result in a significant negative economic impact on the Company.***

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 with respect to the collateral required under the secured note delivered by JMJ in payment of the purchase price for the Company's convertible notes could be raised since the secured notes each contain 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 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 be 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 June 30, 2012, approximately 41,833,333 shares of our outstanding common stock issued in respect of our convertible note transactions with JMJ Financial could be subject to rescission with a potential liability approximating \$319,400, including a liability of approximately \$42,900 for interest at 10% per annum.

**The Company has been forced to curtail development of all products except its Smart NanoBattery and a second automotive product in order to conserve financial resources**

The Company has been forced to focus on commercialization of only two of its products, thereby eliminating product diversification. The Company's lack of financial resources to simultaneously develop multiple products increases its overall risk profile as a development-stage company.

**The Company currently lacks resources to cost-reduce and set up global marketing and distribution for either its emergency illuminator or second automotive product**

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

The market price of our common stock closed at \$7.88 on July 26, 2000 and at \$.0069 on August 22, 2011. During such period the number of shares outstanding of the Company increased from approximately 30 million shares to approximately 4 billion shares. This increase was the result of periodic private placements and other financing arrangements involving convertible debt issued by the Company in order to finance company operations. Stocks in microcap companies having stock values below \$1.00 per share have been very volatile during such period. Our common stock is a highly speculative investment and is suitable only for such investors with financial resources that enable them to sustain the loss of their entire investment in such stock. Because the price of our common stock is less than \$5.00 per share and is not traded on the NASDAQ National or NASDAQSmall Cap exchanges, it is considered to be a "penny stock," limiting the type of customers that broker/dealers can sell to. Such customers consist only of "established customers" and "Accredited Investors" (within the meaning of Rule 501 of Regulation D of the Securities Act of 1933, as amended), generally individuals and entities of substantial net worth, thereby limiting the liquidity of our common stock.

**We may not be able to raise sufficient capital to market our SmartNanoBattery and Emergency Flashlight applications of our technology on any meaningful scale.**

We may not be able to obtain the amount of additional capital needed until the Company has established significant and predictable sales and revenues from our technology. We have been successful in the past as a micro-cap development stage company in raising capital; however, recent trends in the capital markets are likely to pose significant challenges for the Company. Factors affecting the availability of capital include:

- (1) the price, volatility and trading volume of our common stock;
- (2) future financial results including sales and revenues generated from operations;
- (3) the market's view of the business sector of nanotechnology reserve batteries and emergency flashlights; and
- (4) the perception in the capital markets of our ability to execute our business plan.

We have reported net operating losses for each of our fiscal years from our inception in

**We have reported net operating losses for each of our fiscal years from our inception in 1996 through the fiscal year ended June 30, 2012 and may not be able to operate profitability in the future.**

We have had net losses of approximately \$203.4 million since our inception in 1996 including approximately \$8.8 million and \$.5 million for the fiscal years ended June 30, 2012 and June 30, 2011, respectively and cannot be certain when or if we will ever be profitable. We expect to continue to have net losses for the foreseeable future and have a need to raise not less than \$5 million in additional cash in the next 12 months through further equity private placements and existing convertible debt arrangements to continue operations. As of June 30, 2012, we have working capital of approximately \$(3,677,969) and a stockholders' deficit of \$5,489,957. Cumulative negative cash flow from operations since inception has amounted to approximately \$88,571,782.

**Our independent auditor's report expresses doubt about our ability to continue as a going concern.**





The reports of the Company's outside auditors Demetrius & Company, L.L.C., and its prior auditors Rosenberg, Rich, Baker, Berman & Company, Arthur Andersen & Co., with respect to its latest audited reports on Form 10-K for each of the fiscal years commencing in the fiscal year ended June 30, 2001 through the current fiscal year ended June 30, 2012, stated that "there is substantial doubt of the Company's ability to continue as a going concern." Such opinion from our outside auditors makes it significantly more difficult and expensive for the Company to raise additional capital necessary to continue our operations.

**Our common stock is subject to significant dilution upon issuance of shares we have reserved for future issuance.**

As of June 30, 2012, outstanding convertible debt plus accrued interest is equal to \$1,606,523, of which \$74,158 is immediately convertible and \$1,532,365 would become convertible if the Company failed to make monthly payments of approximately \$70,000 per month commencing in October 2012; all of which has the right to convert into additional shares of our common stock at discounts of up to 40% of mPhase's then current stock price computed on a formula basis that may adversely affect the future price of our common stock that may result in conversions into 222,392,638 and 1,857,316,902 shares of our Common Stock based upon our stock price at June 30, 2012. As of June 30, 2012, we have warrants and options convertible into 16,780,639 and 104,760,000 shares of our common stock at \$.004 to \$.135 per share that, upon exercise, may result in significant future dilution to many of our current shareholders and may adversely affect the future price of our common stock. In addition, the Company has also granted a conversion feature to certain officers for notes outstanding, giving these noteholders the right to convert principal and interest outstanding, subject to availability, into 297,387,906 shares of the Company's common stock based on a \$.0040 per share conversion price. We may be forced to raise additional cash for operations by selling additional shares of our common stock to shareholders at depressed prices resulting in further dilution to our shareholders.

**RISK FACTORS RELATED TO OUR OPERATIONS**

**We have been a development-stage company since our inception in 1996 and have not to date had a significant or successful deployment of any of our flagship products, including our Smart NanoBattery and our Emergency Flashlight products.**

We have derived no material revenues from our Smart NanoBattery from inception of development in February 2004 through June 30, 2012 or the Emergency Flashlight and we have been forced to discontinue product development and marketing of both our TV+ and magnetometer products owing to limited financial resources.

**The loss of key personnel could adversely affect our business**

Management and employment contracts with all of our officers have expired and no assurances can be given that such executives will remain with the Company or that the Company will be able to successfully enter into agreements with such key executives. All of our officers have made significant investments in the Company in the form of equity periodic purchases of common stock and bridge loans and been granted stock and stock options that are intended to represent a key component of their compensation. Such grants may not provide the intended incentives to such officers if our stock price declines or experiences significant volatility.

**RISKS RELATED TO OUR TARGETED MARKETS**

**The sale of new high technology products often has a long lead-time and a multiplicity of risks.**

Commercialization of new technology products often has a very long lead time since it is not possible to predict when major companies will license such technology for sale to their customers. The science of nanotechnology and microfluidics used to develop our Smart NanoBattery is in its very early stages and acceptance and demand for such

products can often be a long evolutionary process.

**The science of nanotechnology is at a very early stage as a discipline and is subject to great uncertainty and swift changes in technology.**

Microfluid dynamics and the manipulation of materials of nano size and dimensions is a very new science and the creation of new products is dependent upon new and different properties of such materials created that will result in many uncertain applications and rapid change. The evolution of nanotechnology as a new science adds greater uncertainty to new applications and new and improved product introductions is unpredictable.

**We may not be able to create new products from our intellectual property using microfluidics that will be acceptable in water purification, oil separation from water and other environment markets.**

The market for "green" products and solutions is characterized by changing regulatory standards, new and improved product introductions, and changing customer demands.

Large companies such as General Electric with great resources are currently focusing significant monies for new solutions.

Our future success will depend upon our ability to achieve compelling technology innovations that are economic and practical to produce in large quantities. Success in new technology, products and services is a complex and uncertain process requiring high levels of innovation, highly-skilled engineering and development personnel, and the accurate anticipation of technological and market trends. We may not be able to identify, develop, market or support new or enhanced technology, products, or services on a timely basis, if at all, owing to our size and limited financial resources.

**The commercialization of many applications of our technologies will depend on our ability to establish strategic relationships with commercial partners.**

We are seeking commercial partners with established lines of business and greater financial resources than our own. Such partners may not place the priority that we do on joint projects because the success or failure of such projects is not as material to other existing well developed lines of business.

**Our SmartBattery and our potential applications of our technology are components of end products and therefore our products are tied to the success of such end products.**

The compelling need for critical mission batteries and other applications of our nanotechnology will depend upon both military and commercial needs going forward and the demand for our products as components. Thus the success of our SmartBattery and other applications of our technology will depend upon the continuing need for the end user products and market demand.

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### **General Risks Relating to Our Business**

***Our products are likely to be expensive to manufacture, and they may not be profitable if we are unable to control the costs to manufacture them.***

Our products are likely to be significantly more expensive to manufacture than most other more developed currently on the market today. Our present manufacturing processes produce modest quantities of product intended for use in our ongoing research activities, and we have not developed processes, procedures and capability to produce commercial volumes of product. We hope to substantially reduce manufacturing costs through process improvements, development of new science, increases in manufacturing scale and outsourcing to experienced manufacturers. If we are not able to make these or other improvements, and depending on the pricing of the product, our profit margins may be significantly less than that of our competitors. In addition, we may not be able to charge a high enough price for any products we develop to make a profit. If we are unable to realize significant profits from our potential product candidates, our business would be materially harmed.

***Our current very limited revenue depends on our ability to continue to obtain SBIR, STTR and other Government Grants for Research and Development.***

We have completed a Phase II STTR Army Research grant in the amount of \$750,000. Although we are actively applying for new SBIR, STTR and other government grants and funding we are unable to predict whether we will be successful in obtaining such grants.

***We depend on key personnel for our continued operations and future success, and a loss of certain key personnel could significantly hinder our ability to move forward with our business plan.***

Because of the specialized nature of our business, we are highly dependent on our ability to identify, hire, train and retain highly qualified scientific and technical personnel for the research and development activities we conduct or sponsor. The loss of one or more certain key executive officers, or scientists, would be significantly detrimental to us. In addition, recruiting and retaining qualified scientific personnel to perform research and development work is critical to our success. Our anticipated growth and expansion into areas and activities requiring additional expertise, such as new applications for smart surfaces, manufacturing and marketing, will require the addition of new management personnel and the development of additional expertise by existing management personnel. Despite the current economic conditions and job market there is significant competition for qualified personnel in the areas of our present and planned activities, and there can be no assurance that we will be able to continue to attract and retain the qualified personnel necessary for the development of our business. The failure to attract and retain such personnel or to develop such expertise would adversely affect our business.



***Our insurance policies may be inadequate and potentially expose us to unrecoverable risks.***

We do not carry director and officer insurance and have limited commercial insurance policies. Any significant insurance claims would have a material adverse effect on our business, financial condition and results of operations. Insurance availability, coverage terms and pricing continue to vary with market conditions. We endeavor to obtain appropriate insurance coverage for insurable risks that we identify, however, we may fail to correctly anticipate or quantify insurable risks, we may not be able to obtain appropriate insurance coverage, and insurers may not respond as we intend to cover insurable events that may occur. We have observed rapidly changing conditions in the insurance markets relating to nearly all areas of traditional corporate insurance. Such conditions have resulted in higher premium costs, higher policy deductibles, and lower coverage limits. For some risks, we may not have or maintain insurance coverage because of cost or availability.

***We have no product liability insurance, which may leave us vulnerable to future claims we will be unable to satisfy.***

The testing, manufacturing, marketing and sale of consumer products entail an inherent risk of product liability claims, and we cannot assure you that substantial product liability claims will not be asserted against us. We have no product liability insurance. In the event we are forced to expend significant funds on defending product liability actions, and in the event those funds come from operating capital, we will be required to reduce our business activities, which could lead to significant losses.

We cannot assure you that adequate insurance coverage will be available in the future on acceptable terms, if at all, or that, if available, we will be able to maintain any such insurance at sufficient levels of coverage or that any such insurance will provide adequate protection against potential liabilities. Whether or not a product liability insurance policy is obtained or maintained in the future, any product liability claim could harm our business or financial condition.

***We presently have members of management and other key employees located in various locations throughout the country which adds complexities to the operation of the business.***

Presently, we have members of management and other key employees located in both Connecticut and New Jersey, which adds complexities to the operation of our business.

***We face risks related to compliance with corporate governance laws and financial reporting standards.***

The Sarbanes-Oxley Act of 2002, as well as related new rules and regulations implemented by the Securities and Exchange Commission and the Public Company Accounting Oversight Board, require changes in the corporate governance practices and financial reporting standards for public companies. These new laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002 relating to internal control over financial reporting, referred to as Section 404, have materially increased our legal and financial compliance costs and made some activities more time-consuming and more burdensome.

## **FURTHER LEGAL AND ECONOMIC RISKS**

***The Restructuring of two Convertible Debt instruments into fixed rate obligations creates significant additional cash flow risks for the Company***

On June 6, 2012, the Company restructured approximately \$1,500,000 of Convertible Debt into two year 8% fixed rate debt requiring monthly payments, in cash, of \$70,000 per month. If the Company is unable to raise such funds through its equity line of credit, private placement or any other means it will be in default under such debt which will revert back into the terms of the original convertible debentures resulting in significant further dilution of its common

stock and eliminating other means of regular financing which the Company has depended upon to survive.



**ITEM 2. PROPERTIES**

Our corporate headquarters is located at 587 Connecticut Avenue, Norwalk, CT 06854-1711. The Company leases this office space from Microphase Corporation under a facilities agreement with Microphase that provides that mPhase lease office space, lab facilities and administrative staff on a month-to-month basis for \$3,630 per month. The Company also maintains an office in Little Falls, New Jersey with monthly rent of \$2,281 per month.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time mPhase may be involved in various legal proceedings and other matters arising in the normal course of business. During its fiscal year ended June 30, 2012, the Company was not involved in any material legal proceedings or matters.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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

YEAR/QUARTER	HIGH	LOW
Fiscal year ended June 30, 2004		
First Quarter	\$ .42	\$ .29
Second Quarter	.61	.29
Third Quarter	.69	.38
Fourth Quarter	.46	.29
Fiscal year ended June 30, 2005		
First Quarter	\$ .31	\$ .21
Second Quarter	.35	.23
Third Quarter	.60	.30
Fourth Quarter	.41	.25
Fiscal year ended June 30, 2006		
First Quarter	\$ .29	\$ .21
Second Quarter	.32	.15
Third Quarter	.45	.19
Fourth Quarter	.34	.18
Fiscal year ended June 30, 2007		
First Quarter	\$ .21	\$ .16
Second Quarter	.20	.15
Third Quarter	.24	.15
Fourth Quarter	.19	.09
Fiscal year ended June 30, 2008		
First Quarter	\$ .13	\$ .07
Second Quarter	.09	.05
Third Quarter	.14	.05
Fourth Quarter	.13	.07
Fiscal year ended June 30, 2009		
First Quarter	\$ .08	\$ .03
Second Quarter	.05	.01
Third Quarter	.04	.01
Fourth Quarter	.05	.01
Fiscal year ended June 30, 2010		
First Quarter	\$ .03	\$ .02
Second Quarter	.02	.01
Third Quarter	.03	.02
Fourth Quarter	.02	.01
Fiscal year ended June 30, 2011		
First Quarter	\$ .0189	\$ .0100

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Second Quarter		.0147		.0080
Third Quarter		.0105		.0045
Fourth Quarter		.0032		.0123
Fiscal year ended June 30, 2012				
First Quarter	\$	.0085	\$	.0047
Second Quarter		.0030		.0053
Third Quarter		.0020		.0037
Fourth Quarter		.0016		.0005

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**(B) HOLDERS**

As of June 30, 2012, mPhase had approximately 4.1 billion shares of common stock outstanding and approximately 23,000 stockholders of record and 16,780,639, 104,760,000 and 222,392,638 shares of common stock reserved for issuance upon the conversion of warrants, options and convertible securities immediately (and additionally 1,857,316,902 if certain payments are not made for convertible securities of approximately \$70,000 per month commencing in October, 2012) shares of the Company's common stock based upon the conversion terms at June 30, 2012.; respectively. In addition the Company has reserved 297,387,906 shares for conversion of officer notes. Such notes may only be converted if the Board of Directors determines that such shares are not needed for general corporate financing or other purposes.

**(C) DIVIDENDS**

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

**Issuances of Unregistered Securities**

The following securities were issued by us within the past ten years and were not registered under the Securities Act of 1933, as amended (the "Act"). Each of the transactions is claimed to be exempt from registration under the Act.

In September 2001, certain of our officers and directors purchased an aggregate of 2,000,000 shares of common stock for an aggregate investment of \$1,000,000. These issuances, which were exempt from registration pursuant to Section 4(2) and/or Rule 506 of Regulation D of the Act, included 1,000,000 shares to Mr. L. Barton, a director at that time, for an investment of \$500,000; 400,000 shares to Mr. Ronald A. Durando, the Company's president and a director, for an investment of \$200,000; 400,000 shares to Mr. Gustave Dotoli, the Company's vice-president and a director, for an investment of \$200,000; and; 200,000 shares to Mr. Martin S. Smiley, the Company's vice-president, for an investment of \$100,000.

In December 2001 and January 2002, we issued 6,797,643 shares of common stock and a like amount of warrants at an exercise price of \$.30 per share for a term of five (5) years pursuant to Rule 506 of Regulation D of the Act for approximately \$2,000,000 in cash.

During the year ended June 30, 2002, the Company issued 7,492,996 shares of its common stock and 5,953,490 warrants to related parties and strategic vendors in connection with the conversion of \$2,738,658 of accounts payable and accrued expenses, of which 6,150,000 shares of common stock and 3,400,000 warrants were issued in settlement of \$1,460,000 of accounts payable to related parties as follows:

(a) During December 2001, the Company converted \$660,000 of liabilities due to Microphase and \$360,000 of liabilities due to Janifast respectively into 2,200,000 and 1,200,000 shares of the Company's common stock and a like amount of warrants to purchase one share each of the Company's common stock at an exercise price of \$.30 pursuant to debt conversion agreements pursuant to Section 3(a)(9) of the Act, and 320,000 shares of common stock plus warrants to purchase another 320,000 shares of common stock at \$.30 for a term of 5 years were issued to strategic vendors pursuant to Section 3(a)(9) of the Act.

(b) During the quarter ended March 31, 2002, the Company converted \$96,000 of liabilities due to strategic vendors into 320,000 shares of the Company's common stock and a like amount of warrants to purchase one share each of the

Company's common stock at an exercise price of \$.30 pursuant to debt conversion agreements pursuant to Section 3(a)(9) of the Act.

(c) Effective March 31, 2002, the Company converted \$420,872 of liabilities due to Piper & Rudnick LLP, outside legal counsel to mPhase, pursuant to Section 3(a)(9) of the Act, into a warrant to purchase up to a total of 1,683,490 shares of the Company's common stock, which pursuant to EITF 96 18 had an approximate value of \$.30 per share, and a warrant to purchase 550,000 shares of the Company's common stock at an exercise price of \$.30 per share under the terms of a payment agreement. In addition, Piper agreed to accept a Promissory note for \$420,872 of current payables at an interest rate of 8% with payments of \$5,000 per month commencing June 1, 2002 and continuing through December 1, 2003, with a final payment of principal plus accrued interest due at maturity on December 31, 2003. Additionally, 1,022,996 shares of common stock were issued pursuant to Section 3(a)(9) of the Act to strategic vendors, the value of which was based upon the price of the Company's common stock on the effective date of settlement with each strategic vendor, to settle \$761,786 of liabilities. The conversion of \$1,182,658 of such liabilities, together with gains from cash settlements of \$27,960, resulted in an aggregate gain on extinguishments of \$142,236.

(d) Effective for June 30, 2002, the Company converted \$360,000 of liabilities due to Microphase and \$80,000 of liabilities due to Janifast into 2,250,000 and 500,000 shares of the Company's common stock, respectively, pursuant to debt conversion agreements pursuant to Section 3(a)(9) of the Act.

From August 2001 to June 2002, we issued an aggregate of 2,976,068 shares of common stock to consultants for an aggregate of \$1,202,997. We also issued an aggregate of 2,675,000 warrants to consultants for an aggregate of \$1,040,000. Each transaction was pursuant to Section 4(2) of the Act.

During the year ended June 30, 2003, we issued 4,296,680 shares of common stock at \$.30 per share plus 5 year warrants to purchase 4,296,680 shares of common stock at \$.30 per share in a private placement pursuant to Rule 506 of Regulation D of the Act, generating net proceeds to the company of approximately \$1,164,000.

During the year ended June 30, 2003, the Company issued 426,000 shares of its common stock valued at \$112,245 and 1,690,000 warrants, valued at \$203,150 based upon the fair market value of the Company's common stock on the date of the grant using the Black-Scholes option pricing model. The Company recorded these charges, totaling \$318,395 to operations for the year ended June 30, 2003. Each transaction was pursuant to Section 4(2) of the Act.

During the fiscal year ended June 30, 2003, the Company converted certain payables and accrued expenses with officers, related parties and strategic vendors pursuant to Section 4(2) and to Section 3(a)(9) of the Act aggregating approximately \$1.9 million into 5,923,333 restricted shares of the Company's common stock and 5 year warrants to purchase an additional 3,706,800 restricted shares of the Company's common stock. Of these, 5,533,333 shares of common stock and 3,491,800 warrants were issued in settlement of \$1,748,756 of debt to related parties as follows:

(a) Liabilities of \$620,000 and \$360,000 due to Microphase Corporation and Janifast Ltd. were converted into 3,033,000 shares and 1,500,000 shares of stock, respectively. The value attributable to the shares was based upon the market price of the Company's common stock on the measurement date, which date was determined pursuant to EITF 00-19, as to when all the contingent terms of the conversion agreements were met, in which no gain or loss was recognized on the conversion of the \$980,000 of debt, and;

(b) Also included in such conversions during the year ended June 30, 2003, were transactions whereby the Company converted \$525,967 of liabilities, \$269,362 due to the Company's president, \$211,605 due to the vice president and \$45,000 due to a sales manager who was also concurrently employed by Microphase, for unpaid management compensation and sales commissions due from mPhase into warrants to purchase up to a total of 2,656,500 shares of the Company's common stock. The aggregate value of such warrants was estimated using the Black-Scholes options pricing model, pursuant to EITF 96-18, having an approximate value of \$.21 per share, or \$538,173. The Company recorded a settlement expense of approximately \$12,206 with respect to the Company's president and vice president.

(c) Strategic vendors converted \$117,486 of payables into 340,000 shares of the Company's common stock on the measurement date, the value of which was based upon the price of the Company's common stock on the effective date of settlement with each party. This resulted in a gain of \$37,383, which, when combined with all conversions and the gains from cash settlements of \$36,049 for the fiscal year 2003, resulted in a net gain on extinguishments in the statements of operations of \$61,226 for the year ended June 30, 2003.

In August of 2003, the Company issued 333,334 shares of its common stock together with a like amount of warrants in a private placement pursuant to Rule 506 of Regulation D of the Act, generating net proceeds of \$100,000 which was collected during the three month period ended on September 30, 2003.

During the six months ending December 31, 2003, the Company granted 924,667 shares of its common stock and warrants to purchase 249,667 shares of its common stock to consultants for services performed, valued at \$307,243, and charged to operations during the period. Each transaction was pursuant to Section 4(2) of the Act.

During the three months ended December 31, 2003, the Company issued 500,000 shares of its common stock pursuant to warrants previously issued to purchase said shares pursuant to Rule 506 of Regulation D of the Act for an aggregate of \$150,000 in cash.

In December of 2003, the Company issued to five accredited investors 2,300,000 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of \$.35 per share, in a private placement pursuant to Rule 506 of Regulation D of the Act generating net proceeds of \$805,000, \$175,000 of which was collected in January, 2004. An advisor of the Company was issued 100,000 shares for assisting in this transaction.

In January of 2004, the Company issued to twenty-three accredited investors 7,160,720 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of \$.35 per share, in a private placement pursuant to Rule 506 of Regulation D of the Act generating net proceeds of \$2,506,250, all of which was collected in January, 2004.

In March and April of 2004, the Company issued to six accredited investors 1,811,429 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of \$.35 per share, in a private placement pursuant to Rule 506 of Regulation D of the Act generating net proceeds of \$634,000, all of which was collected in March and April, 2004. Two advisors of the company were issued 128,826 shares of its common stock together with a like amount of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of \$.35 per share for assisting in this transaction.

In June of 2004, the Company issued to three accredited investors 3,844,000 shares of its common stock together with two warrants each to purchase a like amount of stock at \$.35 and \$.50 respectively at a price of \$.25 per unit. Such warrants were exercisable for a period of 5 years and were callable at \$.10 per \$100,000 of the value of the shares into which such warrants might be converted if the common stock of the company traded for 20 consecutive days above (i) \$.50 per share in the case of the \$.35 warrant and (ii) \$.75 per share in the case of the \$.50 warrant.

During the year ended June 30, 2004, the Company issued 17,446,441 shares of its common stock valued at \$6,419,545 and 900,000 warrants, valued at \$300,901 based upon the fair market value of the Company's common stock on the date of the grant using the Black-Scholes option pricing model. The Company recorded these charges, totaling \$130,450 to operations for the year ended June 30, 2004. Each transaction was pursuant to Section 4(2) of the Act.

During the fiscal year ended June 30, 2004, the Company converted certain payables and accrued expenses with GTRC, a strategic vendor, aggregating approximately \$1.8 million into 5 year cashless warrants pursuant to Section 4(2) and to Section 3(a)(9) of the Act to purchase an additional 5,039,200 restricted shares of the Company's common stock valued at \$.35 per share plus a \$100,000 term promissory note. The Company was in arrears with respect to the first payment on the note and renegotiated the amount of the note and payment schedule since the note included past and future royalty payments with respect to the Company's patents covering its Traverser DVDDS, some of which the Company considered relinquishing going forward.

A July 2004 private placement of 622,000 shares, each with two separate 5 year warrants, were sold for \$155,000, each warrant specifying the right to purchase one additional share at \$.25 and \$.50, respectively. A September private placement of 1,050,000 shares, each with two separate 5 year warrants, was sold for \$ 247,400, each warrant specifying the right to purchase one additional share at \$.25 and \$.35, respectively. A total of 3,344,000 shares have been reserved to provide for conversion in connection with these warrants.

During the three months ending December 31, 2004, the Company granted 134,500 shares of its common stock to consultants for services performed valued at \$26,900. Additionally, the Company issued 2,817,954 shares of its common stock pursuant to the exercise of previously outstanding warrants, generating net proceeds intended to be used for general corporate purposes of \$563,590. During the quarter ended December 31 of 2004, the Company issued equity units consisting of 10,717,500 shares of its common stock together with a like amount of warrants, with an exercise price of \$.25, in a private placement generating net proceeds intended to be used for working capital and general corporate purposes of \$2,116,600, of which \$2,066,600 was collected through December 31, 2004 and \$50,000 was collected in January of 2005. A consultant who assisted the Company with this transaction also received 100,000 shares of the Company's common stock.

During January of 2005, the Company issued an additional 3,750,000 shares of equity units as part of the private placement begun in the second quarter of fiscal year 2005, generating additional proceeds of \$750,000. Additionally, 1,000,000 shares of common stock plus a 5 year warrant for a like amount of shares at \$.25 per share were issued to



Janifast Ltd. upon conversion of \$200,000 of accounts payable. In addition, 424,875 shares of common stock plus a 5 year warrant for a like amount of shares at \$.25 per share were issued to Martin Smiley in connection with his conversion of a \$75,000 promissory note plus accrued interest of \$9,975. Also 65,000 shares of common stock and a 5 year warrant for a like amount of stock at \$.25 per share were issued to Mr. Durando for conversion of \$13,000 of accrued interest on various promissory notes issued by the Company as well as 1,395,400 shares of common stock of the Company in connection with the exercise of a warrant at \$.01 per share previously awarded for unpaid compensation. A reduction in principal of \$13,954 of a \$75,000 promissory note to Mr. Durando was made for payment of the exercise price of \$.01 per share under the warrant. Mr. Dotoli was issued 375,000 shares of common stock of the Company in connection with the exercise of a portion of a warrant at \$.01 per share. Payment for such exercise was made in exchange for cancellation of \$3,750 of accrued interest on a \$75,000 promissory note. Finally Mr. Suozzo, a consultant, received 100,000 shares of common stock plus a 5 year warrant for a like amount of stock at \$.25 per share in exchange for cancellation of \$20,000 of accounts payable.

A December 31, 2004 subscriptions receivable balance of \$50,000 was fully collected in January of 2005. Additionally, a December 2004 private placement was closed out in January of 2005 with the placement of 3,600,000 equity units at \$.20 per unit consisting of one share of common stock plus 5 year warrants for a like amount of shares with a strike price of \$.25 per share generating net proceeds of \$720,000 to the Company.

A January 2005 private placement realized net proceeds of \$357,250 upon issuance of 1,793,750 shares of common stock at \$.20 per share plus 5 year warrants to purchase 1,793,750 shares of common stock at \$.25 per share. A later private placement realized net proceeds of \$1,351,000 upon issuance of 4,920,000 shares of common stock plus 5 year warrants to purchase 4,920,000 shares of common stock at \$.25 per share.

In January of 2005 there were stock option awards issued to two consultants for services performed. The company granted 250,000 options to a consultant for professional services, which options provided for the right of stock purchase at an exercise price of \$.25; these options had a five year life and expired in January of 2010. A second award issued a like number of options to another service provider under similar terms, except that the options associated with this second award offered a call feature, available to the company, for redemption of such options at a call price of \$.45 at any time during their five year life. In aggregate, 400,000 options were issued in connection with these awards, resulting in a charge to general and administrative non-cash expense in the amount of 133,990 in the third quarter of fiscal 2005. The valuation of this charge was made on the basis of the fair market value of the Company's common stock on the date of grant using the Black-Scholes option model.

On January 15, 2005, the company converted a \$100,000 convertible note payable to Martin Smiley in exchange for 400,000 shares and a like number of warrants that were priced at \$.25 per unit or \$100,000 in aggregate. Also in January of 2005, Martin Smiley was awarded additional compensation of 425,000 shares of common stock. This award resulted in a charge to general and administrative non-cash expense of \$131,750 in the third quarter of fiscal 2005, representing expense recognition consistent with the market price of that stock of \$.31 on the date of that award.

In February of 2005, GTARC tendered 5,069,242 of cashless warrants which they held in connection with a previous debt settlement in exchange for 4,949,684 of the company's shares of common stock; the balance of the 119,558 warrants were effectively cancelled as a result of certain warrant exercise exchange provisions adjusting the exchange rate based on specified stock pricing experience as per the original debt settlement agreement.

A March private placement resulted in the realization of net proceeds of \$1,217,000 upon issuance of 4,396,667 shares of common stock at \$.30 per share plus 5 year warrants to purchase 4,396,667 shares of common stock at \$.30 per share.

On February 17 of 2005, the Company granted 2,600,000 warrants and 400,000 options to consultants for services performed valued at \$1,328,600 and \$204,400, respectively. The warrants and options provided the right to purchase a share of mPhase common stock at an exercise price \$.45 and \$.30 per share, respectively, over their 5 year life expiring in February of 2010. These warrant and option awards were valued on the basis of the fair market value of the Company's common stock on the date of grant using the Black-Scholes option premium model and the value of the award was expensed to general and administrative non-cash expenses in the third quarter of fiscal 2005.

In late February and early March of 2005, the Company converted approximately \$173,898 in accounts payable due various vendors into 535,296 shares of common stock aggregating \$183,310 in full settlement of those obligations and pursuant to Section 3(a)(9) of the Act.

During May 2005, the Company adjusted the exercise price of \$.45 per share of an investor's 5 year warrant issued in January 2005 to purchase 714,296 shares of common stock to \$.225 in July of 2005. In July of 2005, such investor exercised a portion of such warrant, as adjusted, to purchase 200,000 shares of the Company's common stock generating \$45,000 of net proceeds to the Company.

**During the fiscal year ending June 30, 2006, the following transactions impacted stockholders equity.**

On July 20, 2005, at the Company's annual meeting of shareholders, the shareholders ratified an amendment to its Certificate of Incorporation to increase the number of authorized shares of common stock from 250,000,000 to 500,000,000 shares.

**Private Placements:**

During the first fiscal quarter, the Company issued 4,648,625 unregistered shares together with 5 year warrants to purchase 4,648,625 shares at \$.25 per share in a private placement pursuant to Rule 506 of Regulation D of the Securities Act of 1933 generating \$920,000 of gross proceeds. Also during the quarter, the Company issued 9,877,000 shares of its common stock together with 5 year warrants to purchase a like amount of shares at \$.20 per share in two private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, generating \$2,167,400 of gross proceeds.

During the second fiscal quarter the Company issued 1,702,900 shares together with 5 year warrants to purchase 1,702,900 shares of the Company's common stock to accredited investors at \$.20 per share in a private placement pursuant to Rule 506 of Regulation D of the Securities Act of 1933 generating \$340,580 of gross proceeds. Also during the quarter, the Company issued 11,477,785 shares together with 5 year warrants to purchase 11,477,785 shares of the Company's common stock to accredited investors at \$.18 per share in a private placement pursuant to Rule 506 of Regulation D of the Securities Act of 1933, generating \$2,238,973 of gross proceeds.

During the third fiscal quarter, the Company issued 29,861,772 shares together with 5 year warrants to purchase 29,861,772 shares of the Company's common stock to accredited investors at \$.18 per share in a private placement generating pursuant to Rule 506 of Regulation D of the Securities Act of 1933, generating \$5,065,265 of gross proceeds.

In addition, the Company issued approximately 2,426,698 shares as finders fees as part of the private placements during the year. (See also comments regarding 12,792,117 shares explained under Reparations below)

#### **Warrants Exercised:**

During the first fiscal quarter, the Company issued 225,000 shares of common stock pursuant to the exercise of warrants issued prior to the 3 month period, generating net cash proceeds of \$45,000.

During the second fiscal quarter, the Company issued 1,714,286 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of \$294,857.

During the third fiscal quarter, the Company issued 12,530,834 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of \$2,525,867.

During the fourth fiscal quarter the Company issued 1,250,000 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of \$250,000 to the Company.

#### **Options and Stock Based Compensation**

At various points during the fiscal year ended June 30, 2006, the Company issued stock options to employees and officers for the right to purchase 23,595,000 shares. Pursuant to the adoption of the "Modified Perspective" method, the Company recognized an expense in the amount of \$3,837,423, all of which was included in general and administrative expense. The fair value of options granted in 2007 was estimated as of the date of grant using the Black-Scholes stock option pricing model, based on the following weighted average assumptions: annual expected return of 0%, annual volatility of 108.5%, a risk-free interest rate of 4.4% and expected option life of 3 years.

During the fiscal year the Company issued to key employees and consultants common stock shares in the aggregate amount of 11,500,000 for services rendered. The value of such shares was determined based on the fair market value of the Company's stock on the date that such transaction was authorized. Accordingly, the Company recorded a charge to earnings in the aggregate amount of \$2,439,000.

#### **Debt Conversions**

During the second fiscal quarter, the Company converted \$369,000 and \$171,000 of liabilities due to Microphase Corporation and Janifast Ltd into 2,050,000 shares and 950,000 shares of stock and warrants, respectively. In addition, the Company converted \$50,000 of liabilities due to a strategic vendor into 331,864 shares of stock plus warrants to purchase 277,778 shares. The value attributable to the shares was based upon the market price of the Company's common stock on the measurement date.

### **Reparations**

At various times during the second and third fiscal quarters, the Company issued shares of its common stock together with a like amount of warrants as reparation to affect revised pricing on previous private offerings. This additional consideration was afforded to stockholders who participated in the private placement of equity units and invested a minimum of 30% of their original investment. Each unit consisted of one share of stock and a warrant to purchase an equal amount of shares at \$.18 per share. As additional consideration, each investor received the amount of shares that were required to bring the average cost of the total investment down to \$.18 per share (range of original investment \$.25 - \$.35). A total of 29,848,271 of such shares were issued as reparation under such a program and the Company recorded a charge to earnings (Other Expense) in the amount of \$5,530,504. In addition, shares in the amount of 12,792,117 were issued and charged to "Additional Paid In Capital" as an appropriate incentive for the additional cash investment.

**During the fiscal year ending June 30, 2007, the following transactions impacted stockholders equity.**

**Private Placements:**

During the quarter ended September 30, 2006, the Company issued 6,780,716 shares of its common stock together with 5,555,556 of 5 year warrants to purchase one share each of the Company's common stock, with an exercise price of \$.18 per share in private placements generating net proceeds of \$1,104,000.

During the quarter ended December 31, 2006, the Company issued 6,622,223 shares of its common stock together with 5 year warrants to purchase 1,388,889 of the Company's common stock, with an exercise price of \$.18 per share in private placements generating net proceeds of \$833,866. Included in these amounts are finders fees paid in cash and 566,667 additional shares of common stock.

During the quarter ended March 31, 2007, the Company issued 14,973,083 shares of its common stock in private placements generating net proceeds of \$1,777,503; included in this amount was an estimate of finders fees to be paid of \$209,000.

During the quarter ended June 30, 2007, the Company issued 19,582,038 shares of its common stock in private placements generating net proceeds of \$2,476,000; included in this amount was an estimate of finders fees to be paid of \$41,000

**Warrants Exercised:**

During the quarter ended September 30, 2006, the Company issued 138,889 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of \$25,000 to the Company.

During the quarter ended December 31, 2006, the Company issued 12,101,780 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of \$1,669,667 to the Company. In addition, the Company issued to certain investors new 5 year warrants to purchase 11,111,112 of the Company's common stock, with exercise prices ranging from \$.15 - \$.18 per share.

During the quarter ended March 31, 2007, the Company issued 2,500,000 shares of its common stock pursuant to the exercise of warrants, generating net proceeds of \$375,000 to the Company.

**Options and Stock Based Compensation**

During the twelve months ended June 30, 2007, the Company authorized the issuance of options and warrants to employees, officers, and consultants granting the right to purchase 10,455,000 common shares and 2,821,113 common shares, respectively. Pursuant to the adoption of the "Modified Perspective" method, the Company recognized an expense in the amount of \$1,321,853, all of which was included in general and administrative expense. The fair value of options granted was estimated as of the date of grant using the Black-Scholes stock option pricing model, based on the following weighted average assumptions: annual expected return of 0%, annual volatility ranging between 80% -95%, a risk-free interest rate of 4.8% and expected option life of 5 years.

During the twelve months ended June 30, 2007, the Board of Directors authorized the issuance of 18,172,983 shares of common stock, with an aggregate value of \$2,668,615 as compensation to consultants and employees. The stock value ranged in price from \$.12 to \$.20 per share, the fair value on the date of the awards.

**Debt Conversions**

During the twelve months ended June 30, 2007, the Company converted accounts payable of \$991,709 into 6,073,728 shares of common stock.

## **Reparations**

During the twelve month period ended June 30, 2007, the Company became obligated to issue 22,664,580 of its common stock as reparation to affect revised pricing on previous private placements. This additional consideration was afforded to past investors who agreed to make additional cash investments as part of a new private placement. The cost of such consideration was estimated to be the fair value of such shares at the time of the investment of \$1,874,020.

**During the fiscal year ending June 30, 2008, the following transactions impacted stockholders equity.**

## **Private Placements**

During the quarter ended September 30, 2007, the Company issued 500,000 shares of its common stock in private placements generating net proceeds of \$50,000.

During the quarter ended December 31, 2007, the Company issued 850,000 shares of its common stock in private placements generating net proceeds of \$48,000.

During the quarter ended June 30, 2008, the Company issued 23,250,000 shares of its common stock in private placements generating net proceeds of \$1,162,500.

## **Exercise of Warrants**

During the quarter ended June 30, 2008, 11,111,112 warrants to purchase common stock were exercised and additional warrants for 11,111,112 shares issued. Such transaction generated net proceeds of \$650,000.

## **Other Equity Transactions**

During the year ended June 30, 2008, the Company issued 500,000 shares of stock, 110,000 of options and approximately 13.1 million warrants to purchase common stock valued at \$346,985 to individuals and investors. In addition, it issued approximately 5.2 million shares of common stock valued at \$230,927 to reflect re-pricing agreements, 1,109,200 shares to pay for finders fees valued at \$100,000, and 5,250,000 shares of common stock valued at \$165,000 in connection with debt financing arrangement (see convertible debt below) The fair value of shares issued was estimated as of the date of grant using the Black-Scholes pricing model, based on the following weighted average assumptions: annual expected return of 0%, annual volatility ranging between 70 -81%, a risk-free interest rate of 2.25% and expected option life of 5 years.

## **Investment in Granita Media, Inc**

An investment of \$514,000 was received by Granita Media, Inc, a subsidiary formed July 1, 2007, to operate its IPTV business. Since the Company remained the controlling shareholder in Granita Media and such results were consolidated, this investment was included in Additional Paid In Capital.

## **Convertible Debt Short Term**

In September, 2007, the Company received proceeds of \$154,000 of convertible debt bearing interest at an annual rate of 15% and due September 1, 2008. Such debt was convertible into the Company's common shares at a price equal to a 20% discount from the 20 day average bid and ask price. Such election was at the option of the Company on September 1, 2008. In March 2008, \$100,000 of such debt was converted into 2,727,264 shares of common stock.

## **Long Term Convertible Debentures / Note Receivable / Debt Discount and Related Interest**



During fiscal year ended June 30, 2008 the Company entered into three separate convertible debt arrangements with independent investors. These transactions were intended to provide liquidity and capital to the Company and are generally structured as follows:

The form of the transaction may involve the following:

- The receipt of cash.

- The issuance of a note payable from mPhase.
- The issuance of a note receivable due to mPhase.
- A Securities Purchase Agreement.
- The note payable contains conversion features which permit the holder to convert debt into equity. Such debt is eligible to be converted into the Company's common stock immediately, thus requiring the recording of the entire liability upfront. Finally, to encourage conversion, a discount from market value is offered.
- The aggregate amounts of notes payable exceed the amount of cash received. As "Consideration" for this difference, the Company takes back a secured note receivable. Security is generally liquid investments of the investor.
- The note receivable provides a commitment to fund mPhase. The notes are secured and collateralized and carry terms which are different from the related note payable and no right of offset exists.

### **Derivative Value and Debt Discount**

It was determined that the value of the note payable to the holder (investor) was primarily due to the favorable conversion features of the note. In accordance with SFAS 133, the conversion feature requires the bifurcation of the embedded derivative from the host document and separate reporting of the embedded conversion feature at fair value determined by a Black-Scholes calculation. The value of the agreement includes the conversion feature and the variable amount of shares that may be converted at any particular point in time. As such and under GAAP, our Balance Sheet reflects the value of the embedded conversion feature as Derivative Value and the corresponding contra account to Notes Payable called Debt Discount.

At the end of every quarter the fair value of Derivative Securities is reviewed and adjustments made accordingly. The volatility of the stock price, the amount and variable number of shares involved and the low price of our stock has caused this value to fluctuate significantly. In addition, the debt discount is adjusted for any conversions and amortized over the remaining life of the loan.

As of fiscal year end June 30, 2012, no convertible debentures remain outstanding in respect to the three convertible debt arrangements entered into during fiscal year ended June 30, 2008. Those arrangements are briefly summarized below.

### **Arrangement #1 (Golden Gate Investors)**

In December, 2007, the Company received proceeds of \$500,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) a Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to \$6,000,000 of funds, 2) a convertible debenture in the amount of \$1.5 million, with an interest rate of 7 ¼% and a maturity date of December 11, 2010, and 3) a secured note receivable in the amount of \$1.0 million, with an interest rate of 8 ¼% and a maturity date of February 1, 2011 due from the holder of the convertible debenture.

Conversion of the outstanding debenture into common shares is at the option of the holder. The number of shares into which this debenture was converted is equal to the dollar amount of the debenture divided by the lesser of \$.35 per share or 80% of the 3 lowest volume weighted average prices during the 20 day trading period prior to conversion. At the time of the transaction (December 11, 2007) the derivative value of the conversion feature was calculated to be \$1,678,471. On June 30, 2008, given the decrease in the Company's stock price, this value had decreased to \$322,636. As of June 30, 2009, all of the related debt had been converted and no derivative value balance remained. This resulted in an increase in earnings for the year of \$322,636. In addition, the transaction resulted in a note discount of \$1.5 million which has been amortized as expense. During the year ended June 30, 2009, amortization of debt discount amounted to \$1,122,649. In March of 2009, by mutual consent of the parties, the Securities Purchase Agreement was terminated. Total draws under this facility were \$1.5 million.

During the fiscal year ended June 30, 2009, \$1,365,000 of such debt was converted into 74,368,943 shares of common stock and the Company received a total of \$950,000 under the provisions of the related Note Receivable. As of June 30, 2009, all notes receivable had been paid and all debt converted. No further obligations exist by either party.

**Arrangement #2 (St. George Investments, LLC)**

In February 2008, the Company entered into a convertible debenture transaction which involved the receipt of \$500,000 cash, a note payable of \$550,000 and the issuance of 3,250,000 shares of stock valued at \$260,000. The relative fair value of the shares was \$105,000 as of June 30, 2008. The terms of the debenture provided for a 7.5% interest rate, a due date of February 2012 and allowed similar conversion privileges equal to 75% of the average of the three lowest prices over a 20 day period. The derivative value of such security was estimated to be \$581,428 on the date of issuance. On June 30, 2008, this value had decreased to \$142,593, creating a non cash credit to earnings of \$438,835. The cost of the shares issued and related debt discount was amortized to expense over the life of the debenture. In the event of default under the note payable the holder was entitled to certain compensatory fees. During the period ended June 30, 2009, amortization of debt discount amounted to \$502,083.

During the fiscal year ended June 30, 2009, \$614,209 of such debt plus accrued interest was converted into 60,536,582 shares of common stock. As of June 30, 2009, all debt had been converted and no further obligation exists by either party.

### **Arrangement #3 (JMJ Financial, Inc.)**

In April, 2008, the Company received proceeds of \$300,000 under a Securities Purchase Agreement. This transaction involved three related agreements: 1) a Securities Purchase Agreement which, under certain circumstances, permitted the Company to draw up to \$1,300,000 of funds, 2) two convertible debentures totaling \$1,450,000, with a one-time interest factor of 12% and a maturity date of March 25, 2011, and 3) a secured note receivable in the amount of \$1.0 million, with a one-time interest factor of 13.2% and maturity dates of March 25, 2012 due from the holders of the convertible debentures.

Conversion of outstanding debentures into common shares was at the option of the holder. The number of shares into which the debentures could be converted was equal to the dollar amount of the debentures divided by 75% of the 3 lowest volume weighted average prices during the 20 day trading period prior to conversion. An amendment of December 31, 2008 allowed one conversion of \$200,000 of principal to be converted into common stock at the rate of 70% of the lowest trading price during the 20 day period prior to conversion and reduced the conversion price from 80% to 75% for future conversions.

During the fiscal year ended June 30, 2009, \$964,250 of such debt and accrued interest was converted into 100,951,309 shares of common stock. As of June 30, 2011, all notes receivable had been paid and all debt converted.

At the time of the transaction the embedded conversion feature of this security was calculated to be \$2,493,212. On June 30, 2008, this value had decreased to \$284,922. On June 30, 2009, such value had increased to \$444,552, creating a non-cash expense for the twelve month period of \$159,630. On June 30, 2010, the value was \$0. In addition, the transaction resulted in a note discount which has been amortized as expense over the life of the loan. During the twelve month period ended June 30, 2009, amortization of debt discount amounted to \$1,007,097, and during that same period ended June 30, 2010, amortization of debt discount amounted to \$0.

**During the fiscal year ending June 30, 2009, the following transactions impacted stockholders equity.**

### **Private Placements**

During the quarter ended September 30, 2008, the Company issued 4,000,000 shares of its common stock at \$.05 per share in private placements, generating net proceeds of \$180,000. Related to this transaction was the issuance of 3,862,000 shares as reparations shares to effect re-pricing at a cost estimated to be \$216,689.

During the quarter ended March 31, 2009, the Company issued 35,000,000 shares of its common stock at \$.01 per share in private placements generating net proceeds of \$315,000. Related to these transactions was the issuance of 7,660,000 shares as reparations shares to effect re-pricing, costing an estimated \$99,483.

During the quarter ended June 30, 2009, the Company issued 33,333,333 shares of its common stock at \$.0075 per share in private placements generating gross proceeds of \$225,000. Related to these transactions was the issuance of 2,000,000 shares as reparations shares to effect re-pricing, costing an estimated \$64,000 and finder's fees of \$25,000.

Also during the quarter ended June 30, 2009, the Company issued 20,775,000 shares in settlement of \$169,875 of prior promissory notes payable plus accrued interest and incurred a beneficial conversion of \$114,500.

### **Stock Based Compensation**

During the three months ended September 30, 2008, the Company issued 5 year options to purchase 104,675,000 shares of common stock at \$.05 per share. The value of such options was estimated to be \$4,071,348 using the Black Scholes method, based on an assumed volatility of 78% and an interest rate of 1.5%. In addition, 61,750,000 shares of common stock valued at \$3,525,615 were issued to employees and consultants. (See note 3.)

No such transactions occurred in the quarters ending December 31, 2008 and March 31, 2009.

During the quarter ended June 30, 2009, the Company granted 3 officers of the Company the right to convert an aggregate of \$1,465,992 of loans and accrued and unpaid compensation and accrued interest into common stock of the Company at a price of \$.0075 per share.

### **Conversion of debt securities**

During the fiscal year ended June 30, 2009, \$3,303,333 of debt was converted into 278,346,019 shares of common stock. Included in this amount is \$112,500 of notes payable to a related party which were sold to an investor for \$112,500 cash and subsequently converted into 15,000,000 shares of the Company's common stock valued at \$.0075 per share. Additionally \$57,375 of prior notes plus accrued interest outstanding was settled by the issuance of 5,775,000 shares of common stock. All other debt converted involved long term convertible debentures as described below.

### **Long Term Convertible Debentures / Note Receivable / Debt Discount and Related Interest**

During the fiscal year ended June 30, 2009, the Company entered into convertible debt arrangements as follows:

#### **Arrangement #4 (JMJ Financial, Inc.)**

On December 31, 2008, the Company entered into a second agreement with JMJ Financial. This transaction involved 1) a convertible debenture in the amount of \$1.1 million, plus a one-time interest factor of 12% (\$132,000) and a maturity date of December 31, 2011, and 2) a secured note receivable in the amount of \$1.0 million, plus a one-time interest factor of 13.2% (\$132,000) and maturity date of December 31, 2012 due from the holder of the convertible debentures. No cash was exchanged relative to this agreement.

Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest trading price during the 20 day trading period prior to conversion. At the commitment date the embedded conversion feature of such security was \$536,000 and the debt discount valued at \$636,000. As of June 30, 2009, the value of the embedded conversion feature increased to \$855,920, creating a charge to earnings of \$269,254 while the debt discount had been amortized by \$97,778. As of June 30, 2011, no amounts remain outstanding under this agreement

During the fiscal year ended June 30, 2010, the Company received \$1,000,000 of cash advances and \$132,000 of contract interest. During the year ended June 30, 2010, the holder converted \$1,232,000 of principal and interest into 78,792,702 shares of the Company's common stock. Additionally, the Company recorded \$488,889 amortization of debt discount under this agreement.

#### **Arrangement #5 (LaJolla Cove Investors, Inc.)**

On Sept 11, 2008, the Company received proceeds of \$200,000 under a Securities Purchase Agreement. This transaction involved three related agreements: 1) a Securities Purchase Agreement which may under certain circumstances permit 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 dates of September 30, 2011 due from the holder of the convertible debenture. In addition, the holder of the debenture is related to the holder in Arrangement #1.

Conversion of outstanding debentures into common shares is similar to the terms of Arrangement #1. At the time of the transaction (September 11, 2008), the embedded conversion feature of this security was calculated to be \$859,756. In addition, the transaction resulted in a note discount which is being amortized as expense over the life of the loan.

As of FYE 2009, \$190,000 of debt was converted into 21,714,285 shares of common stock. On June 30, 2009 and June 30, 2010 the note receivable balance was \$1,800,000, the note payable was \$1,810,000 and the FMV addition \$387,228 for which the Company recorded a reserve for utilization against each of \$600,000. As of June 30, 2010, the derivative value of this security was calculated to be \$1,114,768.

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 remained outstanding at March 31, 2011 and the derivative value of the remaining security was calculated to be \$3,468. As of June 30, 2011, this value was calculated to be \$3,442. During the year ended June 30, 2011, amortization of debt discount amounted to \$282,774, reducing the balance to \$0.

During the twelve months ended June 30, 2011, the holder converted \$0 of principal into 0 shares of common stock.

**During the fiscal year ending June 30, 2010, the following transactions impacted stockholders equity**

**Stock Based Compensation**

The Company did not issue any awards of common stock or options to officers, directors or employees during the fiscal year ended June 30, 2010. The Company issued 1,575,000 shares of common stock to various vendors and consultants valued at a total of \$34,313 based upon the market price of the common stock on various different dates to such persons during the period.

**Private Placements**

During the fiscal year ended June 30, 2010, the Company received \$225,000 of net proceeds from the issuance of 30,666,667 shares of common stock in private placements with accredited investors effected pursuant to Rule 506 of Regulation D under the Securities Act. The aggregate cost of these placements was \$25,000, and Eagle Advisors acted as placement agent. All proceeds received from the financings were used by the Company for working capital needs. The dates and amounts of each placement are as follows: 6,666,667 common shares were issued on August 14, 2009; 6,666,667 common shares on August 15, 2009; 13,333,333 common shares on August 24, 2009; and two placements of 2,000,000 common shares each on March 17, 2010.

**Conversion of debt securities**

During the fiscal year ended June 30, 2010, \$3,415,250 of debt was converted into 232,723,736 shares of common stock to holders of Convertible Notes. In addition the Company issued 26,666,667 shares of common stock to Microphase Corporation for the conversion of \$200,000 of previously outstanding accounts payable at \$.0075 per share. The price was based upon the price offered to investors in concurrent private placements with accredited investors during this period. The Company recorded an addition to interest expense on this beneficial conversion feature.

**Long Term Convertible Debentures / Note Receivable / Debt Discount and Related Interest**

**Arrangement #6 (JMJ Financial, Inc.)**

On August 19, 2009 the Company issued a 12% convertible note maturing on August 10, 2012 in the principal amount of \$1,870,000 to JMJ Financial for a purchase price of \$1,700,000. The Company initially received \$250,000 in cash as partial payment of the purchase price for the convertible note plus a 13.2% secured promissory note maturing on August 10, 2012 in the amount of \$1,450,000. As of June 30, 2010, the Company has received a total of \$1,523,500 cash and has issued 109,920,635 shares of common stock to the holder upon conversions. The remaining \$570,900 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 debenture divided by 75% of the lowest trading price during the 20 day trading period prior to conversion. As of June 30, 2011 all principal plus accrued interest with respect to this convertible note had been converted into shares of common stock and no further obligations by the Company remained.

At the time of the transaction, the embedded feature of this security was calculated to be \$1,054,395. On June 30, 2011, this value had decreased to \$0, creating a non-cash credit to earnings of \$1,054,395. In addition, the transaction resulted in a note discount that is being amortized as expense over the life of the loan. During the twelve month period



ended June 30, 2011, amortization of debt discount amounted to \$222,081. During the twelve months ended June 30, 2011, the holder converted \$346,501 of principal and interest of \$224,400 into 66,172,223 shares of common stock.

**Arrangement #7 (JMJ Financial, Inc.)**

On September 30, 2009, the Company issued a 12% convertible note maturing on September 23, 2012 in the principal amount of \$1,200,000 to JMJ Financial for a purchase price of \$1,100,000. The Company initially received \$150,000 in cash as partial payment of the purchase price for the convertible note plus a 13.2% secured promissory note maturing on August 10, 2012 in the amount of \$950,000. Through June 30, 2011 the Company has received a total of \$1,200,000 of principle and \$144,000 of interest for full funding of the purchase price of this note. The cash 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 trading price during the 20 day trading period prior to conversion.

At the time of the transaction, the embedded feature of this security was calculated to be \$480,000 on June 30, 2010 this value had increased to \$938,843. On June 30, 2011, this value had decreased to \$0 creating a non-cash charge to earnings of \$938,843. In addition, this transaction resulted in a note discount that is being amortized as an expense over the life of the loan. During the twelve months ended June 30, 2011 the holder converted \$1,200,000 of principle and \$144,000 of interest into 240,722,223 shares of common stock and the amortization of debt discount amounted to \$386,668, reducing the debt and debt discount balances to \$0.

**During the fiscal year ending June 30, 2011, the following transactions impacted stockholders equity**

**Private Placements**

During the fiscal year ended June 30, 2011, the Company received \$ 265,500 of net proceeds from the issuance of 67,500,000 shares of common stock in private placements with accredited investors, that included \$50,000 of stock subscriptions that were collected on July 6, 2011. The aggregate cost of such placements was \$ 29,500.

**Stock Based Compensation**

The Company did not issue any awards of common stock or options to Officers, Directors or Employees during the fiscal year ended June 30, 2011.

**Conversion of debt securities**

During the fiscal year ended June 30, 2011, \$ 2,346,896 of debt was converted into 382,175,312 shares of common stock to holders of Convertible Notes.

**Reparations**

The Company did not issue any shares to investors for reparations.

**During the fiscal year ending June 30, 2012, the following transactions impacted stockholders equity**

**Private Placements**

During the fiscal year ended June 30, 2012, the Company received \$127,000 of net proceeds from the issuance of 170,000,000 shares of common stock in private placements with accredited investors. The aggregate cost of such placements was \$13,000.

**Stock Based Compensation**

The Company issued awards of 1,035,000,000 shares of common stock to Officers, Directors or Employees during the fiscal year ended June 30, 2012 valued at \$6,520,500. 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.

**Conversion of debt securities**

During the fiscal year ended June 30, 2012, \$1,814,368 of debt was converted into 716,962,140 shares of common stock to holders of Convertible Notes.

**Reparations**

The Company did not issue any shares to investors for reparations.

## **Long Term Convertible Debentures / Note Receivable / Debt Discount and Related Interest**

On June 6, 2012 the Company announced that negotiations with respect to Arrangements #8, #9, #10 and #11 set forth below which has resulted in to a standstill agreement and restructuring of approximately \$1,500,000.00. The result is the floating rate convertible securities have been converted 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 Company must make each of the monthly payments, in cash in a timely manner; otherwise the provisions of Arrangements #8, #9, #10 and #11 will be reinstated with an appropriate adjustment for any payments made by the Company under the fixed rate debt prior to an event of default.

### **Arrangement #8 (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 332,187,500 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 merged into agreement

As of June 30, 2011 the Company and the holder were negotiating potential amendments to this agreement, and funding and conversions had 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 115,380,952 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was \$536,000 and the debt discount was valued at \$636,000. As of June 30, 2011, this value was calculated to be \$472,773.

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 #10 JMJ Financial, Inc.

**Arrangement #9 (JMJ Financial, Inc.)**

On December 15, 2009 the Company entered into a new financing agreement with JMJ Financial that consists of the following: 1) a convertible note issued by the Company in the amount of \$1,500,000 plus a one-time interest factor of 12% (\$180,000) and a maturity date of December 15, 2012 and (2) a secured promissory note in the amount of \$1,400,000 plus a one-time interest rate factor of 13.2% (\$180,000) and a maturity date of December 15, 2012 due from the holder of the convertible note. 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 #10 JMJ Financial, Inc.

#### **Arrangement #10 (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.

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 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 #8 and #9 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 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.

**Arrangement #11 (J. Fife)**

On March 5, 2010, the Company entered into a 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 has 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. As of June 30, 2011, the 2 additional promissory notes are expected to be cancelled as part of a new extension and forbearance agreement the Company is presently renegotiating with the holder. 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. On June 30, 2011, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2011, this estimated liability decreased to \$15,556; a decrease for the period from October 22, 2010 through June 30, 2011 of \$4,449, creating a non-cash credit to earnings for the period ended June 30, 2011 of that amount. During the same period ended June 30, 2011, amortization of debt discount amounted to \$20,005 reducing the balance to \$0. Also, as of June 30, 2011, \$30,000 of additional interest was accrued and \$28,000 intervention fees were added to principle on the original note. 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 #12 (St. George Investments)**

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.

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 June 30, 2012 this note would be convertible into 1,646,801,902 shares of common stock at the original terms; and only so if the Company does not make the scheduled payments pursuant to the June 1, 2012 amended agreement.

**Arrangement#13- (Asher Enterprises, Inc. #I)**

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. This Convertible Note has been converted, in full, into 162,749,128 shares of common stock.

**Arrangement#14- (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.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be \$26,681 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 \$61,627, an increase this period of \$34,946 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 \$17,014 reducing the balance to \$17,014. Based upon the price of the Company's common stock on June 30, 2012, this note is convertible into approximately 107,361,963 shares of common stock. On July 11, 2011 the Company prepaid in full, in cash this Convertible Note (See Subsequent Events).

**Arrangement#15- (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.

**Arrangement#16- (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 during the year ended June 30, 2012 this note was converted in full together with accrued interest of \$1,900 for 18,000,000 shares of common stock. During the year ended June 30, 2012 amortization of debt discount amounted to \$4,660 reducing the balance to \$0.

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and notes included in this annual report. The statement of operations data from October 2, 1996 (date of inception) to June 30, 1997 and for the year ended June 30, 1998, and the balance sheet data as of June 30, 1997 and 1998, are derived from financial statements that have been audited by Schuhalter, Coughlin & Suozzo, LLC, independent auditors, and are included in this document. The statement of operations data for the years ended June 30, 1999, 2000, and 2001 and the balance sheet data as of June 30, 1999, 2000, and 2001 are derived from financial statements that have been audited by Arthur Andersen LLP., independent auditors. The statement of operations data for each year ended June 30, 2002 through June 30, 2009 and the balance sheet data as of June 30, 2002 through June 30, 2009 are derived from financial statements that have been audited by Rosenberg Rich Baker Berman & Company. The statement of operations data for the years ended June 30, 2011 and 2012 and the balance sheet data as of June 30, 2011 and 2012 are derived from financial statements that have been audited by Demetrius & Company, L.L.C.

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

	<b>Fiscal Years Ended June 30,</b>					<b>from inception October 2, 1996 to 30-Jun-12</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	
Total						
Revenues	\$ 108	\$ 187	\$ 354	\$ 49	\$ 1	\$ 745
Cost of Sales	0	0	66	50	15	131
Research and Development	988	1,256	2,203	626	53	12,311
General and administrative	4,021	9,554	1,845	1,823	7,921	35,151
Depreciation and amortization	145	34	25	15	14	593
Operating Loss	(5,046)	(10,637)	(3,785)	1,875	(8,002)	\$ (47,440)
Other income (expense) net	2,379)	(3,118)	(118)	2,120	(446)	\$ (8,480)
Interest income (expense)	(215)	(1,321)	(3,463)	(141)	(344)	\$ (2,971)
Discontinued Operations	(501)		-	245	5	(144,539)
Net Loss	\$ (3,383)	\$ (15,096)	\$ (7,366)	\$ (486)	\$ (8,787)	\$ (203,431)
Continuing per share	\$ (0.01)	\$ (0.03)	\$ (.01)	\$ (.00)	\$ (.00)	
Discontinued per share	\$ (0.00)	\$ (0.00)	\$ 0	\$ (.00)	\$ (.00)	
Weighted Average shares	405,032,339	592,455,950	1,041,685,519	1,402,130,735	2,789,725,412	

outstanding

## BALANCE SHEET DATA

in \$000's

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Cash and cash equivalents	\$ 16	\$ 100	\$ 228	\$ 2	\$ 40
Working capital (deficit)	\$ (3,853)	\$ (3,991)	\$ 201	\$ (2,705)	\$ (3,691)
Total assets	\$ 2,351	\$ 3,489	\$ 5,844	\$ 235	\$ 186
Long-term obligations, net of current portion	\$ 1,595	\$ 4,433	\$ 28	\$ 16	\$ 3
Total stockholders' (deficit)	\$ (3,238)	\$ (5,234)	\$ (7,884)	\$ (5,592)	\$ (5,503)

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**Selected Quarterly Financial Information**

The statement of operations data as of the quarterly periods indicated below are derived from unaudited financial statements on Form 10Q filings, and include all adjustments (consisting of normal recurring items) that management considers necessary for a fair presentation of the financial statements.

<b>FISCAL 2012 QUARTERLY STATEMENT OF OPERATIONS DATA:</b>	<b>Three Months Ended</b>			
	<b>September 30,</b>	<b>December 31,</b>	<b>March 31,</b>	<b>June 30,</b>
	<b>(in thousands, except share amounts)</b>			
Total revenues	\$ 0	\$ 1	\$ 0	\$ 0
Costs and Expenses:				
Cost of sales	1	1	0	0
Research and development	41	10	1	1
General and administrative	6,888	346	359	328
Depreciation and amortization	4	4	4	2
Operating loss	(6,934)	(360)	(364)	(331)
Interest expense, Net	(71)	(44)	(72)	(157)
Other Income (expense)	826	534	(370)	(1,436)
Discontinued operations				5
Net ( Loss) Income	\$ (6,179)	\$ 130	\$ (806)	\$ (1,919)
Basic net (loss) gain per share-				
Continuing operations	\$ 0	\$ 0	\$ 0	\$ 0
Discontinued operations	\$ 0	\$ 0	\$ 0	\$ 0
Diluted net (loss) gain per share-				
Continuing operations	\$ 0	\$ 0	\$ 0	\$ 0
Discontinued operations	\$ 0	\$ N/A	\$ N/A	\$ N/A
Shares used in basic net loss per share	2,053,984,273	2,765,647,479	2,971,015,232	3,419,465,827
Shares used in diluted net loss per share	N/A	3,608,180,728	N/A	N/A

Includes certain reclassification from previous reported amounts

<b>FISCAL 2011 QUARTERLY STATEMENT OF OPERATIONS DATA:</b>	<b>Three Months Ended</b>			
	<b>September 30,</b>	<b>December 31,</b>	<b>March 31,</b>	<b>June 30,</b>
	<b>(in thousands, except share amounts)</b>			
Total revenues	\$ 29	\$ 1	\$ 18	\$ 1
Costs and Expenses:				
Cost of sales	9	5	37	(1)
Research and development	193	141	111	180
General and administrative	523	446	455	398
Depreciation and amortization	3	4	4	4
Operating loss	(701)	(595)	(589)	(580)
Interest expense, Net	(30)	(25)	(26)	(60)
Other Income (expense)	2,725	(100)	(709)	204
Discontinued operations				
Net ( Loss) Income	\$ 1,994	\$ (720)	\$ (1,324)	\$ (436)
Basic net (loss) gain per share-				

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Continuing operations	\$	0	\$	0	\$	0	\$	0
Discontinued operations	\$	0	\$	0	\$	0	\$	0
Diluted net (loss) gain per share-								
Continuing operations	\$	0	\$	0	\$	0	\$	0
Discontinued operations	\$	0	\$	N/A	\$	N/A	\$	N/A
Shares used in basic net loss per share		1,189,554,845		1,226,037,125		1,456,690,423		1,602,502,264
Shares used in diluted net loss per share		1,713,140,738		N/A		N/A		N/A

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**FISCAL 2010 QUARTERLY  
STATEMENT OF OPERATIONS**

	September 30,	Three Months Ended December 31,		March 31,	June 30,
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**DATA:**

(in thousands, except share amounts)

Total revenues	\$ 52	\$ 34	\$ 142	\$ 126
Costs and Expenses:				
Cost of sales	0	0	2	63
Research and development	515	579	712	397
General and administrative	421	489	453	482
Depreciation and amortization	5	7	7	7
Operating loss	(889)	(1041)	(1032)	(823)
Interest expense, Net	(681)	(42)	(33)	(31)
Other Income (expense)	1173	(2417)	1959	(3508)
Discontinued operations	0	0	0	0
Net ( Loss) Income	\$ (397)	\$ (3,500)	\$ 894	\$ (4,362)
Basic net (loss) gain per share-				
Continuing operations	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.01)
Discontinued operations	\$ -	\$ -	\$ -	\$ -
Diluted net (loss) gain per share-				
Continuing operations	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.01)
Discontinued operations	\$ -	\$ -	\$ -	\$ -
Shares used in basic net loss per share	934,821,600	934,821,600	1,057,751,508	1,084,251,619
Shares used in diluted net loss per share	934,821,600	934,821,600	1,534,563,992	1,084,251,619

Includes certain reclassification from previous reported amounts

**FISCAL 2009 QUARTERLY****STATEMENT OF OPERATIONS DATA:**

	September 30,	Three Months Ended 31-Dec		March 31,	June 30,
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(in thousands, except share amounts)

Total revenues	\$ 6	\$ 45	\$ 44	\$ 92
Costs and Expenses:				
Cost of sales	-	-	-	-
Research and development	388	216	265	386
General and administrative	6,239	499	430	2,387
Depreciation and amortization	13	13	4	4
Operating loss	(6,634)	(683)	(655)	(2,685)
Interest expense, Net	(39)	(61)	(74)	(1,146)
Other Income (expense)	355	(1,845)	73	(1,702)
Discontinued Operations	-	-	-	-
Net Loss	(6,318)	\$ (2,589)	\$ (656)	\$ (5,533)
Basic and diluted net (loss) gain per share-				
Continuing Operations	(0.01)	\$ (0.01)	\$ -	\$ (0.01)
Discontinued Operations	\$ -	\$ -	\$ -	\$ -
Shares used in basic and diluted net loss per share	452,895,360	452,895,360	671,278,600	786,484,581

**FISCAL 2008 QUARTERLY****Three Months Ended**

<b>STATEMENT OF OPERATIONS DATA:</b>	<b>Three Months Ended</b>			
	<b>September 30,</b>	<b>December 31,</b>	<b>March 31,</b>	<b>June 30, (As Restated)</b>
	<b>(in thousands, except share amounts)</b>			
Total revenues	\$ 35	\$ 61	\$ 1	\$ 10
Costs and Expenses:				
Cost of sales	0	1	0	0
Research and development	560	285	277	(134)
General and administrative	1,497	985	576	974
Depreciation and amortization	34	81	21	9
Operating loss	(2,056)	(1,291)	(873)	(833)
Interest expense, Net	(12)	(38)	(145)	(20)
Other Income (expense)	(718)	1,436	(2,487)	3,653
Discontinued Operations	-	-	-	(5)
Net (Loss) Income	\$ (2,786)	\$ 107	\$ (3,505)	\$ 2,801
Basic and diluted net (loss) gain per share				
Continuing operations	\$ (0.01)	\$ 0	\$ (0.01)	\$ 0
Discontinued operations	\$ -	\$ -	\$ -	\$ -
Shares used in basic and diluted net loss per share	389,791,154	392,557,583	397,367,531	418,881,266

Includes certain reclassification from  
previous reported amounts

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

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

### **RESULTS OF OPERATIONS**

#### **OVERVIEW**

mPhase Technologies, Inc. (OTC BB: XDSL.OB) is a development company focused on the development of innovative power cells and related products through the science of microfluidics, microelectromechanical systems (MEMS) and nano- technology. mPhase is primarily focused on commercializing its first nanotechnology-enabled product for military and commercial applications - the Smart NanoBattery providing Power On Command™. Our new patented and patent-pending battery technology, based on the phenomenon of electrowetting, offers a unique way to store energy and manage power that could revolutionize the battery industry. 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 heart pacemakers and other medical devices.

mPhase's Smart NanoBattery technology has been incorporated in leading-edge research and development projects supported by various groups within the U.S. Army for mission critical static random access memory (SRAM) backup and guided munitions applications. In July 2007, mPhase received a Small Business Technology Transfer (STTR) Program Phase I grant for \$100,000 from the U.S. Army and in September 2008, was awarded a prestigious \$750,000 (net \$500,000) Phase II STTR grant to continue battery development work for the SRAM project. That award was renewed in 2009 for a second year. The company has also been working with the U.S. Army as part of a Cooperative Research and Development Agreement (CRADA). mPhase has focused on development of a lithium Smart NanoBattery. Working closely with Rutgers University, mPhase introduced the first version of the lithium Smart NanoBattery designed for portable electronics and microelectronic applications.

One version of the lithium battery based on a breakable separator was developed for an emergency flashlight application.

#### **New Products developed during Fiscal Year 2012**

The Company began development of a second automotive product as an addition to its consumer product line consisting of the emergency illuminator. The Company outsourced the design, engineering and development of the product and it is anticipated that announcement of the new product will occur during fiscal year 2013 to preserve the Company's first to market advantage. The Company incurred approximately \$300,000 in development costs and has received a series of prototypes of the product. The roll-out of the product will depend upon the Company's financial resources during fiscal year 2013.

## TWELVE MONTHS ENDED JUNE 30, 2012 VS. JUNE 30, 2011

**Revenues.** Total revenues for the year ended June 30, 2012 decreased from \$ 49,210 in 2011 to \$1,502 in 2012. The revenue for the current fiscal year was derived primarily from payments received by the Company under the Phase II STTR grant from the United States Army and from sales of the mPower emergency illuminator.

**Cost of sales.** Cost of sales decreased \$35,740 for the year ended June 30, 2012 to \$14,520. In addition, grants and fees received in connection with our Nanotechnology power cell have relatively low associated cost of sales.

**Research and Development.** Research and development expenses were \$53,374 for the year ended June 30, 2012 as compared to \$625,417 in the year ended June 30, 2011, a decrease of \$572,043. Such decrease is attributable to the Company's completion of both a mechanically-activated reserve battery and emergency flashlight in addition to substantial completion of research on its SmartNanoBattery product.

**General and Administrative Expenses.** Selling, general and administrative expenses were \$7,921,189 for the year ended June 30, 2012, up from \$1,823,178 for the comparable period in 2011, an increase of \$6,098,011. During fiscal year ended June 30, 2012, the Company incurred non-cash charges amounting to \$6,645,300 for stock based compensation awarded to officers, employees and consultants. During fiscal year ended June 30, 2011, such charges amounted to \$62,945, an increase of \$6,582,355 in fiscal year ended June 30, 2012. This increase was offset, in part, by the reduction of salaries of employees in fiscal year ended June 30, 2012 resulting in lower payroll by approximately \$356,458 as compared to the payroll for fiscal year ended June 30, 2011. Expenses were reduced across the board, including a reduction in travel expense of \$28,211 and consulting expense of \$55,148.

**Other Income and Expense.** During the current FYE 2012 non-cash charges included \$0 for reparations, and net settlement income of \$2,782. During the prior FYE 2011 non-cash charges included \$0 for reparations, and net settlement income of \$8,915. In addition during FYE 2012, the Company realized a non-cash net loss of approximately \$320,480 compared to a non-cash net gain of \$1,866,669 in FYE 2011 resulting from the issuance and the changes in the derivative liability values relative to convertible debt. The current FYE 2012 includes a gain resulting from a change in derivative value of \$1,047,148 offset in part by amortization of debt discount of \$298,014, stock issuance costs and other charges including conversion floor fees and charges of \$1,069,614. This compares to prior FYE 2011 which includes a gain resulting from the change in derivative value of \$4,068,545 offset in part by amortization of debt discount, stock issuance costs and other charges including a \$55,000 extension and forbearance fee and a \$28,000 intervention fee amounting to \$2,319,318.

**Net loss.** mPhase recorded a net loss of \$8,786,952 for the year ended June 30, 2012 as compared to a loss of \$486,391 for the same period ended June 30, 2011. This represents a loss per common share of (\$.00 ) in 2012 as compared to (\$.00) in 2011, based upon weighted average common shares outstanding of 2,789,725,412 and 1,402,130,735 during the periods ending June 30, 2012 and June 30, 2011 respectively.

## CURRENT PLAN OF OPERATIONS

The Company is actively pursuing both military and commercial applications of its smart surface technology. The Company is actively seeking a strategic partner and is developing a significant working relationship with Stevens Institute in helping to identify new STTR and SIBR technology development grants from the U.S. government. The Company, subject to financial resources, is also seeking to become a member of a major Technology Cluster located in Grenoble, France and thereby partner with a large multinational corporation to custom tailor its Smart NanoBattery as a component for a commercial or military end product. The Company, subject to available capital, will seek to significantly increase sales of its current product, the mPower Emergency Illuminator, and to enhance profitability of this product by offering a cost reduced version containing a modified primary battery with extended shelf life instead of its proprietary Eagle Picher designed mechanically activated lithium reserve battery. 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. As previously noted, the Company, during fiscal year ended June 30, 2012, began development of a second automotive consumer product expected to be announced in fiscal year 2013.

**Expanded Market Potential for Proprietary Membrane Technology**

The core membrane technology used to enable the Smart NanoBattery's propriety membrane design can potentially be used to develop other non-power source applications and products. The Company's market potential for using the membrane design of this patent pending core technology broadens the application areas outside the portable power energy field.

The Company's permeable membrane design consisting of both micro and nano scale silicon features is coated with a monolayer chemistry used to repel liquids. The membrane works using a microfluidics principle that permits the dynamic control of surfaces when interacting with liquids, and as a result, the membrane can be tuned to filter out certain types of materials. In the reserve battery application, the properties of the membrane are used to create a superhydrophobic surface that prevents the battery's electrolyte from coming into contact with the dry electrodes of the battery until activation. In a similar way, the membrane can be designed so that it can control the passing of liquids through the pores of the membrane, acting as a filter, allowing and restricting materials to pass through the membrane. This ability opens up the potential to use the membrane's design in new configurations for applications that require controlled filtering of materials used in the health, environmental, food services, as well as other industries.

## RESEARCH AND DEVELOPMENT

mPhase throughout its history has outsourced its research and development activity with respect to all of its product lines. The Company engaged the Bell Labs division of Lucent Technologies in February of 2004 to develop a power cell using the science of nanotechnology. The Company terminated its development efforts with Lucent Bell Labs in fiscal year 2008 with respect to micro power cell products using the science of nanotechnology since the facilities at Bell Labs were only able to provide development of zinc based batteries. The Company determined that in order to develop a commercially viable product, higher energy lithium based batteries were required and it established a research relationship with Rutgers University that has facilities capable of handling development of lithium batteries.

From March of 2005 through March of 2007, the Company, pursuant to the terms of a Project Development Agreement engaged Bell Labs to develop a magnetometer or electronic sensor products using the science of nanotechnology. The Company did not renew this Project Development Agreement in order to conserve financial resources. No further development has occurred on the magnetometer; however, the Company believes that the intellectual property created may have significant value in the future depending upon further scientific progress in the field and market developments.

Since inception, but prior to the end of fiscal year 2006, the Company incurred \$13.5 million for research and development conducted by Georgia Tech Research Corporation in connection with its legacy Traverser DVDDS technology that was a proprietary end to end solution of hardware and software enabling telecommunications service providers to delivery broadcast television, high-speed internet and voice over copper telephone lines. Expenditures for discontinued Traverser DVDDS product are included in discontinued operations. In fiscal year 2003 the Company began the transition of its product to development of a carriers standard open platform using middleware platform and transferred its research and development from Georgia Tech Research Corporation to the Bell Labs division of Lucent Technologies Inc. In May of 2007, the Company decided not to renew its Project Development Agreement for its TV+ solution with Bell Labs and chose a number of new software vendors to finalize its IPTV solution. The Company incurred research and development expenses with Lucent for fiscal years ended June 30, 2007 and 2006 of \$2.3 million and \$4.4 million. It should be noted that all expenditures during with Lucent/Bell Labs in FYE 2007 have been in connection with nanotechnology.

During the year ended June 30, 2008, the Company incurred research and development expenses of \$188,000 related to the development of IPTV solutions compared to \$4.1 million for the same period ended June 30, 2007. Expenditures for the IPTV discontinued product are included in discontinued operations. In addition the Company incurred research and development expenses for the fiscal year June 30, 2008 of \$800,000 for its nanotechnology products as compared to \$2.3 million for fiscal year ended June 30, 2007. During the fiscal year ended June 30, 2009, the Company incurred research and development expenses of \$1,255,655, all of which was in connection with its nanotechnology, manually activated battery and emergency flashlight products. During the fiscal year ended June 30, 2010, the Company incurred research and development expenses of \$2,203,383 and during the fiscal years ended June 30, 2011 and 2012, such research and development expenses amounted to \$625,417 and \$53,374.

During the years ended June 30, 2009, June 30, 2010 and June 30, 2011 the Company was primarily engaged in joint research and development with Rutgers University in connection with a \$750,000 Phase II STTR grant from the United States Army for development of a reserve battery with an extended shelf life suitable for serving as a backup energy source for a computer memory application. In addition, during such period significant design services were provided by Porsche Design Studio in connection with the development of the Company's emergency flashlight product.

During fiscal year ended June 30, 2012 the Company commenced research, design and development of a prototype of a second new innovative automotive product with an initial cost of approximately \$300,000.

The amount of research and development costs the Company has expended on its current technology, from its inception through June 30, 2012, is \$12,310,936.

## **STRATEGIC ALLIANCES IMPLEMENTED**

The Company and Lucent share jointly in certain intellectual property developed with respect to nanotechnology products. The Company has established a working relationship with Rutgers University for development and testing of lithium based batteries. In addition, the Company has a co-branding agreement with Porsche Design Studio for its emergency flashlight product.

## **CRITICAL ACCOUNTING POLICIES**

### **RESEARCH AND DEVELOPMENT**

Research and development costs are charged to operations as incurred in accordance with FASB ASC Topic 730 Research and Development, formerly Statement of Financial Accounting Standards ("SFAS"), No.2, "Accounting for Research and Development Cost."

## **OPTIONS, WARRANTS AND OTHER CONVERTIBLE EQUITY INSTRUMENTS**

### **STOCK BASED COMPENSATION**

Effective, July 1, 2005, the Company adopted the promulgated authority "modified prospective" method, and has recorded as an expense the fair value of all stock based grants to employees after such date. The Company has not restated its operating results for any prior fiscal year end or quarter.

## **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 June 30, 2012, the Company has received \$145,428 of proceeds under the Equity Line relating to the resale of 89,587,447 shares of the Company's common stock, net of \$13,500 transaction fees. 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. (SEE NOTE 13-Subsequent events)

## **MATERIAL EQUITY INSTRUMENTS**

The Company has material equity instruments including convertible debentures and convertible notes that are accounted for as derivative liabilities and options and warrants that are evaluated quarterly for potential reclassification as liabilities pursuant to FASB ASC Topic 815 Derivatives and Hedging previously known as EITF 00-19 (SEE ALSO NOTE 8 "Stockholders Equity" under the caption "Other Equity"). The Company utilized a sequencing method prescribed by ASC Topic 815, based upon applying shares available to contracts with the earliest inception date first.



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

#### **DERIVATIVE FINANCIAL INSTRUMENTS**

Presently promulgated accounting literature requires all derivatives to be recorded on the balance sheet at fair value. The conversion features of the convertible debentures are embedded derivatives and are separately valued and accounted for on our balance sheet with changes in fair value recognized during the period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model we use for determining fair value of our derivatives is the Black-Scholes Pricing Model with a 20 day life for the look-back period of each conversion feature using volatility of 100%. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income.

#### **REPARATION EXPENSE**

As an incentive for additional equity contributions, the Company will, from time to time, adjust the cost of past private purchases of common stock through the issuance of additional shares in such magnitude as to reduce an investor's cost to an average price that more closely approximates current market value. The market value of additional shares issued without cash investment is charged to Reparation Expense, which is included in Other Expenses.

## LIQUIDITY AND CAPITAL RESOURCES

Through June 30, 2012, the Company had incurred development stage losses totaling approximately \$203,430,907 and had cash and cash equivalents of \$39,913. At June 30, 2012, mPhase had a working capital deficit of \$(3,690,779) as compared to a working capital deficit of \$(2,705,943) as of June 30, 2011.

In addition, on June 23, 2011, the common stock of the Company ceased to be eligible for fast trading by investors by the Depository Trust Company that handles the clearance of all securities in the United States. As a result the liquidity of the Company's common stock has contracted and financing the Company exclusively through such instruments may be limited in the future. The Company believes that supplemental private placements of equity will enable it to satisfy short-term liquidity.

In December of 2011, the Company entered into a \$10,000,000 equity line of credit with Dutchess Opportunity Fund II, LLC. 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. As of June 30, 2012, the Company has received \$145,428 of proceeds under the equity line from the resale of 89,587,447 shares of the Company's common stock, net of \$13,500 transaction fees. The amount of proceeds to be received under the equity line will depend upon the stock price of the Company and the various points in time it exercises its Put option.

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 through its equity line of credit to meet this obligation as well as short term operating needs.

In the longer term, we estimate that the Company will need to raise approximately \$5-10 million of additional capital above the funds anticipated from the monthly fundings and conversions by holders of revised or replacement convertible securities, to meet longer term liquidity needs through June 30, 2013. Such monies will be necessary primarily to fund future operating expenditures as well as marketing, cost-reductions and commercialization of its Smart NanoBattery and automotive products. Finally, depending upon sales and margins in fiscal year 2013, additional capital may be required to fund a portion of any growth necessary in operations.

Cash used in operating activities was \$1,091,944 during the twelve months ended June 30, 2012. During such period, the cash used by operating activities consisted principally of the net loss (\$8,786,952) plus non-cash credits related to convertible debt issued and associated changes in derivative value (\$2,116,064) reduced by an increase of accounts payable and accrued expenses of \$61,008. These amounts are offset in part by non-cash charges related to issuance of common stock and options for services of \$6,645,300.

During the twelve-month period ended June 30, 2012, the Company raised capital through private placements with accredited investors, whereby the Company issued 170,000,000 shares of the Company's common stock, generating net proceeds to the Company of \$140,000.

During the twelve-month period ended June 30, 2011, the Company raised capital through private placements with accredited investors, whereby the Company issued 67,500,000 shares of the Company's common stock, generating net proceeds to the Company of \$265,500.



**Equity Conversions of Debt and Other Financial Instruments with Related Parties**

Conversion of debt with related parties and strategic vendors during the periods enumerated is as follows: During the fiscal years ended June 30, 2011 and June 30, 2012, there were no equity conversions of debt or other financial instruments with related parties.

	2010	2011	2012
<b>Janifast:</b>			
Number of shares	NONE	NONE	NONE
Number of warrants	NONE	NONE	NONE
Amount converted to equity	\$ NONE	\$ NONE	\$ NONE
<b>Microphase Corporation:</b>			
Number of shares	26,666,667	NONE	NONE
Number of warrants	0	NONE	NONE
Amount converted to equity	\$ 200,000	\$ NONE	\$ NONE
<b>Strategic Vendor Conversions:</b>			
Number of shares	NONE	NONE	NONE
Number of warrants	NONE	NONE	NONE
Amount converted to equity	\$ NONE	\$ NONE	\$ NONE
<b>Officers</b>			
Number of shares	NONE	NONE	NONE
Number of warrants (A)	NONE	NONE	NONE
Amount converted to equity	\$ NONE	\$ NONE	\$ NONE
<b>Total Related Party Conversions</b>			
Number of shares	26,666,667	NONE	NONE
Number of warrants	0	NONE	NONE
Amount converted to equity	\$ 200,000	\$ NONE	\$ NONE
<b>LOSSES DURING THE DEVELOPMENT STAGE AND MANAGEMENT'S PLANS</b>			

As noted above, through June 30, 2012, the Company incurred development stage losses totaling approximately \$203,430,907 and at June 30, 2012 had a working capital deficit of \$(3,690,779). Funding in our traditional capital markets was difficult during FYE 2012. Management of the Company desired to avoid unnecessary dilution by issuing large amounts of equity at depressed prices to raise larger sums of cash. The Company was able to enter into an equity line of credit with Dutchess Capital to provide liquidity and capital resources during the year.

The Company renegotiated its convertible debt arrangements whereby \$1,532,365 of its \$1,606,523 convertible debt, otherwise convertible into approximately 1,857,316,902 shares of the Company's common stock based upon terms as of June 30, 2012, will not be subject to conversion through October, 2012 and thereafter through fiscal 2013 so long as the Company makes scheduled payments of principle and interest of approximately \$70,000 per month. The Company has also significantly reduced employee compensation, in many instances by as much as 20%, effective July 2010. In addition and from time to time the Company has raised necessary working capital via bridge loans from officers (see notes payable to officers). 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, (3) continue its efforts to commercialize and sell and receive military grants for its SmartBattery, and (4) commercialize and sell its emergency flashlight.

The Company is currently focused on development and commercialization of its emergency flashlight product as well as the further development of its smart nano battery in both single and multi-cell form. The Company believes that these reserve batteries which have a much longer shelf life than conventional batteries will have significant commercial and military applications which the Company intends to actively pursue. The Company has temporarily suspended, to conserve financial resources, development of its magnetometer sensor devices, also developed using the

science of nanotechnology.

## **ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISKS**

The Company is not exposed to changes in interest rates as the Company has no floating rate 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 interest rate yield curve would not materially affect the fair value of any financial instruments at June 30, 2012. We believe that interest rate risks for our accounts receivable are insignificant. Sales to customers are denominated in dollars. Accordingly, we are not directly exposed to market risks from currency fluctuations.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See pages beginning page 77.

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

None.

## **ITEM 9A. CONTROLS AND PROCEDURES Assessment of Internal Controls Evaluation of Disclosure Controls and Procedures**

The Company has implemented disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports are recorded, processed, summarized, and reported within the time periods specified in rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2012, the management of the Company carried out an assessment, under the supervision of and with the participation of the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). As of the date of this assessment, the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2012.

## **Management's Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. The Company utilizes the COSO Framework for internal control over financial reporting. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the interim or annual financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2012. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Our evaluation concluded that the company had no material weakness which would result in the reasonable possibility of a material misstatement described above.

This report does not include an attestation report of our registered public accounting firm regarding our internal controls over financial reporting. The disclosure contained under this Item 9A was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only the disclosure under this Item 9A in this annual report.

### **Changes in Internal Control over Financial Reporting**

The Company has made steps toward remediating the internal control condition identified in the fiscal year June 30, 2009, described above. The Company has obtained, on a fee basis, an outside consultant to act as an accounting manager to assist the Company with the accounting of convertible debentures and derivatives and the consultant was utilized during all four quarters of the fiscal year ended June 30, 2012. However, mPhase Technologies is a small company with a total staff of approximately 6 employees and consultants. This size limits, and may continue to limit, the Company's ability to provide for adequate backup of financial personnel. Accordingly, efforts individually and in the aggregate may be insufficient to fully eliminate the condition that could adversely affect the organization's ability to record, summarize and report financial data consistent with the assertions of management in the financial statements.

There were no changes in our internal control over financial reporting during the fiscal year ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None.



**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Executive officers are selected by the Board of Directors. No family relationships exist between any of the executive officers or directors. The following table sets forth certain information with respect to each person who is an executive officer or director. mPhase's executive officers and directors as of June 30, 2012 are as follows:

NAME	AGE	POSITION(S)
Ronald A. Durando	55	Chief Executive Officer and Director
Gustave T. Dotoli <sup>(2)</sup>	75	Chief Operating Officer and Director
Martin Smiley	64	Chief Financial Officer
<b>OUTSIDE DIRECTORS</b>		
Anthony H. Guerino <sup>(1)(2)</sup>	65	Director
Abraham Biderman <sup>(1)(2)</sup>	64	Director
Dr. Victor Lawrence	63	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

RONALD A. DURANDO is a co-founder of mPhase and has served as the Company's President, Chief Executive Officer and Director since its inception in October 1996. Since 1994, Mr. Durando has been an Officer of Microphase Corporation. Mr. Durando is a Director of Microphase Corporation. From 1986-1994, Mr. Durando was President and Chief Executive Officer of Nutley Securities, Inc., a registered broker-dealer. Mr. Durando also served as president of PacketPort until his resignation in February, 2008, when PacketPort merged with Wyndstorm Corporation.

GUSTAVE T. DOTOLI has served as mPhase's Chief Operating Officer as well as a Director since October 1996. Prior to joining the Company, Mr. Dotoli was President and CEO of State Industrial Safety, Inc. from 1986-1996. In addition, Mr. Dotoli currently serves as the Vice President of Corporate Development of Microphase Corporation. Mr. Dotoli was also a Director and Vice President of Packet Port. He was formerly the President and Chief Executive Officer of the following corporations: Imperial Electro- Plating, Inc., World Imports USA, Industrial Chemical Supply, Inc., SISCO Beverage, Inc., and Met Pack, Inc. Mr. Dotoli received a B.S. in Industrial Engineering from Fairleigh Dickenson University in 1959.

ANTHONY H. GUERINO has been a member of the Board since February 23, 2000. Since December 1997, Mr. Guerino has been an attorney in private practice in New Jersey. Prior thereto, Mr. Guerino served as a judge of the Newark Municipal Courts for over twenty (20) years, periodically sitting in the Essex County Central Judicial Processing Court at the Essex County Courthouse. Mr. Guerino has been a chairperson for and member of several judicial committees and associations in New Jersey, and has been an instructor for the Seton Hall School of Law's Trial Moot Court Program.

ABRAHAM BIDERMAN has been a member of the Board since August 3, 2000. He currently is the Managing Director of Eagle Advisers, Inc, a small investment banking firm. From 1990 through September 30, 2003, Mr. Biderman had been employed by Lipper & Co. as Executive Vice President; Executive Vice President, Secretary and Treasurer of the Lipper Funds; and Co-Manager of Lipper Convertibles, L.P. Prior to joining Lipper & Co. in 1990, Mr. Biderman was Commissioner of the New York City Department of Housing, Preservation and Development from 1988 to 1989 and Commissioner of the New York City Department of Finance from 1986 to 1987. He was Chairman of the New York City Retirement System from 1986 to 1989. Mr. Biderman was Special Advisor to former Mayor Edward I. Koch from 1985 to 1986 and assistant to former Deputy Mayor Kenneth Lipper from 1983 to 1985. Mr. Biderman is a Director of the Municipal Assistance Corporation for the City of New York. Mr. Biderman graduated from Brooklyn College and is a certified public accountant.

MARTIN SMILEY was elected on June 28, 2006 to the Board of Directors. He joined mPhase as Executive Vice President, Chief Financial Officer and General Counsel in August 2000. Mr. Smiley has over twenty years experience as a corporate finance and securities attorney and as an investment banker. Prior to joining the company, Mr. Smiley served as a Principal at Morrison & Kibbey, Ltd., a mergers and acquisitions and investment banking firm, from 1998 to 2000, and as a Managing Director for CIBC Oppenheimer Securities from 1994 to 1998. He served as a Vice President of Investment Banking at Chase Manhattan Bank from 1989 to 1994, and as a Vice President and Associate General Counsel for Chrysler Capital Corporation from 1984 to 1989. Mr. Smiley graduated with a B.A. in Mathematics from the University of Pennsylvania and earned his law degree from the University of Virginia School Of Law.

DR VICTOR LAWRENCE is Batcheler Chair Professor of Electrical Engineering and Associate Dean for Special Programs in the Charles V Schafer, Jr. School of Engineering, at Stevens Institute of Technology. Dr. Victor Lawrence is a member of the National Academy of Engineering and has worked in the information technology and communications field for over thirty years. He is an industry leader in digital communications R&D and services, an entrepreneur, an active member of engineering professional organizations, an author, and a teacher who has extensive international experience. Prior to joining Stevens Institute of Technology, Dr. Lawrence was Vice President, Advanced Communications Technology, Bell Laboratories, Lucent Technologies. He led the development of technologies that go into the most innovative, reliable, and cost-effective communications networks for the leading telecommunications service providers. He has supported Lucent's businesses with a staff of about 500 leading technologists and a budget of about \$100M. Major projects included gigabit, photonic, and wireless networking developments and services. He was responsible for a team of engineers that worked on performance analysis, simulations and development of broadband access and backbone networks for many national and international service providers. All of Lucent's R&D organizations relied on his high-technology support of computer-aided hardware design, physical and thermal design, systems compliance testing and certification, and design for high performance network control, signaling, and management. Earlier, he was Director, Advanced Multimedia Communications at Bell Labs, where he was responsible for systems engineering, exploratory development of multimedia signal processing, transmission, and switching, including speech and audio coding, modems, broadband transmission, ATM switching and protocols, and wireless communication and signal processing. He held a variety of leadership positions in data communications research, digital techniques, and information systems. His application of digital signal processing to data communications in the late 1980s and early 1990s led to many significant advances in high-speed transmission over copper lines (e.g., voice band modems and DSL), which helped create a global industry that leverages the public switched telephone network. Dr. Lawrence played a significant role in the development of major international voiceband modem standards, making high-speed data communication over international networks possible. The universal availability of high-speed data connectivity stimulated the growth and widespread use of the Internet. He led the development of high-speed modem/fax chip sets that are used in data terminals, computers, and voice terminals for secure communications worldwide. His work on high-speed transceivers for local loop and for premises applications led to the development of a variety of DSL technologies, many of which are deployed today for broadband services. As an entrepreneur, Dr. Lawrence spun off several ventures internal and external to Lucent to maximize the impact of technology developed in his organization.

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

#### **SECTION 16 (A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Directors, executive officers, and individuals owning more than 10 percent of mPhase common stock are required to file initial reports of ownership and changes in ownership with the SEC under Section 16(a) of the Securities Exchange Act of 1934, as amended. The SEC regulations also require those persons to provide copies of all filed Section 16(a) reports to the Company. mPhase has reviewed the report copies filed in fiscal year 2012 and, based also on written representations from those persons, the Company believes that there was compliance with Section 16(a) filing requirements for fiscal year 2012. All the officers and directors filed all of the required forms in a timely manner.

**ITEM 11. EXECUTIVE COMPENSATION**

The following table sets forth, for the fiscal year ended June 30, 2012 and the two previous fiscal years, the compensation earned by mPhase's chief executive officer and the other executive officers whose compensation was greater than \$100,000 for services rendered in all capacities to the Company for the year ended June 30, 2012.

**SUMMARY EXECUTIVE COMPENSATION**

NAME & PRINCIPAL POSITION	YEAR	SALARY	BONUS	STOCK AWARDS	OPTION AWARDS	NON- EQUITY INCENTIVE	PENSION VALUE	OTHER	TOTAL
<b>Ronald Durando</b> Chief Executive Officer	<b>2012</b>	\$ 110,000	\$ 0	\$ 2,488,500 <sup>(2)</sup>	\$ 173,316 <sup>(3)</sup>	N/A	N/A	\$ 54,681 <sup>(1)</sup>	\$ 164,6
	<b>2011</b>	\$ 160,000	\$ 0	\$ 0	\$ 0	N/A	N/A	\$ 33,728 <sup>(1)</sup>	\$ 193,7
	<b>2010</b>	\$ 200,000	\$ 0	\$ 0	\$ 0	N/A	N/A	\$ 56,486 <sup>(1)</sup>	\$ 256,4
<b>Gustave Dotoli</b> Chief Operating Officer	<b>2012</b>	\$ 107,333	\$ 0	\$ 1,858,500 <sup>(2)</sup>	\$ 103,952 <sup>(3)</sup>	N/A	N/A	\$ 36,103 <sup>(1)</sup>	\$ 143,4
	<b>2011</b>	\$ 144,000	\$ 0	\$ 0	\$ 0	N/A	N/A	\$ 18,610 <sup>(1)</sup>	\$ 162,6
	<b>2010</b>	\$ 180,000	\$ 0	\$ 0	\$ 0	N/A	N/A	\$ 39,375 <sup>(1)</sup>	\$ 219,3
<b>Martin Smiley</b> CFO and General Counsel	<b>2012</b>	\$ 106,667	\$ 0	\$ 1,858,500 <sup>(2)</sup>	\$ 62,394 <sup>(3)</sup>	N/A	N/A	\$ 26,744 <sup>(1)</sup>	\$ 133,4
	<b>2011</b>	\$ 140,000	\$ 0	\$ 0	\$ 0	N/A	N/A	\$ 16,569	\$ 156,5
	<b>2010</b>	\$ 175,000	\$ 0	\$ 0	\$ 0	N/A	N/A	\$ 24,536	\$ 199,5

**FOOTNOTES**

- (1) Interest on loans to the Company.
- (2) Share grants are valued at the share price on the date the grant was authorized by the board of directors. The shares under the 2011 grant to officers are restricted from resale through August, 2015.
- (3) 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.

**OUTSTANDING EQUITY AWARDS at FISCAL YEAR END JUNE 30, 2012**

	Number of Securities underlying Unexercised Options (Exercisable)	Number of Securities Unexercised Options (Unexercisable)	Equity Incentive Plan awards Number of Securities	Option Exercise Price	Option Expiration Date	Number of shares of stock that has not been vested	Market Value of Shares not vested	Equity Incentive
Ronald Durando President CEO	50,000,000			\$ .004	9/16/2013			
				\$				
				\$				
				\$				
				\$				

		\$		
		\$		
Gustave Dotoli COO	30,000,000	\$	.004	9/16/2013
		\$		
		\$		
		\$		
		\$		
		\$		
Martin Smiley Executive VP CFO Chief Legal Council	18,000,000	\$	.004	9/16/2013
		\$		
		\$		
		\$		

#### **EMPLOYMENT AGREEMENTS WITH EXECUTIVE OFFICERS**

The Company does not have written employment agreements with any of the named Executive Officers.

#### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The members of the Compensation Committee during fiscal 2012 were Messrs. Dotoli, Biderman and Guerino. Neither Messrs. Biderman nor Guerino has been an mPhase officer or employee. None of the Company's directors or executive officers served as a member of the Compensation Committee (or other board committee performing equivalent functions or, in the absence of such committee, the entire Board of Directors) of another entity during fiscal 2012 that has a director or executive officer serving also as a director on mPhase's Board of Directors. Mr. Dotoli, together with Mr. Durando and Mr. Ergul, were collectively controlling shareholders and Directors of Janifast Ltd. In March of 2009, Janifast Ltd. terminated operations.

#### **COMPENSATION OF DIRECTORS**

No Directors received compensation for their services as a Director.

#### **AUDIT COMMITTEE**

No members of the Audit Committee received compensation for their services on the Committee.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth as of July 26, 2012 certain information regarding the beneficial ownership of our shares:

- 1 by each person who is known by us to be the beneficial owner of more than five percent (5%) of our outstanding common stock;
- 2 each of our directors;
- 3 by each executive officer named in the Summary Compensation Table; and
- 4 by all of our directors and executive officers as a group.

<b>AFFILIATES (1 &amp; 2)</b>	<b>Shares</b>	<b>Warrants/ conversion rights</b>	<b>Options</b>	<b>TOTAL</b>	<b>%</b>
Victor Lawrence	10,100,000	-	200,000	10,300,000	0.25%
Anthony Guerino	-	-	260,000	260,000	0.01%
Abraham Biderman	45,226,890	-	2,160,000	47,386,890	1.16%
Gustave Dotoli (3)	318,107,805	93,101,823	30,000,000	441,209,628	10.84%
Ron Durando (3)	452,241,922	128,836,205	50,000,000	631,078,127	15.50%
Ned Ergul	2,850,000	-	450,000	3,300,000	0.08%
Martin Smiley (3)	313,760,629	75,449,895	18,000,000	407,210,524	10.00%
Microphase Corporation(4) (5)	42,726,686	-	-	42,726,686	1.05%
<b>Total Affiliates</b>	<b>1,185,013,932</b>	<b>297,387,923</b>	<b>101,070,000</b>	<b>1,583,471,855</b>	<b>38.90%</b>

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

(2) Unless otherwise indicated, mPhase believes that all persons named in the table have sole voting and investment power with respect to all shares of the Company beneficially owned by them. The percentage for each beneficial owner listed above is based on 4,071,051,851 shares outstanding on July 26, 2012, and, with respect to each person holding options or warrants to purchase shares that are exercisable within 60 days after July 26, 2012, the number of options and warrants are deemed to be outstanding and beneficially owned by the person for the purpose of computing such person's percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes as warrants 128,836,205 shares, 93,101,823 shares and 75,449,895 shares issuable for unpaid compensation and loans plus accrued interest, if converted, for Messrs. Durando, Dotoli and Smiley respectively. Such conversions are subject to availability of authorized shares. On April 27, 2009, and amended as of August 25, 2011; the board of directors consolidated all amounts outstanding for all obligations to the officers, including unpaid compensation, and authorized the issuance of new notes with a term of five years, an interest rate of 12% and a conversion feature at a price of \$.0040 on amounts outstanding plus accrued interest thereon. During the fiscal years ended June 30, 2009, June 30, 2010 and 2012, the Company recorded \$914,060, \$82,609 and \$2,360, respectively, of beneficial interest expense with respect to the conversion feature.

(4) Messrs. Ergul and Durando and certain members of their families may be deemed to exercise shared majority voting and dispositive power for Microphase Corporation through their indirect ownership interests in Microphase

Holding Company, LLC which owns 88.4% of Microphase common stock. The holding company is owned 43.9% by the Ergul Family Limited Partnership, which is wholly owned by Mr. Ergul, his wife and daughters, and 50% by Edson Realty Inc. which is 83% owned by Mr. Durando, 12% by Mr. Ergul and 5% by three unrelated shareholders. Mr. Durando owns an additional 1.6% of Microphase common stock in his individual name.

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

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE****Material Related Party Transactions**

The Company has material related party transactions. The Company incurs costs for engineering, design and production of prototypes and certain administrative functions from Microphase Corporation. Prior to March, 2008, it had purchased finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited.

Mr. Durando, President and CEO of mPhase, owns a controlling interest and is a director and President of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Dotoli was also a shareholder of Janifast Limited prior to its discontinuing operations in March of 2009. Mr. Ergul owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited. Microphase Corporation and Janifast Ltd. are significant shareholders of mPhase.

Mr. Abraham Biderman is a Managing Director of Eagle Advisers, Inc., a firm that performs investment banking services for the Company and was employed until September 30, 2003, by our former investment banking firm Lipper & Company.

Management believes the amounts charged to the Company by Microphase and Janifast Ltd. are commensurate with amounts that would be incurred if outside parties were used. The Company believes Microphase Corporation has the ability to fulfill its obligations to the Company without further support from the Company.

**Transactions with Officers, Directors and their Affiliates**

Directors that were significant shareholders of Janifast Limited prior to its ceasing operations in March of 2009 included Messrs. Durando and Dotoli

**Total compensation and payables to related parties and to officers is summarized below:****Summary of compensation to related parties for the Twelve Months Ended June 30, 2012**

	<b>Durando</b>	<b>Dotoli</b>	<b>Smiley</b>	<b>Biderman</b>	<b>Microphase</b>	<b>Total</b>
Consulting / Salary	\$ 110,000	\$ 107,333	\$ 106,667			\$ 324,000
Interest	\$ 54,681	\$ 36,103	\$ 26,744			\$ 117,528
Rent					\$ 43,560	\$ 43,560
G&A					\$ 7,225	\$ 7,225
R&D						\$ 0
Finders Fees				\$ 18,000		\$ 18,000
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 issued)	\$ 173,316	\$ 103,990	\$ 62,394			\$ 339,700
<b>Total compensation for the Twelve Months Ended June 30, 2012</b>	<b>\$ 2,826,497</b>	<b>\$ 2,105,926</b>	<b>\$ 2,054,305</b>	<b>\$ 270,000</b>	<b>\$ 113,785</b>	<b>\$ 7,370,513</b>

**Summary of compensation to related parties for the Twelve Months Ended June 30, 2011**

	<b>Durando</b>	<b>Dotoli</b>	<b>Smiley</b>	<b>Biderman</b>	<b>Microphase</b>	<b>Total</b>
Consulting / Salary	\$ 160,000	\$ 144,000	\$ 140,000			\$ 444,000
Interest	\$ 33,728	\$ 18,610	\$ 16,569			\$ 68,907



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Rent				\$	36,000	\$	36,000
G&A				\$	9,356	\$	9,356
R&D						\$	0
Finders Fees				\$	24,500	\$	24,500
<b>Total compensation</b>	<b>\$ 193,728</b>	<b>\$ 162,610</b>	<b>\$ 156,569</b>	<b>\$</b>	<b>24,500</b>	<b>\$</b>	<b>45,356</b>
						<b>\$</b>	<b>582,763</b>

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**Summary of compensation to related parties for the Twelve Months Ended June 30, 2010**

	Durando	Dotoli	Smiley	Biderman	Microphase	Total
Consulting / Salary	\$ 200,000	\$ 180,000	\$ 175,000			\$ 555,000
Interest	\$ 56,483	\$ 39,375	\$ 24,356			\$ 120,214
Rent					\$ 36,000	\$ 36,000
G&A					\$ 9,936	\$ 9,936
R&D					\$ 337,500	\$ 337,500
Finders Fees				\$ 25,000		\$ 25,000
<b>Total compensation</b>	<b>\$ 256,483</b>	<b>\$ 219,375</b>	<b>\$ 199,356</b>	<b>\$ 25,000</b>	<b>\$ 383,436</b>	<b>\$ 1,083,650</b>

	Durando	Dotoli	Smiley	Total Notes Payable	Biderman
<b>Summary of payables to related parties as of June 30, 2012</b>					
Notes payable	\$ 456,573	\$ 333,663	\$ 273,177	\$ 1,063,413	
Accrued Wages Officers	\$ 29,167	\$ 29,167	\$ 10,417		
Due to Officers / Affiliates					\$ 150,000
Interest Payable	\$ 58,771	\$ 38,745	\$ 28,623	\$ 126,139	
<b>Total Payable to Officers / Affiliates as of June 30, 2011</b>	<b>\$ 544,511</b>	<b>\$ 401,575</b>	<b>\$ 312,217</b>	<b>\$ 1,189,552</b>	<b>\$ 150,000</b>

## Total Notes

**Summary of payables to related parties as of June 30, 2011**

	Durando	Dotoli	Smiley	Payable	Biderman	Microphase	Total
Notes payable	\$ 263,479	\$ 148,306	\$ 111,030	\$ 522,815			\$ 522,815
Due to Officers / Affiliates					\$ 150,000	\$ 27,242	\$ 177,242
Interest Payable	\$ 151,685	\$ 120,498	\$ 80,725	\$ 352,909			\$ 352,909
<b>Total Payable to Officers / Affiliates</b>	<b>\$ 415,164</b>	<b>\$ 268,804</b>	<b>\$ 191,755</b>	<b>\$ 875,724</b>	<b>\$ 150,000</b>	<b>\$ 27,242</b>	<b>\$ 1,052,966</b>

In July of 2009, Microphase Corporation converted \$200,000 of Accounts Payable owed by the Company into common stock valued at \$.0075 per share (26,666,667 shares). Such price was determined based upon the price of private placements of equity by the Company during such period.

On October 7, 2009, the Company paid Messrs. Durando, Dotoli and Smiley \$45,000, \$45,000 and \$25,000 respectively in reduction of amounts owed to them by the Company for unpaid compensation and bridge loans.

During the twelve months ended June 30, 2010, the Company incurred finders fees of \$25,000 with Mr. Biderman's affiliated firm of Palladium Capital Advisors. Mr. Biderman was employed until September 30, 2003, by our former investment banking firm, Lipper & Company. As of June 30, 2010, the Company owed Palladium Capital Advisors \$25,000 in unpaid finders fees.

During the twelve months ended June 30, 2011 and 2012, the Company incurred additional finders fees of \$24,500 and \$13,000 with Mr. Biderman's firm Eagle Strategic Advisors.

During the twelve months ended June 30, 2007, Mr. Biderman, through his affiliated firm of Palladium Capital Advisors, earned finder's fees of \$520,000 in connection with the raising of approximately \$5 million in various equity transactions during the year.

In addition, at various points during fiscal year ended June 30, 2007, Messrs. Durando, Dotoli and Smiley provided \$650,000 in bridge loans to the Company which was evidenced by individual promissory notes. During December 2006, Messrs. Durando and Dotoli agreed to convert their notes, in the amounts of \$130,000 and \$200,000 respectively, to a deferred compensation arrangement, the repayment terms of which have not been specified. Mr. Smiley has extended bridge loans to the Company of \$160,000, evidenced by promissory notes for \$101,000 and a \$60,000 note with a 12% rate of interest. In summary as of June 30, 2007, bridge loans outstanding were \$85,000, \$75,000 and \$161,000 to the Messrs. Durando, Dotoli and Smiley, respectively. All of the foregoing promissory notes were payable on demand and only the \$161,000 payable to Mr. Smiley remained outstanding in June 2008. As of June 30, 2010, only \$110,030 payable to Mr. Smiley remained outstanding.

During the 12 month period ended June 30, 2006, Eagle Advisers, an investment banking firm founded by Mr. Biderman earned fees and reimbursement expenses of approximately \$782,568 in connection with services in regard to private placements of the Company's common stock and warrants and raised a total of \$5,820,652 net of such fees for the Company.

During the fiscal year ended June 30, 2006, Mr. Edward Suozzo, a consultant of the Company, converted \$50,000 of accounts payable owed by the Company into 331,864 shares of common stock plus a 5 year warrant to purchase 277,778 shares of common stock at \$.18 per share. During fiscal year ended June 30, 2005, Mr. Suozzo converted \$20,000 of accounts payable owed by the Company into 100,000 shares of common stock plus a 5 year warrant to purchase 100,000 shares of common stock at \$.25 per share.

During fiscal year ended June 30, 2006, Microphase Corporation and Janifast Corp., both related parties, respectively converted \$369,000 and \$171,000 of accounts payable owed by the Company into 2,050,000 and 950,000 shares of common stock plus a 5 year warrant to purchase 2,050,000 and 950,000 shares of common stock at \$.18 per share.

Effective June 30, 2004, the Company was \$473,787 in arrears with respect to a promissory note issued to Piper Rudnick LLP plus other legal fees of \$118,773.36. It should be noted that Piper & Rudnick, the Company's outside counsel, received such promissory note in March of 2002 plus two warrants that expired in March 8, 2007 in exchange for cancellation of certain payables. Such warrants had conversion rights into our common stock for a total of 2,233,490 shares that had been registered under a Form S-1 Registration Statement, and were cashless. On September 3, 2003, in exchange for reducing the total payable to \$550,000, the Company paid \$10,000 in cash to Piper and issued an additional cashless warrant for \$150,000 worth of the Company's common stock valued at \$.25 per share. The remaining \$300,000 payable had the following future payment schedule: payments of \$25,000 each on December 1, 2004, March 1, 2005, June 1, 2005, September 1, 2005, March 1, 2006, June 1, 2006 and September 1, 2006, a payment of \$50,000 on December 1, 2005, and a payment of \$75,000 due on December 1, 2006. On August 30, 2004, the Company paid \$100,000 to Piper & Rudnick, LLP in connection with the renegotiation of a Payment Agreement effective June 30, 2004. Under the terms of the renegotiated Payment Agreement, the Company agreed to payments of \$25,000 each on December 1, 2004, March 1, 2005, June 1, 2005 and September 1, 2005 and a payment of \$50,000 on December 1, 2006 plus \$25,000 payments on March 1, 2006, June 1, 2006, September 1, 2006 and a final payment of \$75,000 payment on December 1, 2007. In addition, Piper & Rudnick LLP agreed to convert \$150,000 of such payable into a 5 year cashless warrant to purchase the Company's common stock at \$.25 per share. The Company has made all of the above payments except for \$65,000 of the \$75,000 due December 1, 2006, that is presently in arrears.

Necdet F. Ergul, Ronald A. Durando and Gustave T. Dotoli are executive officers and shareholders of Microphase and Ronald Durando and Gustave T. Dotoli served as president and vice-president of PacketPort.com., respectively until Packetport.com merged with Wyndstorm Corporation in February of 2008, at which time Mr. Durando and Mr. Dotoli resigned from their respective positions..

On November 26, 1999, PacketPort, Inc., a company owned 100% by Mr. Durando, acquired a controlling interest in Linkon Corp., which subsequently changed its name to PacketPort.com, Inc. In connection with this transaction, Mr. Durando transferred 350,000 shares of our common stock to PacketPort, Inc.

#### Transactions with Microphase Corporation

mPhase's President and Chairman of the Board of the Company are also employees 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 for fiscal year 2011 required mPhase to pay Microphase \$3,000 per month. Microphase also charges fees for specific projects on a project-by-project basis. During the year ended June 30, 2012 and for the period of time from mPhase's inception (October 2, 1996) to June 30, 2012, \$50,785 and \$9,528,746, respectively, have been charged to expense or inventory under these Agreements and is included in discontinued operations in the accompanying consolidated statements of operations. Management believes that amounts charged to the Company by Microphase are commensurate with amounts that would be incurred if outside third parties were used. The Company is obligated to pay a 3% royalty to Microphase on revenues from its proprietary Traverser Digital Video and Data Delivery System and DSL component products.

Mr. Durando, President and CEO of mPhase, owns a controlling interest and is a director and President of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Dotoli was also a shareholder of Janifast Limited prior to its discontinuing operations in March of 2009. Mr. Ergul owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited. Microphase Corporation is a significant shareholder of the Company. Janifast Limited had been a significant shareholder of the Company until September 17, 2009, when it transferred to Mr. Durando 11,735,584 shares, representing all the shares of the Company held by Janifast, in partial consideration of the cancellation of loan obligations to Mr. Durando in connection with the plan of its liquidation.

#### Transactions with Janifast

Janifast Ltd., a Hong Kong corporation manufacturer, had produced components for our now discontinued Traverser\_DVDDS product. Necdet F. Ergul, Ronald A. Durando and Gustave T. Dotoli are controlling shareholders of Janifast Ltd. with an aggregate ownership interest of greater than 75% of Janifast Ltd. Mr. Durando is Chairman of the Board of Directors and Mr. Ergul is a Director of Janifast. Janifast Ltd. ceased operations in March, 2009, and the Company has had no transactions with Janifast during or since its fiscal year ended June 30, 2010.

#### Reparation Shares issued to related parties

During the fiscal year ended June 30, 2006, the Company issued 3,931,382 shares valued at \$728,434 and 4,504,542 shares valued at \$834,633 for reparation of investments of \$200,000 for 1,000,000 shares and \$250,000 for 1,250,000 shares made during fiscal year ended June 30, 2005 by Janifast and Microphase, respectively, concurrently on the same terms reparations were issued to other investors of the same private placements.

During the fiscal year ended June 30, 2007, Janifast was issued 769,231 shares valued at \$138,462 for reparation of an investment of \$171,000 for 950,000 shares issued for an investment made in fiscal year ended June 30, 2006, concurrently on the same terms reparations were issued to other investors of the same private placement.

#### Transactions with Other Related Parties

In March 2000, mPhase acquired a 50% interest in mPhaseTelevision.Net (formerly Telco Television Network, Inc.), an incorporated joint venture. This percentage was increased to approximately 57% in fiscal year 2001. Alpha Star International, Inc. currently owns the remaining joint venture interest. The joint venture has been inactive for a period of five years and is in the process of being dissolved.

Mr. Durando, President and CEO of mPhase, owned a controlling interest and was a director and President of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Dotoli was also a shareholder of Janifast Limited prior to its discontinuing operations in March of 2009. Mr. Ergul owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited.

Microphase Corporation is a significant shareholder of the Company. Janifast Limited had been a significant shareholder of the Company until September 17, 2009, when it transferred to Mr. Durando 11,735,584 shares, representing all the shares of the Company held by Janifast, in partial consideration of the cancellation of loan obligations to Mr. Durando in connection with the plan of its liquidation.

#### SUBSEQUENT EVENTS

On July 11, 2012, the Company prepaid \$53,888 in cash to Asher Enterprises, Inc. to redeem, in full, its Convertible Promissory Note in Asher Agreement II, funded on January 11, 2011 in the principal amount of 35,000, together with a prepayment fee of \$17,500 and accrued interest thereon of \$1,388.

Through July 24, 2012, the Company has completed transactions in a private placement of its common stock to 8 accredited investors pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. The Company received net proceeds of \$155,500, made available for working capital, and paid placement fees of \$6,500 in connection with the issuance of 405,000,000 shares of its common stock. The Company is continuing such Private Placement until early October of 2012 with the goal of raising up to \$150,000 additional gross proceeds to be used as working capital in exchange for approximately 375,000,000 shares of its common stock with accredited investors.

On August 15, 2012, the Company put 20,000,000 shares to Dutchess Capital under the terms of its Investment Agreement covering the Company's Equity Line of Credit. Through August 31, 2012 Dutchess has resold approximately 5,500,000 shares that are anticipated to generate approximately \$4,000 of working capital to the Company.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.****Audit Fees**

The audit fees billed by our accounting firm of Demetrius & Company, L.L.C. for fiscal years ended June 30, 2011 and June 30, 2012 were \$55,800 and \$55,000.

**Audit Related Services**

The fees billed for audit related services for the fiscal year ended June 30, 2012 were \$5,000. There were no audit related services for the fiscal year ended June 30, 2011.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Form 10-K (1) Consolidated Financial Statements

	PAGE
Report of Demetrius & Company, L.L.C.	77
Report of Rosenberg Rich Baker Berman & Company	78
Report of Arthur Andersen LLP	79
Report of Schuhalter, Coughlin & Suozzo, PC	80
Consolidated Balance Sheets as of June 30, 2011 and 2012	81
Consolidated Statements of Operations for the years ended June 30, 2011 and 2012 and for the period from inception (October 2, 1996) through June 30, 2012	82
Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the period from inception (October 2, 1996) to June 30, 1997 and for each of the fifteen years in the period ended June 30, 2012	83
Consolidated Statements of Cash Flows for the years ended June 30, 2011 and 2012 and for the period from inception (October 2, 1996) through June 30, 2012	94
Notes to Consolidated Financial Statements	95
(2) Financial Statement Schedules None.	

(3) The Exhibits filed with this Form 10-K or, where so indicated by footnote in the case of previously filed exhibits, incorporated by reference are as set forth below:

2.1*	Exchange of Stock Agreement and Plan of Reorganization (incorporated by reference to Exhibit 2(a) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000-24969)).
2.2*	Exchange of Stock Agreement and Plan of Reorganization dated June 25, 1998 (incorporated by reference to Exhibit 2(b) to our registration statement on Form 10SB-12G filed on May 6, 1999 (file no. 000-24969)).
3.1***	Certificate of Incorporation of the Company.
3.2***	Bylaws of the Company
4.1*	Minutes of Special Meeting of the Board of Directors held on April 27, 2009, authorizing convertibility of officers promissory notes. (Amendment No. 4 to Form 10-K for the period ended June 30, 2010, filed January 11, 2011 (file no. 000-30202))
10.1*	License Agreement, dated March 26, 1998, between the Company and Georgia Tech Research Corporation (incorporated by reference to Exhibit 10(e) to our registration statement on Form 10SB-12G filed on October 16, 1998 (file no. 000- 24969)).
10.2*	First Amendment to the License Agreement dated January 8, 2001, between the Company and Georgia Tech Research Corporation (incorporated by reference to Exhibit 10.2 to our registration statement on Form S-1 filed on June 18, 2001 (file no. 33-63262)).



- 10.9\* Facilities/Services Agreement between the Company and Microphase Corporation, dated as of July 1, 1998 (incorporated by reference to Exhibit 10.9 to our registration statement on Form S- 1 filed on June 18, 2001 (file no. 33- 63262).

- 10.10\* Company's 2001 Stock Incentive incorporated by reference to Exhibit C to Preliminary Proxy on Schedule 14A filed on March 21, 2001 (file no. 000-30202).
- 10.18\*\*\* Development Agreement effective February 3, 2004 between Lucent Technologies, Inc. and mPhase Technologies, Inc for development of micro fuel cell Nano Technology.
- 10.21\*\*\* Development Agreement effective March 1, 2005 between Lucent Technologies Inc and mPhase Technologies relating to development of Magnetometers.
- 10.22\*\*\* Amendment No. 2 to Development Agreement executed as of March 9, 2005 amending Development Agreement effective as of February 5, 2004, as amended relating to Micro Power Source Cells between mPhase Technologies, Inc. and Lucent Technologies, Inc.
- 10.33\*\*\* Amendment No. 3 dated May 19, 2006 to Development Agreement between Lucent Technologies, Inc. and mPhase Technologies, Inc. effective February 3, 2004 for Development of micro fuel cell Nanotechnology.
- 10.34\*\*\* Amendment No. 4 dated February 3, 2007 to Development Agreement between Lucent Technologies, Inc. and mPhase Technologies, Inc. effective February 3, 2004 for Development of micro fuel cell Nanotechnology.
- 10.35\*\*\* Cooperative Research Agreement Rutgers University and mPhase Technologies, Inc. executed October 18, 2005.
- 10.36\*\*\* Modification No. 1 to Cooperative Research Agreement with Rutgers University dated February 22, 2006.
- 10.37\*\*\* Modification No. 2 to Cooperative Research Agreement with Rutgers University dated September 22, 2006.
- 10.38\*\*\* Modification No. 3 to Cooperative Research Agreement with Rutgers University dated February 7, 2007.
- 10.40\*\*\* CT NanoBusiness Alliance Consulting Agreement dated May 10, 2007.
- 10.41\*\*\* Amendment No.5 dated April 28, 2007 to Development Agreement between Lucent Technologies, Inc. and mPhase Technologies, Inc. effective February 3, 2004 for Development of micro fuel cell Nanotechnology.
- 10.43\* Cooperative Research and Development Agreement between US Army Picatinny Arsenal and mPhase Technologies, Inc. dated December 20, 2006. (Exhibit 43 to Form S-1 filed July 12, 2007, File No. 333-144527).
- 10.44\*\*\* Small Business Technology Transfer Collaboration Agreement between Rutgers University and mPhase Technologies, Inc. dated June 25, 2007
- 10.46\* Phase I Army Grant dated July 7, 2007 (Form 10-K filed October 7, 2009, Commission File No. 000-24969)
- 10.47\* Securities Purchase Agreement dated December 11, 2007 between mPhase Technologies, Inc. and Golden Gate Investors and Related Documents in connection with \$1,500,000 Convertible Debenture Financing (Form 10-K filed October 7, 2009, Commission File No. 000-24969)
- 10.48\* Securities Purchase Agreement dated February 29, 2008 between St. George Investments and mPhase Technologies, Inc and Related Documents in connection with \$550,000 Convertible Debenture Financing. (Form 10-K filed October 7, 2009, Commission File No. 000-24969)
- 10.49\* Documentation including \$350,000 Convertible Note and \$1,000,000 Convertible Note and Secured Note for \$1,000,000 Financing between mPhase Technologies, Inc. and JMJ Financial dated March 25, 2008 (Form 10-K filed October 7, 2009, Commission File No. 000-24969)
- 10.52\* Phase II Army Grant dated August 29, 2008 (Form 10-K filed October 7, 2009, Commission File No. 000-24969)
- 10.53\* Securities Purchase Agreement dated September 12, 2008 between mPhase Technologies, Inc. and La Jolla Cove Investors and Related Documents in connection with \$2,000,000 Convertible Debenture Financing (Form 8K filing dated September 18, 2008)
- 10.54\* Design Development Agreement between mPhase Technologies, Inc. and Porsche Design Studio for Emergency Flashlight dated November 3, 2008. (Form 8K filed on March 12, 2009) \*\*
- 10.55\* Documentation dated December 31, 2008 for \$1,100,000 Convertible Note and Secured Note Financing between mPhase Technologies, Inc. and JMJ Financial and Amendment to \$350,000 Convertible Note

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Financing (Form 8K Filing dated January 21, 2009, Commission File No. 000-24969)

- 10.56\* Eagle Picher Proposal for mPhase Technologies, Inc. dated January 26, 2009 for design and development of mechanically- activated Reserve Battery to be used in Emergency Flashlight. (Form 8-K filed January 30, 2009)\*\*
- 10.57\* Termination Agreement with Golden Gate Investors dated March 17, 2009 with respect to Convertible Debenture Financing dated December 11, 2007 (Form 10-K filed October 7, 2009, Commission File No. 000-24969)
- 10.59\* Documentation including \$1,870,000 Convertible Note and Secured Note for Financing with MJJ Financial dated August 21, 2009 (Form August 21, 2009, Commission File No. 000-24969)
- 10.60\* Documentation including two \$1,200,00 Convertible Notes executed September 23, 2009 and November 17, 2009 and Secured Notes r connection with financing with MJJ Financial (Form Amendment No. 3 to Form 10Q for the period ended December 31, 2009 file Septe Commission File No. 000-30202)
- 10.61\* Promissory Notes Payable to Mr. Durando (Amendment No. 4 to Form 10-K for the period ended June 30, 2010, filed January 11, 2011 30202))

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- 10.62\* Promissory Notes Payable to Mr. Dotoli (Amendment No. 4 to Form 10-K for the period ended June 30, 2010, filed January 11, 2011 (fil 10.63\*Promissory Notes Payable to Mr. Smiley (Amendment No. 4 to Form 10-K for the period ended June 30, 2010, filed January 11, 2011 (fi 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 10.63\* Promissory Notes Payable to Mr. Smiley (Amendment No. 4 to Form 10-K for the period ended June 30, 2010, filed January 11, 2011 (Commission File No. 000-30202))
- 10.64\* Forbearance Agreement dated as of September 13, 2011 between mPhase Technologies, Inc. and John Fife ( Exhibit 99.1 to Form 8k filed September 16, 2011, (Commission file No. 000-24969))
- 10.65\* Securities Purchase Agreement, dated as of September 13, 2011 between mPhase Technologies, Inc and John Fife ( Exhibit 99.2 to Form 8k filed September 16, 2011, (Commission file No. 000-24969))
- 10.66\* Officer s Certificate delivered pursuant to Securities Purchase Agreement, dated as of September 13, 2011 between mPhase Technologies, Inc. and John Fife (Exhibit 99.3 to Form 8k filed September 16, 2011, (Commission file No. 000- 24969))
- 10.67\* Confession of Judgment 1 delivered pursuant to Securities Purchase Agreement, dated as of September 13, 2011 between mPhase Technologies, Inc. and John Fife (Exhibit 99.4 to Form 8k filed September 16, 2011, (Commission file No. 000- 24969))
- 10.68\* Confession of Judgment 2 delivered pursuant to Securities Purchase Agreement, dated as of September 13, 2011 between mPhase Technologies, Inc. and John Fife (Exhibit 99.5 to Form 8k filed September 16, 2011, (Commission file No. 000- 24969))
- 10.69\* Registration Rights Agreement dated as of September 13, 2011 between mPhase Technologies, Inc. and John Fife (Exhibit 99.6 to Form 8k filed September 16, 2011, (Commission file No. 000-24969))
- 10.70\* Convertible Note dated September 13, 2011 issued by mPhase Technologies, Inc. to John Fife (Exhibit 99.7 to Form 8k filed September 16, 2011, (Commission file No. 000-24969))
- 10.71\* Convertible Note dated August 11, 2011 issued by mPhase Technologies to Jay Wright (Exhibit 10.71 to Amendment No.4 to Form S-1 filed January 17, 2012(Commission File No. 333-77248))
- 10.72 \* Warrant dated August 11, 2011 issued by mPhase Technologies to Jay Wright (Exhibit 10.72 to Amendment No.4 to Form S-1 filed January 17, 2012(Commission File No. 333-77248))
- 10.73\* Investment Agreement for Equity Line of Credit dated as of November 30, 2011 between mPhase Technologies, Inc. and Dutchess Opportunity Fund L.L.P. (Exhibit 10.73 to Amendment No.4 to Form S-1 filed January 17, 2012(Commission File No. 333-77248))
- 10.74\* Registration Rights Agreement for Equity Line of Credit dated as of November 30, 2011 between mPhase Technologies, Inc. and Dutchess Opportunity Fund II L.L.P. (Exhibit 10.74 to Amendment No.4 to Form S-1 filed January 17, 2012(Commission File No. 333-77248))
- 10.75\* Securities Purchase Agreement dated as of November 17, 2011 between Asher Enterprises, Inc. and mPhase Technologies, Inc.( Exhibit 99.1 to Form 8K filed November 30, 2011 (Commission file No. 000-24969))
- 10.76\* 8%Convertible Note issued to Asher Enterprises, Inc. dated November 17, 2011 by mPhase Technologies, Inc.(Exhibit 99.2 to Form 8K filed November 30, 2011 (Commission file No. 000-24969))
- 10.77\* Securities Purchase Agreement dated as of January 5, 2012 between Asher Enterprises, Inc. and mPhase Technologies, Inc.( Exhibit 99.1 to Form 8K filed January 17, 2012 (Commission file No. 000-24969))
- 10.78\* 8%Convertible Note issued to Asher Enterprises, Inc. dated January 5, 2012 by mPhase Technologies, Inc.(Exhibit 99.2 to Form 8K filed January 17, 2012 (Commission file No. 000-24969))
- 10.79 Securities Purchase Agreement dated as of May 4, 2012 between Asher Enterprises, Inc. and mPhase Technologies, Inc.
- 10.80 8%Convertible Note issued to Asher Enterprises, Inc. dated May 4, 2012 by mPhase Technologies, Inc.
- 10.81\* Stand Still and Restructuring Agreement entered into as of May 31,2012 with John Fife (Exhibit 99.1 to Form 8K filed June 5, 2012 (Commission file No. 000-24969))
- 10.82\* Stand Still and Restructuring Agreement entered into as of June 1,2012 with JMJ Fiancial (Exhibit 99.2 to Form 8K filed June 5, 2012 (Commission file No. 000-24969))
- 21.1 Consent of Demetrius and Company

- 21.2 Consent of Rosenberg Rich Baker Berman & Company
- 21.3 Consent of Schuhalter, Coughlin & Suozzo, LLC (formerly Schuhalter, Coughlin & Suozzo, PC)
- 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.

- \* Incorporated by reference.
- \*\* All or portions of such Agreements have been omitted and the Company has requested that the omitted sections be treated as Confidential Information pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended and has been filed with the Securities and Exchange Commission separately.
- \*\*\* Incorporated by reference from Amendment No. 6 to Form 10K for the period ended June 30, 2009 file on August 13, 2009.

**Report of Independent Registered Public Accounting Firm**

**To The Board of Directors and  
Shareholders of mPhase Technologies, Inc.**

We have audited the accompanying consolidated balance sheets of mPhase Technologies, Inc. (a New Jersey corporation in the development stage) and its subsidiaries as of June 30, 2011 and 2012 and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the two years then ended and for the period of July 1, 2009 to June 30, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of mPhase Technologies, Inc. for the period from inception to June 30, 2009. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to amounts for the period from inception to June 30, 2009, included in the cumulative totals, is based solely upon the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of mPhase Technologies, Inc. and subsidiaries as of June 30, 2011 and 2012 and the results of their operations and their cash flows for the two years then ended, and for the period of July 1, 2009 to June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that mPhase Technologies, Inc. and subsidiaries will continue as a going concern. As shown in the financial statements, the Company has experienced significant losses and negative operating cash flows resulting in a working capital deficiency and stockholders' deficit. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are more fully described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Demetrius & Company, L.L.C.  
Wayne, New Jersey  
September 13, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of mPhase Technologies, Inc.

We have audited the accompanying consolidated balance sheet of mPhase Technologies, Inc. (a New Jersey corporation and is in the development stage) and subsidiaries as of June 30, 2009, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the year then ended, for the period from July 1, 2001 to June 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of mPhase Technologies, Inc. for the period from inception to June 30, 2001. Those statements were audited by other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of mPhase Technologies, Inc. and subsidiaries as of June 30, 2009, and the results of its operations and its cash flows for the year then ended and for the period from July 1, 2001 to June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey

September 25, 2009, (April 20, 2010 as to Other Equity included in Note 8)



**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Directors and Stockholders of mPhase Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of mPhase Technologies, Inc. (a New Jersey corporation in the development stage) and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2001 and for the period from inception (October 2, 1996) to June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of mPhase Technologies, Inc. for the period from inception to June 30, 1998. Such amounts are included in the cumulative from inception to June 30, 2001 totals of the statements of operations, changes in stockholders' equity and cash flows and reflect total net loss of 6 percent of the related cumulative totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts for the period from inception to June 30, 1998, included in the cumulative totals, is based solely upon the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of mPhase Technologies, Inc. and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001 and for the period from inception to June 30, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations and is in a working capital deficit position that raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Arthur Andersen LLP  
Stamford, Connecticut  
October 12, 2001

PURSUANT TO SEC RELEASE NO. 33-8070 AND RULE 437A UNDER THE SECURITIES ACT OF 1933, AS AMENDED, MPHASE TECHNOLOGIES, INC. HAS NOT RECEIVED WRITTEN CONSENT AFTER REASONABLE EFFORT TO USE THIS REPORT. THIS REPORT IS A COPY OF A PREVIOUSLY ISSUED ARTHUR ANDERSEN LLP REPORT. THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. WITH RESPECT TO THIS INSTANT 10K/A, YOU WILL NOT BE ABLE TO RECOVER AGAINST ARTHUR ANDERSEN LLP UNDER SECTION 11 OF THE SECURITIES ACT FOR ANY UNTRUE STATEMENTS OF A MATERIAL FACT CONTAINED IN THE FINANCIAL STATEMENTS AUDITED BY ARTHUR ANDERSEN LLP OR ANY OMISSIONS TO STATE A MATERIAL FACT REQUIRED TO BE STATED THEREIN.



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors and Stockholders of mPhase Technologies, Inc.:

We have audited the statements of operations, changes in stockholders' equity, and cash flows for the period October 2, 1996 (date of inception) through June 30, 1998 of mPhase Technologies, Inc. (a development stage company). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the results of its operations and its cash flows for the period of October 2, 1996 (date of inception) through June 30, 1998 in conformity with generally accepted accounting principles.

Schuhalter, Coughlin & Suozzo, PC  
Raritan, New Jersey

January 28, 1999

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

	June 30, 2011	June 30, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,744	\$ 39,913
Stock subscription receivable	50,000	-
Inventory	102,532	86,494
Prepaid and other current assets	35,242	26,653
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 189,518</b>	<b>\$ 153,060</b>
Property and equipment, net	45,114	33,141
<b>TOTAL ASSETS</b>	<b>\$ 234,632</b>	<b>\$ 186,201</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 735,145	\$ 826,379
Accrued expenses	162,038	91,591
Due to related parties	177,242	203,128
Accrued Wages Officers	-	68,751
Notes payable, related parties	875,724	1,189,552
Short term notes	65,000	65,000
Accounts Payable and Accrued Expenses-Discontinued Activities	868,376	863,594
Current Portion, Long term convertible debentures		522,980
Current Portion, Long term debt	11,486	12,864
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 2,895,011</b>	<b>\$ 3,843,839</b>
Long term portion Equipment loan	16,315	3,451
<b>OTHER OBLIGATIONS CONVERTIBLE TO EQUITY- (Note 8 )</b>		
Convertible debt derivative liability	1,664,575	898,734
Long term portion of Convertible debentures, net of discount of \$300,000 and \$128,793 on June 30, 2011 and 2012, respectively	1,250,505	942,944
<b>COMMITMENTS AND CONTINGENCIES -(Note 11)</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Common stock, par value \$.001, 6,000,000,000 shares authorized, 1,628,502,264 and 3,666,051,851 shares issued and outstanding at June 30, 2011 and 2012, respectively	16,285,022	3,666,051
Additional paid in capital	172,775,132	194,468,219
Deferred Compensation	-	(198,157)
Deficit accumulated during development stage	(194,643,955)	(203,430,907)
Less-Treasury stock, 13,750 shares at cost	(7,973)	(7,973)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(\$5,591,774)</b>	<b>(\$5,502,767)</b>

<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$</b>	<b>234,632</b>	<b>\$</b>	<b>186,201</b>
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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 FYE June 30,		Date of
	2011	2012	Inception to June 30, 2012
REVENUES	\$ 49,210	\$ 1,502	\$ 745,141
<b>COSTS AND EXPENSES</b>			
Cost of Sales	50,260	14,520	130,484
Research and Development (including non-cash stock related charges of \$0, \$0 and \$205,733 for FYE 2011 & 2012 and inception to date respectively)	625,417	53,374	12,310,936
General and Administrative (including non-cash stock related charges of \$62,945, \$6,746,740 and \$19,501,094 for FYE 2011 & 2012 and inception to date respectively)	1,823,178	7,921,189	35,151,241
Depreciation and Amortization	15,491	14,497	592,827
<b>TOTAL COSTS AND EXPENSES</b>	<b>2,514,346</b>	<b>8,003,580</b>	<b>48,185,488</b>
<b>OPERATING LOSS</b>	<b>\$ (2,465,136)</b>	<b>\$ (8,002,078)</b>	<b>\$ (47,440,347)</b>
<b>OTHER INCOME (EXPENSE)</b>			
Interest (Expense)	(141,335)	(343,507)	(2,971,092)
Net Reparation, Impairment and Other Income (Expense)	8,915	(125,669)	(6,709,781)
Net Charges related to Convertible Debt	1,866,669	(320,480)	(1,770,656)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>1,734,249</b>	<b>(789,656)</b>	<b>\$ (11,451,529)</b>
Loss From Continuing Operations, before Income Taxes	\$ (730,887)	\$ (8,791,734)	\$ (58,891,876)
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 FYE 2011 & 2012 and inception to date respectively)	244,496	4,782	(144,539,031)
Income Taxes	-	-	-
<b>Net Loss</b>	<b>\$ (486,391)</b>	<b>\$ (8,786,952)</b>	<b>\$ (203,430,907)</b>
Net loss per share from:			

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Continuing Operations	\$	(0.00)	\$	(0.00)
Discontinued Operations	\$	-	\$	(0.00)

Weighted Average Number of Shares Outstanding;

Basic and Diluted	1,402,130,735	2,789,725,412
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The accompanying notes are an integral part of these consolidated financial statements.

**mPHASE TECHNOLOGIES INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	Common Stock Shares	Par Value 0.01	Treasury Stock	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders Equity (Deficit)
<b>Balance, October 2, 1996</b> (date of inception).	<b>1,140,427</b>	<b>\$ 11,404</b>		<b>\$ 459,753</b>	<b>\$ 0</b>	<b>(537,707)</b>	<b>\$ (66,550)</b>
Issuance of common stock of Tecma Laboratories, Inc., for 100% of the Company.	6,600,000	66,000		(537,157)		537,707	66,550
Issuance of common stock, in private placement, net of offering costs of \$138,931	594,270	5,943		752,531			758,474
Net loss						(781,246)	(781,246)
<b>Balance, June 30, 1997</b>	<b>8,334,697</b>	<b>\$ 83,347</b>		<b>\$ 675,127</b>	<b>\$ 0</b>	<b>(781,246)</b>	<b>\$ (22,772)</b>
Issuance of common stock with warrants, in private placement, net of offering costs of \$84,065	999,502	9,995		791,874			801,869
Issuance of common stock for services	300,000	3,000		147,000			150,000
Issuance of common stock in connection with investment in unconsolidated subsidiary	250,000	2,500		122,500			125,000
Repurchase of 13,750 shares of common stock			(7,973)				(7,973)
	1,095,512	10,955		659,191			670,148



Issuance of common stock with warrants in private placement, net of offering costs of \$121,138

Issuance of common stock for financing services	100,000	1,000	(1,000)		
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Issuance of common stock in consideration for 100% of the common stock of Microphase

Telecommunications, Inc.	2,500,000	25,000	1,685,000		1,710,000
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Net loss (4,341,059) (4,341,059)

**Balance, June 30, 1998** 13,579,711 \$ 135,797 \$ (7,973)\$ 4,079,692 \$ 0 \$ (5,122,305)\$ (914,789)

The accompanying notes are an integral part of these Consolidated Financial Statements.

**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS' EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	Common Stock Shares	Par Value 0.01	Treasury Stock	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders Equity (Deficit)
<b>Balance, June 30, 1998</b>	<b>13,579,711</b>	<b>\$ 135,797</b>	<b>\$ (7,973)</b>	<b>\$ 4,079,692</b>	<b>0</b>	<b>\$ (5,122,305)</b>	<b>(914,789)</b>
Issuance of common stock with warrants in private placements, net of offering	3,120,000	31,200		2,981,800			3,013,000
Issuance of common stock for services	1,599,332	15,993		8,744,873			8,760,866
Issuance of common stock with warrants in private placement, net of offering	642,000	6,420		1,553,227			1,559,647
Issuance of common stock in private placement, net of offering costs of \$679,311	4,426,698	44,267		10,343,167			10,387,434
Issuance of stock options for services				7,129,890			7,129,890
Issuance of warrants for services				16,302			16,302
Deferred employee stock option compensation					(140,000)		(140,000)
Net loss						(22,838,344)	(22,838,344)

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<b>Balance, June 30, 1999</b>	<b>23,367,741 \$</b>	<b>233,677 \$</b>	<b>(7,973) \$</b>	<b>34,848,951 \$</b>	<b>(140,000) \$</b>	<b>(27,960,649) \$</b>	<b>6,974,006</b>
Issuance of common stock and options in settlement	75,000	750	971,711				972,461
Issuance of common stock upon exercise of warrants and options	4,632,084	46,321	5,406,938				5,453,259
Issuance of common stock in private placement, net of cash offering costs of \$200,000	1,000,000	10,000	3,790,000				3,800,000
Issuance of common stock in private placement, net of cash offering costs of \$466,480	1,165,500	11,655	9,654,951				9,666,606
Issuance of common stock for services	1,164,215	11,642	8,612,265				8,623,907
Issuance of options for services			9,448,100				9,448,100
Deferred employee stock option compensation			1,637,375	(1,637,375)			
Amortization of deferred employee stock option compensation				551,707			551,707
Net loss						(38,161,542)	(38,161,542)
<b>Balance, June 30, 2000</b>	<b>31,404,540 \$</b>	<b>314,045 \$</b>	<b>(7,973) \$</b>	<b>74,370,291 \$</b>	<b>(1,225,668) \$</b>	<b>(66,122,191) \$</b>	<b>7,328,504</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.



**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS' EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	Common Stock Shares	Par Value 0.01	Treasury Stock	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders Equity (Deficit)
<b>Balance, June 30, 2000</b>	<b>31,404,540</b>	<b>\$ 314,045</b>	<b>\$ (7,973)</b>	<b>\$ 74,370,291</b>	<b>\$ (1,225,668)</b>	<b>\$ (66,122,191)</b>	<b>7,328,504</b>
Issuance of common stock upon exercise of options	320,000	3,200		324,300			327,500
Issuance of common stock with warrants in private placements, net of cash offering costs of \$512,195	4,329,850	43,298		7,766,547			7,809,845
Issuance of common stock for services	450,000	4,500		1,003,125			1,007,625
Issuance of options and warrants for services				5,849,585			5,849,585
Deferred employee stock option compensation				607,885	(607,885)		
Amortization of deferred employee stock option compensation					1,120,278		1,120,278
Issuance of common stock in settlement of debt to directors and related parties	4,840,077	48,402		2,371,637			2,420,039

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Net Loss					(23,998,734)	(23,998,734)
<b>Balance June 30, 2001</b>	<b>41,344,467 \$</b>	<b>413,445 \$</b>	<b>(7,973)\$</b>	<b>92,293,370 \$</b>	<b>(713,275)\$</b>	<b>(90,120,925)\$</b>
Issuance of Common stock with warrants in private placement	6,980,643	69,807		1,903,943		1,973,750
Issuance of Common stock for services	2,976,068	29,760		1,169,241		1,199,001
Issuance of options and warrants for services				1,877,937		1,877,937
Cancellation of unearned options to former employees				(140,802)	140,802	
Amortization of deferred employee stock option compensation					548,550	548,550
Issuance of common stock and warrants in settlement of debt to related parties and strategic vendors	7,492,996	74,930		2,663,728		2,738,658
Sale of Common stock to certain Officers and Directors in private placement	2,000,000	20,000		980,000		1,000,000
Issuance of Common stock upon exercise of options	13,334	133		3,867	4,000	

Net Loss					(11,249,387)	(11,249,387)
<b>Balance,</b>						
<b>June 30, 2002</b>	<b>60,807,508 \$</b>	<b>608,075 \$</b>	<b>(7,973)\$</b>	<b>100,751,284 \$</b>	<b>(23,923)\$</b>	<b>(101,370,312)\$</b>
						<b>(42,849)</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	Common Stock Shares	Par Value 0.01	Treasury Stock	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders Equity (Deficit)
<b>Balance, June 30, 2002</b>	<b>60,807,508</b>	<b>\$ 608,075</b>	<b>\$ (7,973)</b>	<b>\$ 100,751,284</b>	<b>\$ (23,923)</b>	<b>\$ (101,370,312)</b>	<b>(42,849)</b>
Issuance of Common stock with warrants in private placement, net of Cash offering costs of \$124,687	4,296,680	42,967		1,121,351			1,164,318
Issuance of Common stock for services	426,000	4,260		107,985			112,245
Issuance of options and warrants for services				274,100			274,100
Amortization of deferred employee stock option compensations					23,923		23,923
Issuance of common stock and warrants in settlement of debt to related parties and strategic vendors	5,923,333	59,233		1,826,329			1,885,562
Net Loss						(6,646,185)	(6,646,185)
<b>Balance, June 30, 2003</b>	<b>71,453,521</b>	<b>\$ 714,535</b>	<b>\$ (7,973)</b>	<b>\$ 104,081,049</b>	<b>\$ 0</b>	<b>\$ (108,016,497)</b>	<b>(3,228,886)</b>
Issuance of common stock with warrants in private placement, net of cash	15,177,973	151,779		4,322,934			4,474,713



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offering costs of \$313,200					
Issuance of common stock for services	924,667	9,247	238,153		247,400
Issuance of options and warrants for services			1,067,393		1,067,393
Issuance of common stock pursuant to exercise of warrants	1,233,334	12,333	304,467		316,800
Issuance of common stock and warrants in settlement of debt to related parties and strategic vendors	110,467	1,105	1,962,099		1,963,204
Net Loss				(7,758,586)	(7,758,586)
<b>Balance, June 30, 2004</b>	<b>88,899,962</b>	<b>\$ 888,999</b>	<b>\$ (7,973)</b>	<b>\$ 111,976,095</b>	<b>\$ 0</b>
				<b>\$ (115,775,083)</b>	<b>\$ (2,917,962)</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENT****OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	<b>Common Stock Shares</b>	<b>Par Value 0.01</b>	<b>Treasury Stock</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders Equity (Deficit)</b>
<b>Balance, June 30, 2004</b>	<b>88,899,962</b>	<b>\$ 888,999</b>	<b>\$ (7,973)</b>	<b>\$ 111,976,095</b>	<b>\$ (115,775,083)</b>	<b>\$ (2,917,962)</b>
Issuance of Shares in Private Placement	39,853,661	398,535		6,888,553		7,287,088
Issuance of in connection with exercise of warrants	3,637,954	36,380		644,229		680,609
Conversion of Debt to Common stock and warrants	3,895,171	38,952		1,174,134		1,213,086
Options Awarded to Consultants				2,191,043		2,191,043
Options Awarded to Officers				625,290		625,290
Issuance of shares to Officers and consultants for services	1,151,000	11,510		322,500		334,010
Exercise of cashless warrants	4,949,684	49,499		(49,499)		
Exercise of warrants by officers	1,770,400	17,704				17,704
Reparation of Private Placement Offering	891,000	8,910		176,811		185,721
Net Loss					(11,234,324)	(11,234,324)
<b>Balance June 30, 2005</b>	<b>145,048,832</b>	<b>\$ 1,450,489</b>	<b>\$ (7,973)</b>	<b>\$ 123,949,156</b>	<b>\$ (127,009,407)</b>	<b>\$ (1,617,735)</b>
Issuance of common stock pursuant to the exercise of	15,720,120	157,201		2,850,523		3,007,724

warrants, net of  
cash expenses of  
\$108,000

Issuance of common stock with warrants in private placements, net of cash expenses of \$674,567	72,786,897	727,868		9,329,781		10,057,649
Issuance of common stock for services	11,500,000	115,000		2,324,000		2,439,000
Conversion of related party and strategic vendor debts to common stock and warrants	3,331,864	33,319		556,681		590,000
Stock options awarded to consultants, employees and officers				3,837,423		3,837,423
Issuance of additional shares and warrant to effect revised pricing on previous private offering charged to expense	29,848,271	298,483		5,232,021		5,530,504
Net loss					(24,450,650)	(24,450,650)
<b>Balance, June 30, 2006</b>	<b>278,235,984</b>	<b>\$ 2,782,360</b>	<b>\$ (7,973)</b>	<b>\$ 148,079,585</b>	<b>\$ (151,460,057)</b>	<b>\$ (606,085)</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS' EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	Shares	\$.01 Stated Value	Treasury Stock	Additional Paid in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders (Deficit) Equity
Balance June 30, 2006	278,235,984	\$ 2,782,360	\$ (7,973)	\$ 148,079,585		\$ (151,460,057)	\$ (606,085)
Issuance of common stock pursuant to the exercise of warrants (net of cash expenses of \$150,000)	14,740,669	\$ 147,406		\$ 1,922,261			\$ 2,069,667
Issuance of common stock in private placements, (net of cash expenses of \$216,134)	47,958,060	\$ 479,581		\$ 5,711,788			\$ 6,191,369
Issuance of common stock for services	18,172,983	\$ 181,730		\$ 2,486,885	\$ (627,250)		\$ 2,041,365
Conversion of related party and strategic vendor debt to common stock	6,073,728	\$ 60,737		\$ 930,972			\$ 991,709
Issuance of additional shares and warrants to effect repricing	22,664,580	\$ 226,646		\$ 1,647,374			\$ 1,874,020
Stock options awarded to employees and officers				\$ 1,321,853			\$ 1,321,853
Deferred stock					\$ 213,166		\$ 213,166

compensation

Net Loss \$ (16,851,562)\$ (16,851,562)

Balance June

30, 2007      387,846,004 \$    3,878,460 \$    (7,973) \$ 162,100,718 \$      (414,084)\$ (168,311,619)\$    (2,754,498)

**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS' EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	Shares	\$.01 Par Value	Treasury Stock	Additional Paid in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders (Deficit) Equity
Balance June 30, 2007	387,846,004	\$ 3,878,460	\$ (7,973)	\$ 162,100,718	\$ (414,084)	\$ (168,311,619)	(2,754,498)
Issuance of common stock in private placements net of \$116,253 offering cost	24,600,000	\$ 246,000		\$ 898,247		\$	\$ 1,144,247
Exercise of Warrants net of Offering Cost \$72,222	11,111,113	\$ 111,111		\$ 538,889		\$	650,000
Contingent liability recorded on warrant exercise above	1,019,200	\$ 10,192		(1,006,200)			(1,006,200)
Common shares in settlement of accrued expenses				\$ 89,808		\$	100,000
Issuance of additional shares effect repricing	4,663,741	\$ 46,637		\$ 345,401		\$	392,038
Stock options/warrants awarded to employees and investors				\$ 85,682		\$	85,682
Stock based compensation	1,000,000	10,000		\$ 90,192		\$	100,192
Amortization of deferred stock					414,084	\$	414,084

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compensation						
Investment in Granita			\$ 514,000		\$	514,000
Conversion of debt	4,904,942	\$ 49,050	\$ 192,073		\$	241,123
Cost related to convertible debt financing	5,250,000	\$ 52,500	\$ 212,500		\$	265,000
Net Loss					\$ (3,383,821)	\$ (3,383,821)
Balance June 30, 2008	440,395,000	\$ 4,403,950	\$ (7,973)	\$ 164,061,310	0	\$ (171,695,440)
The accompanying notes are an integral part of these Consolidated Financial Statements						

**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS' EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	Shares	\$.01 Par Value	Treasury Stock	Additional Paid in Capital	Accumulated Deficit	Total Stockholders (Deficit) Equity
Balance June 30, 2008	440,395,000	\$ 4,403,950	\$ (7,973)	\$ 164,061,310	\$ (171,695,440)	\$ (3,238,153)
Issuance of common stock in private placements net of offering cost (\$80,000)	72,333,333	\$ 723,333		\$ (3,333)		\$ 720,000
Issuance of additional shares effect repricing	19,522,000	\$ 195,220		\$ 236,952		\$ 432,172
Stock options/ warrants awarded to employees and investors				\$ 4,071,348		\$ 4,071,348
Stock based compensation	61,750,000	\$ 617,500		\$ 2,908,115		\$ 3,525,615
Vendor settlements	(1,926,470)	(\$19,265)		\$ 19,265		\$ 0
Beneficial Conversion feature of Notes Payable, including \$914,060 on Officers' Notes Payable				\$ 1,028,560		\$ 1,028,560
Forgiveness of related party debt				\$ 19,336		\$ 19,336
Conversion of debt securities and interest	278,346,019	\$ 2,783,459		\$ 519,874		\$ 3,303,333
Net Loss					\$ (15,096,379)	\$ (15,096,379)
Balance June 30, 2009	870,419,882	\$ 8,704,197	\$ (7,973)	\$ 172,861,427	\$ (186,791,817)	\$ (5,234,168)

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



**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS' EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

	Common Stock			Additional	Accumulated	Total
	Shares	\$.01 Par Value	Treasury Stock	Paid in Capital	Deficit	Stockholders (Deficit)
Balance June 30, 2009	870,419,882	\$ 8,704,197	\$ (7,973)	\$ 172,861,427	\$ (186,791,819)	\$ (5,234,168)
Conversions of Convertible Debentures plus accrued interest	232,723,736	2,327,238	-	1,088,012	-	3,415,250
Conversions of Accounts Payable	26,666,667	266,667	-	(66,667)	-	200,000
Issuance of common stock in private placements net of offering cost (\$25,000)	30,666,667	306,667	-	(81,667)	-	225,000
Issuance of Common Stock for Services	1,575,000	15,750	-	18,563	-	34,313
Issuance of Common Stock for Repairs	1,700,000	17,000	-	18,530	-	35,530
Beneficial Conversion feature of Officers' Notes Payable and conversion of accounts payable	-	-	-	669,276	-	669,276
Cancellation of Capital Notes in Subsidiary issued in connection with equity	-	-	-	175,820	-	175,820
Net Loss for the Year Ended June 30, 2010	-	-	-	-	(7,365,745)	(7,365,745)
Balance June 30, 2010	1,163,751,952	\$ 11,637,519	\$ (7,973)	\$ 174,683,294	\$ (194,157,564)	\$ (7,844,724)

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



**mPHASE TECHNOLOGIES, INC.**

(A Development Stage Company)

**CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS' EQUITY (DEFICIT)****FOR THE PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

## Common Stock

	Shares	\$ .01 Par Value	Treasury Stock	Additional Paid in Capital	Accumulated Deficit	Stockholders (Deficit) Equity
Balance July 1, 2010	1,163,751,952	\$ 11,637,519	\$ (7,973)	\$ 174,683,294	\$ (194,157,564)	\$ (7,844,724)
Conversions of Convertible Debentures plus accrued interest	382,175,312	3,821,753		(1,474,857)		2,346,896
Issuance of Common Stock for Services	15,075,000	150,750		(23,805)		126,945
Issuance of Common Stock to accredited investors in private placement, net of \$29,500 fees	67,500,000	675,000		(409,500)		265,500
Net Loss for the Year Ended June 30, 2011					(486,391)	(486,391)
Balance June 30, 2011	1,628,502,264	16,285,022	(7,973)	172,775,132	\$ (194,643,955)	(5,591,774)

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 PERIOD FROM INCEPTION (OCTOBER 2, 1996)****TO JUNE 30, 1997 AND FOR EACH OF THE FIFTEEN YEARS IN THE PERIOD ENDED JUNE 30, 2012**

## Common Stock

	Shares	\$.001 Par Value	Treasury Stock	Additional Paid in Capital	Deferred Compensation	Accumulated Deficit	Shareholders' Equity (Deficit)
Balance June 30, 2011	1,628,502,264	\$ 16,285,022	\$ (7,973)	\$ 172,775,132	-	\$ (194,643,955)	(5,500,000)
To reflect restatement of \$.01 par value to \$.001 par		\$ (14,656,520)	\$	14,656,520			
Balance June 30, 2011, restated for par \$.001 value	1,628,502,264	\$ 1,628,502	\$ (7,973)	\$ 187,431,652	-	\$ (194,643,955)	(5,500,000)
Conversions of Convertible Debentures plus accrued interest	716,962,140	716,962		1,097,406			1,800,000
Issuance of Common Stock for Services	1,035,000,000	1,035,000	-	5,485,500	-	-	6,500,000
Deferred stock compensation	-	-	-	339,700	(339,700)	-	
Beneficial Conversion feature of Notes Payable, including \$2,320 on Officers' Notes Payable				2,320			

Issuance of Common Stock to accredited investors in private placement, net of \$13,000 fees	170,000,000	170,000		(43,000)					
Amortization of deferred stock compensation	-	-	-	-	141,543	-			
Common Stock issued to cover Commitment and Transaction Fees of Equity Line of Credit	26,000,000	26,000		98,800					
Common Stock issued to cover the exercise of Put advances under Equity Line of Credit, net of \$13,500 transaction fees	89,587,447	89,587		55,841					
Net Loss for the Fiscal Year Ended June 30, 2012	-	-	-	-	-	(8,786,952)			(8,786,952)
Balance June 30, 2012	3,666,051,851	3,666,051	(7,973)	194,468,219	\$	(198,157)	\$	(203,430,907)	\$

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)

	Fiscal Year Ended		2-Oct-96 (Date of Inception)
	June 30, 2011	June 30, 2012	To June 30, 2012
<b>Cash Flow From Operating Activities:</b>			
Net Income (Loss) From Continuing Operations	(\$730,887)	(\$8,791,734)	(\$58,891,876)
Net Income (Loss) From Discontinued Operations	\$ 244,496	\$ 4,782	(\$144,539,031)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	23,130	17,971	\$ 7,478,757
Inventory Allowance		12,810	\$ 12,810
(Gain) loss on debt extinguishments	(257,911)	(7,782)	(\$1,350,301)
Non-cash charges relating to issuance of common stock, common stock options and warrants	126,945	6,645,300	\$ 77,023,989
Reparation charges	-	-	\$ 8,264,264
Derivative Value and Debt Discount charges	(1,883,669)	320,480	\$ 2,403,807
Write off of Granita Inventory/ Sovereign Investment	-	-	\$ 615,910
Other non cash charges including amortization of deferred compensation and beneficial conversion interest expense	-	145,234	\$ 2,858,135
Changes in assets and liabilities:			
Accounts receivable	122,478	-	\$ 427,876
Inventories	(3,725)	3,228	(\$609,775)
Prepaid expenses and Other current assets	173,465	8,589	\$ 54,408
Other		(12,500)	\$ 894,035
Accounts payable, Accrued expenses, Deferred revenue	412,144	473,152	\$ 9,451,620
Due to/from related parties			
Microphase / Janifast//Lintel	8,028	13,386	\$ 5,514,187
Officers and Other	-	75,140	\$ 1,786,497
<b>Net Cash used in Operating Activities</b>	<b>(\$1,765,506)</b>	<b>(\$1,091,944)</b>	<b>(\$88,604,688)</b>
<b>Cash Flow from Investing Activities:</b>			
Payments related to patents and licensing rights	-	-	(\$450,780)
Purchase of fixed assets	(5,933)	(7,129)	(\$3,315,622)
Investment in Sovereign	-	-	(\$110,000)
<b>Net Cash used in Investing Activities</b>	<b>(5,933)</b>	<b>(\$7,129)</b>	<b>(\$3,876,402)</b>
<b>Cash Flow from Financing Activities:</b>			
Proceeds from issuance of common stock, exercises of warrants, net of finders fees	215,500	322,428	\$ 83,461,807
Payment of short term notes & equipment loans	(10,254)	(11,486)	(\$1,310,285)
Advances from Microphase	-	-	\$ 347,840
Issuance of Convertible Debentures	-	645,000	\$ 1,411,500
Net Proceeds (Repayment) from notes payable related parties	(64,000)	181,300	(\$243,359)
Proceeds from the collection of Notes Receivable under securities purchase agreements	1,403,500	-	\$ 8,339,500
Sale of minority interest in Granita subsidiary	-	-	\$ 514,000
<b>Net Cash provided by Financing Activities</b>	<b>1,544,746</b>	<b>1,137,242</b>	<b>92,521,003</b>

<b>Net increase (decrease) in cash</b>	<b>(\$226,693)</b>	<b>\$</b>	<b>38,169</b>	<b>\$</b>	<b>39,913</b>	
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	\$	228,437	\$	1,744	-	
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$</b>	<b>1,744</b>	<b>\$</b>	<b>39,913</b>	<b>\$</b>	<b>39,913</b>

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

**mPHASE TECHNOLOGIES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. ORGANIZATION AND NATURE OF BUSINESS**

mPhase, a New Jersey corporation founded in 1996, is a publicly-held company with over 23,000 shareholders and approximately 4 billion shares of common stock outstanding as of June 30, 2012. The Company's common stock is traded on the Over the Counter Bulletin Board under the ticker symbol XDSSL.

The Company is in the development stage and historically has focused much of its efforts in the commercial deployment of its TV+ products for delivery of broadcast IPTV, and DSL component products which include POTS splitters. Beginning in 2004, the Company added a new line of power cell batteries and electronic sensors (magnetometers) being developed through the use of nanotechnology. Since mPhase is in the development stage, the accompanying consolidated financial statements should not be regarded as typical for normal operating periods.

In recent years, the Company has shifted its primary business focus to the development of innovative power cells and related products through the science of microfluidics, microelectromechanical systems (MEMS) and nanotechnology. Using these disciplines, it has developed a battery that has a significantly longer shelf life prior to activation than conventional batteries. In addition, such battery product, unlike conventional batteries, is capable of disposal after use without harm to the environment.

On April 17, 2007, the Company announced that it had formed AlwaysReady, Inc., a New Jersey Corporation, as a new wholly-owned subsidiary. The Company planned to transfer all of its nanotechnology assets and appropriate liabilities to such company so as to separate its nanotechnology product line from its IPTV product. Although management and staff of AlwaysReady Inc were hired, the Company funded all operations of Always Ready, Inc. to date and no assets or liabilities have been transferred.

On June 20, 2007, the Company announced the formation of a new subsidiary, Granita Media, Inc. ("Granita"), a Delaware corporation, to promote and develop its IPTV product line including targeted advertising and middleware solution. Capitalization of Granita amounted to \$514,000 of equity, provided by employees and independent investors. During FYE June 30, 2008, related assets and liabilities were transferred to Granita and its results consolidated into the these financial statements. Additional funding was to have been arranged from outside institutional financing and potentially involve the sale of up to 10% of the common stock of Granita with mPhase retaining 90% of the stock of Granita. Owing to very challenging conditions in the capital markets, Granita was unable to raise funds necessary to operate as a self-sufficient enterprise and fund the additional software development necessary for a targeted advertising enhancement capability of its TV+ solution. In order to conserve financial resources, all employees of Granita were either terminated or had resigned by December 31, 2007. (See also Note 6.) As of June 30, 2010, the Company has treated Granita as a discontinued business.

We are headquartered in Norwalk, Connecticut with an office in Little Falls, NJ. mPhase shares common office space with Microphase Corporation, a privately held company in which the CEO of the company owns a minority interest. 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 has supported mPhase with engineering, administrative and financial resources.



**mPHASE TECHNOLOGIES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**2. LOSSES DURING THE DEVELOPMENT STAGE AND MANAGEMENT'S PLANS**

Through June 30, 2012, the Company incurred development stage losses totaling approximately \$203,430,907 and at June 30, 2012 had a working capital deficit of (\$3,690,779). Funding in our traditional capital markets was difficult during FYE 2011 and 2012.

The Company was able to enter into convertible debt arrangements and an equity line of credit and private placements of equity with independent investors to provide liquidity and capital resources during the last two fiscal years. Such arrangements have provided the Company with cash in the amounts of \$1,619,000 and \$965,428 during FYE 2011 and 2012 respectively. In addition and from time to time during FYE 2011 and 2012, the Company raised necessary working capital via bridge loans from officers. Such loans have received partial repayments in FYE 2011 and provided \$181,300 of working capital in FYE 2012 (see notes payable to officers).

The Company is currently focused on the continued development and commercialization of its "Always Ready" battery product using the science of nanotechnology. The Company believes that such battery has a much longer shelf life than conventional batteries and will have significant commercial and military applications. The Company is also actively working on the commercialization and marketing of its emergency flashlight, the mPower Emergency Illuminator. The Company has suspended development of its magnetometer sensor devices and discontinued all activities related to its IPTV business. It is unclear whether any intellectual property related to those operations will have significant value.

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) successfully develop, market and sell its products. The Company believes that it will be able to complete the necessary steps in order to meet its cash flow requirements throughout fiscal 2013 and continue its development and commercialization efforts.

However, there can be no assurance that mPhase will generate sufficient revenues to provide positive cash flows from operations or that sufficient capital will be available, when required, to permit the Company to realize its plans. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of mPhase and its wholly-owned and majority owned subsidiaries. Significant inter-company accounts and transactions have been eliminated in consolidation.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications have been made in the prior period consolidated financial statements to conform to the current period presentation.

**mPHASE TECHNOLOGIES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

**STOCK BASED COMPENSATION**

Effective, July 1, 2005, the Company adopted the promulgated authority "modified prospective" method, and has recorded as an expense the fair value of all stock based grants to employees after such date. The Company has not restated its operating results for any prior fiscal year end or quarter.

**PROPERTY AND EQUIPMENT**

Property and equipment is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of three to five years.

**REVENUE RECOGNITION**

As required, mPhase has adopted the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements," which provides guidelines on applying generally accepted accounting principles to revenue recognition based on the interpretations and practices of the SEC. The Company recognizes revenue on its research grant contract upon delivery of milestones defined in the contract, at the fixed predetermined price under the contract in which payment is reasonably expected as enumerated in SAB104.

**RESEARCH AND DEVELOPMENT**

Research and Development cost are charged to operations when incurred. The amounts charged to expense for the years ended 2011, 2012 and inception to date were \$625,417, \$53,374 and \$12,310,936 for continuing operations respectively.

**PATENTS AND LICENSES**

Patents and licenses are capitalized when mPhase determines there will be a future benefit derived from such assets, and are stated at cost. Amortization is computed using the straight-line method over the estimated useful life of the asset, generally five years. As of June 30, 2011 and 2012, the book value of such assets has been fully amortized.

**INVENTORIES**

The Company uses the First In First Out method (FIFO) to account for inventory which is carried at the lower of market value or cost. As of June 30, 2011 and June 30, 2012, the inventory related to the Emergency Flashlight was valued at \$102,532 and \$86,494, net of a \$12,810 reserve in 2012, respectively.

**mPHASE TECHNOLOGIES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

**LONG-LIVED ASSETS**

The Company reviews long-term assets for impairment whenever events or circumstances indicate that the carrying amount of those assets may not be recoverable. The Company also assesses these assets for impairment based on their estimated future cash flows.

**REPARATION EXPENSE**

As an incentive for additional equity contributions, the Company will from time to time, adjust the cost of past private purchases of common stock through the issuance of additional shares in such magnitude as to reduce an investors cost to an average price that more closely approximates current market value. The market value of additional shares issued without cash investment is charged to Reparation Expense, which is included in Other Expenses. Reparations expenses have amounted to \$0, \$0 and \$8,299,794 for the years ended 2011, 2012 and inception to date, respectively.

**LOSS PER COMMON SHARE, BASIC AND DILUTED**

mPhase accounts for net loss per common share in accordance with the requirements FASB ASC 260 Earnings Per Share. 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 and options and convertible debentures (if funded in full see note 8) outstanding at June 30, 2012, convertible into, respectively, approximately 16,780,639 and 104,760,000 and 222,392,638 immediately (and additionally 1,857,316,902 if certain payments are not made for approximately \$70,000 per month commencing in October, 2012) shares of the Company's common stock based upon the conversion terms at June 30, 2012. The Company has also granted a conversion feature to certain officers for notes outstanding, giving these note holders the right to convert principal and interest outstanding, subject to availability, into 297,387,906 shares of the Company's common stock based on a \$.0040 per share conversion price (see note 9). The inclusion of the 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.

**BUSINESS CONCENTRATIONS AND CREDIT RISK**

To date, the Company's products have been sold to a limited number of customers, earlier primarily in the telecommunications and defense industry and recently including some sales of the Emergency Illuminator. In fiscal year ended 2011, revenue was derived from research contracts with the U.S. Army and sales of the Company's mPower emergency illuminator. Throughout the year, cash balances that the Company maintains at financial institutions may exceed the Federal Deposit Insurance Corporation insurance limitation of up to \$250,000. Cash balances exceeded FDIC insured limits at times throughout the years ended June 30, 2011 and 2012.

**MATERIAL EQUITY INSTRUMENTS**

The Company has material equity instruments including convertible debentures and convertible notes that are accounted for as derivative liabilities (SEE Note-8) and options and warrants that are evaluated quarterly for potential

reclassification as liabilities pursuant to current accounting guidance.

**mPHASE TECHNOLOGIES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

**DEBT DISCOUNTS**

Costs incurred with parties who are providing the actual long-term financing, which generally may include the value of warrants, fair value of the derivative conversion feature, or the intrinsic value of conversion features associated with the underlying debt, are reflected as a debt discount. These costs and discounts are generally amortized over the life of the related debt.

**DERIVATIVE FINANCIAL INSTRUMENTS**

Derivatives are recorded on the balance sheet at fair value. The conversion features of the convertible debentures are embedded derivatives and are separately valued and accounted for on our balance sheet with changes in fair value recognized during the period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model we use for determining fair value of our derivatives is the Black-Scholes Pricing Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. During the fiscal years ended June 30, 2011 and June 30, 2012, the Company utilized an expected life of 20 days based upon the look-back period of its convertible debentures and notes and a volatility of 100%.

**INCOME TAXES**

The Company accounts for income taxes in accordance with accounting guidance now codified as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At June 30, 2011 and 2012, the Company had a full valuation allowance against its deferred tax assets.

Effective July 1, 2007, the Company adopted the provisions of FASB ASC 740-10-05, Accounting for Uncertainties in Income Taxes. The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Company files U.S. and state income tax returns with various statutes of limitations. The 2008 through 2011 tax years generally remain subject to examination by federal and most state tax authorities.

The company recognizes interest accrued and penalties related to unrecognized tax benefits, if any, in interest and operating expenses. No interest or penalties was recorded as of June 30, 2011 and 2012.

**ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's financial instruments include cash, accounts payable, long term debt, line of credit, convertible debt and due to related parties. Management believes the estimated fair value of cash, accounts payable and debt instruments at June 30, 2012 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments or the use of market interest rates for debt instruments. Fair value of due to related parties cannot be determined due to lack of similar instruments available to the Company.

**mPHASE TECHNOLOGIES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

**NEW ACCOUNTING PRONOUNCEMENTS**

In May 2011, the Financial Accounting Standards Board issued ASU 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS ( ASU 2011-04 ), which is intended to result in convergence between U.S. GAAP and International Financial Reporting Standards requirements for measurement of, and disclosures about, fair value. ASU 2011-04 clarifies or changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The new guidance is effective for our third quarter of the fiscal year ending June 30, 2012, and we do not expect its adoption to have a material effect on our financial position or results of operations.

In June 2011, the Financial Accounting Standards Board issued ASU 2011-05 Presentation of Comprehensive Income, which makes the presentation of items within other comprehensive income ( OCI ) more prominent. The new standard will require companies to present items of net income, items of OCI and total comprehensive income in one continuous statement or two separate consecutive statements, and companies will no longer be allowed to present items of OCI in the statement of shareholders' equity. Reclassification adjustments between OCI and net income will be presented separately on the face of the financial statements. The new guidance is effective for our fiscal year ending June 30, 2013, and we do not expect its adoption to have a material effect on our financial position or results of operations.

In December 2011, the Financial Accounting Standards Board issued ASU 2011-12 Deferral of the Effective Date for Amendments to the Presentation of Reclassification of items out of Accumulated Other Comprehensive Income, changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The new guidance is effective for our fiscal year ending June 30, 2013, and we do not expect its adoption to have a material effect on our financial position or results of operation.



**mPHASE TECHNOLOGIES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

SUPPLEMENTAL CASH FLOW INFORMATION	For the FYE June 30,	
	2011	2012
<b>Statement of Operation Information:</b>		
Commitment fee on equity line of credit	\$ -	\$ 124,800
Fee on Amendment to Convertible Debt Arrangement	\$ 55,000	\$ -
Contractual charges for conversions with floor prices (included in Net (Charges)		
Credits from Convertible Debt)	\$ -	\$ 1,069,614
Interest Received from Notes Receivable	\$ 218,500	\$ -
Interest Accrued Unpaid	\$ 57,983	\$ 11,806
Interest Paid (net interest income)	\$ 9,181	\$ 25,227
<b>Non Cash Investing and Financing Activities:</b>		
Beneficial Conversion of Officers Notes and Conversion of Accounts Payable	\$ -	\$ 2,320
Conversion of Convertible Debt and Related Expenses	\$ 2,346,896	\$ 1,814,368

**4. PROPERTY AND EQUIPMENT**

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

	2011	2012
Research Equipment	\$ 42,385	\$ 48,383
Office and Marketing	142,280	142,280
Gross Cost	184,665	190,663
Less Accumulated		
Depreciation	(139,551)	(157,522)
Net Property and Equipment	\$ 45,114	\$ 33,141

Depreciation expense for the years ended June 30, 2011 and 2012 was \$23,130 and \$17,971 respectively, of which \$7,639 and \$3,474, respectively, relates to research laboratory and testing equipment included in research and development expense.

**5. ACCRUED EXPENSES**

Accrued expenses consist of the following as of each Balance Sheet date:

	For the FYE June 30,	
	2011	2012
Accrued Interest- Convertible Debentures	\$ 87,983	\$ 11,806
Other Expenses	\$ 74,055	\$ 79,785
Total	\$ 162,038	\$ 91,591

**mPHASE TECHNOLOGIES, INC.**  
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**6. GRANITA MEDIA**

Effective July 1, 2007, the Company formed Granita Media, Inc. to separate its IPTV business and facilitate the raising of capital. Pursuant to an arrangement with four employees of mPhase, such employees were terminated from mPhase as of July 1, 2007 and became employees of Granita Media Inc and invested solely in the common stock of Granita Media Inc. Under the arrangement, each of the four employees were required to invest \$125,000 in exchange for an aggregate 2% equity interest in Granitia Media, Inc, with mPhase continuing to own 98% of the Company. The four employees contributed a total of \$339,000 of the total \$500,000 equity investment required from them and raised from third party investors another \$175,000 for a total of \$514,000. Granita Media has 19,000,000 shares of common stock outstanding of which 18,000,000 was owned by mPhase Technology and 1,000,000 was being held for issuance to the four employees and the third party investors pending an agreement among such persons of the allocation of such shares. Under the terms of the arrangement between mPhase and the four employees, such employees were authorized to sell up to 7.99% of additional equity in the Company for a total of not less than \$2,000,000 of additional capital by December 31, 2007. As noted above, the employees raised a total of \$175,000 of outside capital only and pursuant to the arrangement, such employees either resigned or were terminated by mPhase together with several lower level employees of Granita. A dispute arose between Granita Media and one of the former employees with respect to a sum of approximately \$176,000 included in short term loans. It is the Company's position that such sums were voluntarily advanced to fund operating expenses after July 1, 2007. Since the four employee/officers of Granita Media were required to cover operating expenses of Granita Media after July 1, 2007 through equity investments either directly or from third parties, the Company took the position that neither such amount nor any related interest and fees are owed to the employee. In addition, the Company had substantial rights of offset for unpaid rent with respect to the portion of its Little Falls office occupied by Granita Media after July 1, 2007. Granita Meida, Inc. ceased operations in December of 2007. In the fourth quarter of fiscal year 2010, the Company elected to treat Granita Media, Inc. as a discontinued operation.

**7. SHORT TERM NOTES PAYABLE**

**Short term debt is comprised of the following:**

	<b>June 30, 2011</b>	<b>June 30, 2012</b>
Note payable to Granita Employee (See note #6) Note payable to law firm bearing \$8% interest, originally monthly installments of \$5,000 per month commencing in June 2002 and continuing through December 1, 2003 with a final payment of principal plus accrued interest due at maturity on December 31, 2003, this note was in arrears as of June 30, 2004 and the company negotiated a new settlement arrangement as of August 31, 2004. Under such settlement agreement, the Company made a \$100,000 cash payment and gave a cashless warrant to purchase \$150,000 worth of common stock valued at \$.25 per share. In addition, the Company agreed to pay \$25,000 on each of December 1, 2004, March 1, 2005, June 1, 2005, September 1, 2005 and \$50,000 on December 1, 2005. Thereafter, the Company was obligated to pay \$25,000 on each of March 1, 2006, June 1, 2006, September 1, 2006 with a final payment of \$75,000 on December 1, 2006, of which \$10,000 was paid in 2008. The Company is currently in default with respect to the remainder.	0	0
Total Short Term Notes	\$ 65,000	\$ 65,000

\$ 65,000 \$ 65,000

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## **8. STOCKHOLDERS' EQUITY**

mPhase initially authorized capital of 50,000,000 shares of common stock with no par value. On February 23, 2000, the Board of Directors proposed, and on May 22, 2000 the shareholders approved, an increase in the authorized capital to 150,000,000 shares of common stock. On 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. 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. A further 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. On November 28, 2011, the Company amended the par value of its common stock from \$.01 to \$.001. The Balance Sheet at June 30, 2011 was restated to reflect this change with a reduction of \$14,656,520 to the value of common stock and a corresponding increase to additional paid in capital for the same amount. Transactions recorded in the Statement of Changes in Stockholders Deficit were presented at the \$.001 par value for the Fiscal Year Ended June 30, 2012.

All other debt converted involved long term convertible debentures which are discussed below:

### **Long Term Convertible Debentures / Debt Discount and Related Interest**

The Company has entered into eleven separate convertible debt arrangements with independent investors.

#### **General**

The economic substance of convertible debt arrangements entered into beginning December 2007 was to provide the Company with needed liquidity to supplement the private equity markets.

The form of the transaction generally involves the following:

- The receipt of cash.
- The issuance of a note payable from mPhase.
- The issuance of a note receivable due to mPhase.
- A Securities Purchase Agreement.
- The note payable contains conversion features which permit the holder to convert debt into equity. Such debt is eligible to be converted into the Company's common stock immediately, thus requiring the recording of the entire liability upfront. Finally, to encourage conversion, a discount from market value is offered.
- The aggregate amount of notes payable exceeds the amount of cash received. As "Consideration" for this difference the Company takes back a secured note receivable. Security is generally liquid investments of the investor.
- The note receivable provides a commitment to fund mPhase. The notes are secured and collateralized and carry terms which are different from the related note payable and no right of offset exists.

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**8. STOCKHOLDERS' EQUITY- (continued)**

**A summary of our current arrangements is as follows:**

**Arrangement #5 (LaJolla Cove Investors, Inc.)**

On Sept 11, 2008, the Company received proceeds of \$200,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) a Securities Purchase Agreement which may under certain circumstances permit 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 dates of September 30, 2011 due from the holders of the convertible debentures.

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 remained outstanding at March 31, 2011 and the derivative value of the remaining security was calculated to be \$3,468. As of June 30, 2011, this value was calculated to be \$3,442. During the year ended June 30, 2011, amortization of debt discount amounted to \$282,774, reducing the balance to \$0.

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.

The balance of the convertible debenture of \$10,000, which had been fully funded in cash, 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 June 30, 2012 this convertible note had been satisfied in full.

**Arrangement #6 (JMJ Financial, Inc.)**

On August 19, 2009, the Company issued a 12% convertible note maturing on August 10, 2012 in the principal amount of \$1,870,000 to JMJ Financial for a purchase price of \$1,700,000. The Company initially received \$250,000 in cash as partial payment of the purchase price for the convertible note plus a 13.2% secured promissory note maturing on August 10, 2012 in the amount of \$1,450,000. As of June 30, 2010, the Company has received a total of \$1,523,500 cash and has issued 109,920,635 shares of common stock to the holder upon conversions. The remaining \$570, 900 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 debenture divided by 75% of the lowest trading price during the 20 day trading period prior to conversion. Based upon the price of the Company's common stock on June 30, 2010 of \$.0162 per share the holder could convert the remaining

principal amount plus interest of this convertible note into approximately 46,987,654 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was \$1,080,395 and the debt discount was valued at \$1,250,395. As of June 30, 2011, this value was calculated to be \$0. During the year ended June 30, 2011, the holder converted \$346,501 of principal and \$224,400 of interest into 66,172,223 shares of common stock and amortization of debt discount amounted to \$222,081, reducing the balance to \$ 0.

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**8. STOCKHOLDERS' EQUITY- (continued)**

**Arrangement #7 (JMJ Financial, Inc.)**

On September 30, 2009, the Company issued a 12% convertible note maturing on September 23, 2012 in the principal amount of \$1,200,000 to JMJ Financial for a purchase price of \$1,100,000. The Company initially received \$150,000 in cash as partial payment of the purchase price for the Convertible Note plus a 13.2% secured promissory note maturing on August 10, 2012 in the amount of \$950,000. Through June 30, 2011 the Company has received a total of \$1,200,000 of principle and \$144,000 of interest for full funding of the purchase price of this note. 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 trading price during the 20 day trading period prior to conversion.

Based upon the price of the Company's common stock on June 30, 2010 of \$.0162 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 110,617,784 shares of common stock.

At the commitment date, the derivative value of the embedded conversion feature of such security was \$480,000 and the debt discount was valued at \$580,000. As of June 30, 2011, this value was calculated to be \$0. During the twelve months ended June 30, 2011 the holder converted \$1,200,000 of principle and \$144,000 of interest into 240,722,223 shares of common stock and the amortization of debt discount amounted to \$386,668, reducing the debt and debt discount balances to \$0.

**Arrangement #8 (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 merged into agreement

As of June 30, 2011, the Company and the holder were negotiating potential amendments to this agreement, and funding and conversions had 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 115,380,952 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was \$536,000 and the debt discount was valued at \$636,000. As of June 30, 2011, this value was calculated to be \$472,773.



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**8. STOCKHOLDERS' EQUITY- (continued)**

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 #10 JMJ Financial, Inc.

**Arrangement #9 (JMJ Financial, Inc.)**

On December 15, 2009 the Company entered into a new financing agreement with JMJ Financial that consists of the following: 1) a convertible note issued by the Company in the amount of \$1,500,000 plus a one-time interest factor of 12% (\$180,000) and a maturity date of December 15, 2012 and (2) a secured promissory note in the amount of \$1,400,000 plus a one-time interest rate factor of 13.2% (\$180,000) and a maturity date of December 15, 2012 due from the holder of the convertible note. 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 #10 JMJ Financial, Inc.

**Arrangement #10 (JMJ Financial, Inc.)**

On April 5, 2010, the Company entered into a new financing agreement with MJJ 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.

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**8. STOCKHOLDERS' EQUITY- (continued)**

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 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 #8 and #9 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 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.

**Arrangement #11 (J. Fife)**

On March 5, 2010, the Company entered into a 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 has 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. As of June 30, 2011, the 2 additional promissory notes are expected to be cancelled as part of a new extension and forbearance agreement the Company is presently renegotiating with the holder. 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. On June 30, 2011, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2011, this estimated liability decreased to \$15,556; a decrease for the period from October 22, 2010 through June 30, 2011 of \$4,449, creating a non-cash credit to earnings for the period ended June 30, 2011 of that amount. During the same period ended June 30, 2011, amortization of debt discount amounted to \$20,005 reducing the balance to \$0. Also, as of June 30, 2011, \$30,000 of additional interest was accrued and \$28,000 intervention fees were added to principle on the original note. 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.

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**8. STOCKHOLDERS' EQUITY- (continued)**

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 #12 (St. George Investments)**

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.

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 June 30, 2012 this note would be convertible into 1,646,801,902 shares of common stock at the original terms; and only so if the Company does not make the scheduled payments pursuant to the June 1, 2012 amended agreement.

**Arrangement#13- (Asher Enterprises, Inc. #I)**

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. This Convertible Note has been converted, in full, into 162,749,128 shares of common stock.

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**8. STOCKHOLDERS' EQUITY- (continued)**

**Arrangement#14- (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.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be \$26,681 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 \$61,627, an increase this period of \$34,946 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 \$17,014 reducing the balance to \$17,014. Based upon the price of the Company's common stock on June 30, 2012, this note is convertible into approximately 107,361,963 shares of common stock. On July 11, 2012, the Company prepaid this Convertible Note in full, in cash (See Subsequent Events).

**Arrangement#15- (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.

**Arrangement#16- (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 4(2) of the Securities Act of 1933 and received \$25,000 in gross proceeds. The instrument is in the principal amount of \$25,000 and matured on February 11, 2011. The Convertible Note is currently past maturity and the Company and the holder are in negotiations with respect to a final repayment arrangement either by conversions into the Company's common stock or cash or a combination of both. Interest only is payable at the rate of 1% per

month by the Company to the holder until maturity. The Convertible Note may be converted into common stock of the Company at \$.0068 per share, provided, however, such price may be adjusted downward if the Company issues any common stock below such price. The Warrant gives the holder the right for a period of 5 years to purchase up to 3,676,471 shares of the Company's common stock also at \$.0068 per share subject also to a downward adjustment to provide anti-dilution protection.

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.



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**8. STOCKHOLDERS' EQUITY- (continued)**

During the year ended June 30, 2012 this note was converted in full together with accrued interest of \$1,900 for 18,000,000 shares of common stock. During the year ended June 30, 2012 amortization of debt discount amounted to \$4,660 reducing the balance to \$0.

The following table summarizes notes payable under convertible debt and debenture agreements as of June 30, 2011 and June 30, 2012:

	<b>6/ 30/ 2011</b>	<b>6/30/2012</b>
	<b>Amount</b>	<b>Amount</b>
Arrangement #5- LaJolla Cove Investors, Inc.	\$ 10,000	\$ -
Arrangement #8 - JMJ Financial, Inc	\$ 705,750	\$ -
Arrangement #9 - JMJ Financial, Inc	\$ 400,000	\$ -
Arrangement #10 - JMJ Financial, Inc	\$ 200,000	\$ 802,060
Arrangement #11 - J. Fife	\$ 234,755	\$ -
Arrangement #12 - St. George Investments	\$ -	\$ 720,157
Arrangement #13 - Asher Enterprises, Inc. # I	\$ -	\$ -
Arrangement #14 -Asher Enterprises, Inc. # II	\$ -	\$ 35,000
Arrangement #15 - Asher Enterprises, Inc. # III	\$ -	\$ 37,500
total notes payable	\$ 1,550,505)	\$ 1,594,717
less: unamortized debt discount	\$ (300,000)	\$ (128,793)
Convertible debentures, net of discount	\$ 1,250,505	\$ 1,465,924
Convertible Notes payable-short term portion	\$ -	\$ 522,980
Convertible Notes payable-long term portion	\$ 1,250,505	\$ 942,944

As of June 30, 2012 maturities of notes payable under convertible debt and debenture agreements are as follows:

	FYE 6-30-13	\$ 522,980
	FYE 6-30-14	\$ 791,713
	FYE 6-30-15	\$ 280,025
	total notes payable	\$ 1,594,717
	less: unamortized debt discount	\$ (128,793)
	Convertible debentures, net of discount	\$ 1,465,924

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**8. STOCKHOLDERS' EQUITY- (continued)**

**During the fiscal year ending June 30, 2012, the following transactions impacted stockholders' equity**

**Private Placements**

During the fiscal year ended June 30, 2012, the Company received \$127,000 of net proceeds from the issuance of 170,000,000 shares of common stock in private placements with accredited investors. The aggregate cost of such placements was \$13,000.

**Stock Based Compensation**

The Company issued awards of 1,035,000,000 shares of common stock to Officers, Directors or Employees during the fiscal year ended June 30, 2012 valued at \$6,520,500. 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.

**Conversion of debt securities**

During the fiscal year ended June 30, 2012, \$1,814,368 of debt was converted into 716,962,140 shares of common stock to holders of Convertible Notes.

**Reparations**

The Company did not issue any shares to investors for reparations.

**During the fiscal year ending June 30, 2011, the following transactions impacted stockholders' equity**

**Private Placements**

During the fiscal year ended June 30, 2011, the Company received \$ 265,500 of net proceeds from the issuance of 67,500,000 shares of common stock in private placements with accredited investors that included \$50,000 of stock subscriptions that were collected on July 6, 2011. The aggregate cost of such placements was \$ 29,500.

**Stock Based Compensation**

The Company did not issue any awards of common stock or options to Officers, Directors or Employees during the fiscal year ended June 30, 2011. 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.

**Conversion of debt securities**

During the fiscal year ended June 30, 2011, \$ 2,346,896 of debt was converted into 382,175,312 shares of common stock to holders of Convertible Notes.

**Reparations**

The Company did not issue any shares to investors for reparations.

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**8. STOCKHOLDERS' EQUITY- (continued)**

**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 June 30, 2012, the Company has received \$145,428 of proceeds under the Equity Line relating to the resale of 89,587,447 shares of the Company's common stock, net of \$13,500 transaction fees. 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. (SEE NOTE 13-Subsequent events)

**BENEFICIAL CONVERSION FEATURE**

In April 2009, the Board of Directors authorized the right for the officers to convert into shares of the Company's common stock officers' loans discussed in Note 9, plus accrued interest thereon, at any time for the next five years providing such shares are issued, outstanding and available, at a conversion price of \$.0075. This conversion price was amended in August 2011 to \$.0040.

The officers' notes plus accrued interest are convertible into approximately 297,387,906 shares of the Company's common stock based upon the conversion terms at June 30, 2012.

**Other Equity**

During the years ended June 30, 2008 and 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). Such reevaluation was to review if the Company should record an additional derivative liability which would be recordable if the other convertible instruments the Company has outstanding, primarily the convertible debentures 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 on equity instruments subject to FASB Standards Codification Topic 815 (previously known as EITF 00-19), namely warrants discussed above and the convertible debenture agreements. The Company utilized a sequencing method prescribed by FASB Standards Codification Topic 815 (previously known as EITF 00-19), 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.



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**8. STOCKHOLDERS' EQUITY- (continued)**

The liability was recorded at the fair market value, such estimated value, as restated, was based upon the contractual life of the free standing warrants, using the Black Sholes 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 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 each of the fiscal years ended June 30, 2008 and 2009 for \$572,900 and \$433,300, respectively, in accordance FASB Standards Codification Topic 815 (previously known as EITF 00-19).

Subsequent to September 30, 2009, the Company has not entered into, and presently the Company does not have, any have contracts for warrants or other equity instruments subject to reclassification to liabilities as prescribed by FASB Standards Codification Topic 815 (previously known EITF 00-19).

**STOCK INCENTIVE PLANS**

A summary of the stock option activity for the years ended June 30, 2011 and 2012 pursuant to the terms of both plans, which include incentive stock options and non-qualified stock options, is set forth on the below:

	<b>Number of Options</b>	<b>Weighed Average Exercise Price</b>
<b>Outstanding at June 30, 2009</b>	145,293,000	\$ 0.11
Granted	0	
Exercised	0	
Cancelled/Expired	(7,775,000)	(0.25)
<b>Outstanding at June 30, 2010</b>	137,518,000	\$ .087
Granted	0	
Exercised	0	
Cancelled/Expired	(23,798,000)	(.21)
<b>Outstanding at June 30, 2011</b>	113,720,000	\$ .063
Granted	0	
Exercised	0	
Cancelled/Expired	(8,960,000)	(.21)
<b>Outstanding at June 30, 2012</b>	104,760,000	\$ .0071

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



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The following summarizes information about stock options outstanding at June 30, 2012:

<b>RANGE OF EXERCISE PRICE</b>	<b>NUMBER OUTSTANDING</b>	<b>WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>	<b>NUMBER EXERCISABLE</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
\$ .00-\$ .004	98,000,000	1.2	\$ 0.004	98,000,000	\$ 0.004
\$ .005-\$ .25	6,760,000	0.7	\$ 0.052	6,760,000	\$ 0.052
<b>Totals</b>				<b>104,760,000</b>	<b>\$ 0.052</b>

During the fiscal year ended June 30, 2012, the Company issued 3,676,471 warrants and warrants for 8,376,669 shares of common stock expired. During the fiscal year ended June 30, 2011, the Company issued no warrants and warrants for 83,711,665 shares of common stock expired. During the fiscal year ended June 30, 2010, the Company issued no warrants, and warrants covering 40,953,943 shares of common stock expired. As of June 30, 2012, 2011 and 2010, warrants covering 16,780,639, 21,480,837 and 105,192,502 shares respectively remained outstanding with a weighted average exercise price of \$0.107, \$0.063 and \$0.21, respectively.

The following summarizes information about warrants outstanding at June 30, 2012:

<b>RANGE OF EXERCISE PRICE</b>	<b>NUMBER OUTSTANDING</b>	<b>WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>	<b>NUMBER EXERCISABLE</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
\$ .00-\$ .04	3,676,471	4.2	\$ 0.01	3,676,471	\$ 0.01
\$ .05-\$ .15	13,104,168	0.8	\$ 0.135	13,104,168	\$ 0.135
<b>Total</b>				<b>16,780,639</b>	<b>\$ 0.107</b>



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**9. RELATED PARTY TRANSACTIONS**

Mr. Durando, the President and CEO of mPhase, together with Mr. Ergul own a controlling interest and are officers of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Ergul, retired as the chairman of the board of mPhase in Nov 2007, owns a controlling interest and is a director of Microphase Corporation.

During the years ended June 30, 2011 and 2012, Mr. Biderman charged finders fees of \$24,500 and \$13,000.

As of June 30, 2011 and 2012, outstanding bridge loans from Mr. Smiley, including accrued interest thereon, amounted to \$191,755 and \$301,800. All of the promissory notes are payable on demand.

As of June 30, 2011 and 2012, unpaid compensation owing to Mr. Durando and Mr. Dotoli, plus accrued interest thereon at 12% per annum, equaled \$415,164 and \$268,204 and \$515,345 and \$372,407, respectively.

In April 2009, the Board of Directors authorized the right for the officers to convert such loans plus accrued interest thereon at any time for the next five years into common shares provided such shares are issued, outstanding and available, at a conversion price of \$.0075, and in August, 2011, the conversion price was amended to \$.0040, which prices are comparable to that of private placements during those periods.

The Company recorded beneficial conversion interest expense of \$914,060, \$82,609, \$0 and \$2,230 during the years ended June 30, 2009, 2010, 2011 and 2012, respectively, on the conversion feature based upon principal at the commitment date and accrued interest through June 30 of 2009, 2010, 2011 and 2012, respectively.

The officers' notes plus accrued interest are convertible into approximately 297,387,906 shares of the Company's common stock based upon the conversion terms at June 30, 2012.

**MICROPHASE**

The Company leases office space from Microphase at both its Norwalk and Little Falls location. Current rental expense is \$3,630 and \$2,281 per month at Norwalk and Little Falls respectively. In addition, Microphase provides certain research and development services and shares administrative personnel from time to time.

During the years ended June 30, 2011 and 2012, Microphase Corporation charged the Company \$36,000 and \$43,560 for rent and \$9,356 and \$7,225 for administrative expenses.

**Equity Conversions of Debt and Other Financial Instruments with Related Parties**

During the fiscal years ended June 30, 2011 and June 30, 2012, there were no equity conversions of debt or other financial instruments with related parties.

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**9. RELATED PARTY TRANSACTIONS - (continued)**

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

**Summary of compensation to related parties for the Twelve Months Ended June 30, 2012**

	<b>Durando</b>	<b>Dotoli</b>	<b>Smiley</b>	<b>Biderman</b>	<b>Microphase</b>	<b>Total</b>
Consulting / Salary	\$ 110,000	\$ 107,333	\$ 106,667			\$ 324,000
Interest	\$ 54,681	\$ 36,103	\$ 26,744			\$ 117,528
Rent					\$ 43,560	\$ 43,560
G&A					\$ 7,225	\$ 7,225
R&D						\$ 0
Finders Fees				\$ 18,000		\$ 18,000
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 issued)	\$ 173,316	\$ 103,990	\$ 62,394			\$ 339,700
<b>Total compensation for the Twelve Months Ended June 30, 2012</b>	<b>\$ 2,826,497</b>	<b>\$ 2,105,926</b>	<b>\$ 2,054,305</b>	<b>\$ 270,000</b>	<b>\$ 113,785</b>	<b>\$ 7,370,513</b>

**Summary of compensation to related parties for the Twelve Months Ended June 30, 2011**

	<b>Durando</b>	<b>Dotoli</b>	<b>Smiley</b>	<b>Biderman</b>	<b>Microphase</b>	<b>Total</b>
Consulting / Salary	\$ 160,000	\$ 144,000	\$ 140,000			\$ 444,000
Interest	\$ 33,728	\$ 18,610	\$ 16,569			\$ 68,907
Rent					\$ 36,000	\$ 36,000
G&A					\$ 9,356	\$ 9,356
R&D						\$ 0
Finders Fees				\$ 24,500		\$ 24,500
<b>Total compensation</b>	<b>\$ 193,728</b>	<b>\$ 162,610</b>	<b>\$ 156,569</b>	<b>\$ 24,500</b>	<b>\$ 45,356</b>	<b>\$ 582,763</b>

**Total  
Notes**

**Summary of  
payables to related  
parties as of June  
30, 2012**

	<b>Durando</b>	<b>Dotoli</b>	<b>Smiley</b>	<b>Payable</b>	<b>Biderman</b>	<b>Microphase</b>	<b>Total</b>
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
Due to Officers / Affiliates					\$ 150,000	\$ 53,128	\$ 203,128
Interest Payable	\$ 58,771	\$ 38,745	\$ 28,623	\$ 126,139			\$ 126,139
<b>Total Payable to Officers / Affiliates</b>	<b>\$ 544,511</b>	<b>\$ 401,575</b>	<b>\$ 312,217</b>	<b>\$ 1,189,552</b>	<b>\$ 150,000</b>	<b>\$ 53,128</b>	<b>\$ 1,461,431</b>

as of June 30, 2012

Total  
Notes**Summary of payables  
to related parties as of**

<b>June 30, 2011</b>	Durando	Dotoli	Smiley	Payable	Biderman	Microphase	Total
Notes payable	\$ 263,479	\$ 148,306	\$ 111,030	\$ 522,815			\$ 522,815
Due to Officers / Affiliates					\$ 150,000	\$ 27,242	\$ 177,242
Interest Payable	\$ 151,685	\$ 120,498	\$ 80,725	\$ 352,909			\$ 352,909
<b>Total Payable to Officers / Affiliates</b>	<b>\$ 415,164</b>	<b>\$ 268,804</b>	<b>\$ 191,755</b>	<b>\$ 875,724</b>	<b>\$ 150,000</b>	<b>\$ 27,242</b>	<b>\$ 1,052,966</b>

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**NOTE 10 - INCOME TAXES**

The accompanying consolidated balance sheet includes the following components of deferred taxes under the liability method:

	2011	2012
Deferred Tax Assets		
Net operating loss carry forward	\$ 44,185,925	\$ 43,045,200
	44,185,925	43,045,200
Net Deferred Tax Asset	44,185,925	43,045,200
Valuation allowance	(44,185,925)	( 43,045,200)
	\$ -	\$ -

The valuation allowance at June 30, 2010 was \$40,787,080.

At June 30, 2012, the Company has federal net operating loss carry forwards of approximately \$108.7 million and \$107.8 million to offset future federal and state income taxes, respectively, which expire at various times from 2016 through 2030. The federal net operating loss carry forwards may be subject to the separate return loss limitation rules and IRC section 382 limitations due to changes in ownership. The Company has assessed the evidence of its forecasted future operations against the potential likelihood of the realization of the deferred tax assets to make the determination that the Company will not utilize these carry forwards and has recorded a valuation allowance against the net deferred tax asset.

The Company had net losses of \$486,391 in 2011 and \$8,786,952 in 2012. Deferred income taxes relate principally to the use of net operating loss carry forwards; these can differ from computations based upon book losses for the use for tax purposes of accelerated depreciation methods and the difference in the book and tax basis of certain stock based compensation.

The provision for income taxes from continuing operations differs from taxes that would result from applying Federal statutory rates because of the following:

	Year ended June 30,			
	2011		2012	
	Amount	Percent	Amount	Percent
Taxes at Federal Statutory Rate	\$ (148,373)	(34.0%)	\$ (766,360)	(34.0%)
State Taxes Net of Federal Tax	(24,438)	(5.60%)	(126,224)	(5.60%)
Valuation Allowance	172,811	39.60%	892,584	39.60%
	\$ -	-	\$ -	-

At June 30, 2011 and 2012, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company does not expect that its unrecognized tax benefits will materially increase within the next twelve months. The Company did not recognize any interest or penalties related to uncertain tax positions at June 30, 2011 and 2012.

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## 11. COMMITMENTS AND CONTINGENCIES

### COMMITMENTS

The Company had a lease obligation for the rental of office space in Little Falls New Jersey until May 1, 2011. Thereafter, the monthly obligation was \$2,271 through January, 2012, at which time the rent changed to \$2,281 per month through January 2013. Presently there is no lease.

mPhase has entered into various agreements with Georgia Tech Research ("GTRC") and its affiliate, Georgia Tech Applied Research Corporation ("GTARC"), pursuant to which the Company receives technical assistance in developing the commercialization of its Digital Video and Data Delivery System. The amount incurred by the Company for GTRC technical assistance with respect to its research and development activities during the years ended 2010, 2011 and 2012 totaled \$0, \$0 and \$0 respectively, and \$13,539,952 from the period from inception through June 30, 2012, all of which is included in discontinued operations .

### 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 June 30, 2012. Such convertible notes provide cash funding to the Company of up to \$9,500,600. Through June 30, 2012, approximately \$6,472,000 of cash has been received by the Company, \$5,936,150 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 be 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 June 30, 2012, approximately 41,833,333 shares of our outstanding common stock issued in respect of our convertible note transactions with JMJ Financial could be subject to rescission with a potential liability approximating \$319,400, including a liability of approximately \$42,900 for interest at 10% per annum.

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**12. FAIR VALUE MEASUREMENTS**

Effective July 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, now known as FASB ASC 820 Fair Value Measurements and Disclosures (ASC 820), which provides a framework for measuring fair value under GAAP. ASC 820 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 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 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.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivative Liability	
	June 30, 2011	June 30, 2012
	Balance at July 1, 2010 and 2011	\$ 5,966,149
Increase (Decrease) in Derivative and associated liabilities	(1,911,669)	22,466
Debt discounts	(2,389,905)	(788,307)
Balance at June 30, 2011 and 2012	\$ 1,664,575	\$ 898,734

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 input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

**13. SUBSEQUENT EVENTS**

On July 11, 2012, the Company prepaid \$53,888 in cash to Asher Enterprises, Inc. to redeem, in full, its Convertible Promissory Note in Asher Agreement II, funded on January 11, 2011 in the principal amount of 35,000, together with a prepayment fee of \$17,500 and accrued interest thereon of \$1,388.

Through July 24, 2012, the Company has completed transactions in a private placement of its common stock to 8 accredited investors pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. The Company received net proceeds of \$155,500, made available for working capital, and paid placement fees of \$6,500 in connection with the issuance of 405,000,000 shares of its common stock. The Company is continuing such Private Placement until early October of 2012 with the goal of raising up to \$150,000 additional gross proceeds to be used as working capital in exchange for approximately 375,000,000 shares of its common stock with accredited investors.

On August 15, 2012, the Company put 20,000,000 shares to Dutchess Capital under the terms of its Investment Agreement covering the Company's Equity Line of Credit. Through August 31, 2012 Dutchess has resold approximately 5,500,000 shares that are anticipated to generate approximately \$4,000 of working capital to the Company.

**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: September 24, 2012

By: /s/ RONALD A. DURANDO  
Ronald A. Durando  
President, CEO

**Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons**