

MPHASE TECHNOLOGIES INC  
Form 10-Q  
November 14, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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

FOR THE QUARTER ENDED September 30, 2014

COMMISSION FILE NO. **000-30202**

**FORM 10-Q**

**mPhase Technologies, Inc.**

*(Exact name of registrant as specified 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, CT**

*(Address of principal executive offices)*

**06854-1711**

*(Zip Code)*

**(203) 838-2741**

**ISSUER'S TELEPHONE NUMBER**

**INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, DURING THE PRECEDING 12 MONTHS (OR FOR SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORT), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.**

**YES  NO**

**THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK AS OF OCTOBER 31, 2014 IS 14,686,288,881 SHARES, ALL OF ONE CLASS OF \$.001 PAR VALUE COMMON STOCK.**

**mPHASE TECHNOLOGIES, INC.**

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**mPHASE TECHNOLOGIES, INC.****Consolidated Balance Sheets**

	June 30, 2014	September 30, 2014 (Unaudited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 179,257	\$ 23,130
Accounts receivable	29,594	95,966
Inventory, net	594,320	481,745
Prepaid and other current assets	57,239	62,195
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 860,410</b>	<b>\$ 663,036</b>
Property and equipment, net	3,001	6,503
Other Assets	-	8,040
<b>TOTAL ASSETS</b>	<b>\$ 863,411</b>	<b>\$ 677,579</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,150,397	\$ 1,168,755
Accrued expenses	326,311	380,868
Due to related parties	166,183	172,275
Notes payable, related parties	510,345	515,009
Short term notes-discontinued operations	65,000	65,000
Current Portion, Long term convertible debentures	1,522,217	1,522,217
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 3,740,453</b>	<b>\$ 3,824,124</b>
<b>OTHER OBLIGATIONS CONVERTIBLE TO EQUITY</b>		
Convertible debt derivative liability	637,543	438,287
Long term portion of Convertible debentures	40,000	9,568
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Common stock, par value \$.001, 18,000,000,000 shares authorized, 13,850,576,024 and 14,436,288,881 shares issued and outstanding at June 30, 2014 and September 30, 2014, respectively	13,850,575	14,436,288
Additional paid in capital	192,230,848	191,889,610
Accumulated Deficit	(209,636,008)	(209,920,297)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(\$3,554,585 )</b>	<b>(\$3,594,400 )</b>

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 863,411	\$ 677,579
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The accompanying notes are an integral part of these consolidated financial statements.

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**mPHASE TECHNOLOGIES, INC.****Consolidated Statements of Operations**

	For the Three Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2014 (Unaudited)
REVENUES	\$-	\$254,071
COSTS AND EXPENSES		
Cost of Sales	-	185,524
Research and Development	665	2,502
Selling and Marketing	35,719	55,854
General and Administrative (including non-cash stock related charges of \$81,225 and \$4,081 for the three months ended September 30, 2013 & 2014).	211,883	428,853
Depreciation and Amortization	3,000	2,003
TOTAL COSTS AND EXPENSES	251,267	674,736
OPERATING LOSS	\$(251,267)	\$(420,665)
OTHER INCOME (EXPENSE)		
Interest (Expense)	(77,915)	(78,396)
Net Charges related to Convertible Debt and Derivative Liability	(744,013)	214,772
TOTAL OTHER INCOME (EXPENSE)	\$(821,928)	\$136,376
Loss from Operations, before Income Taxes	\$(1,073,195)	\$(284,289)
Income Taxes	-	-
Net Loss	\$(1,073,195)	\$(284,289)
Basic Net Loss per Share	\$(0.00)	\$(0.00)
Diluted Net (Loss) per Share	\$N/A	\$N/A
Weighted Average Number of Shares Outstanding; Basic	5,258,640,472	14,120,823,757

Diluted

N/A

N/A

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

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**mPHASE TECHNOLOGIES, INC.****CONSOLIDATED STATEMENT OF CHANGES IN****STOCKHOLDERS' EQUITY (DEFICIT)****(Unaudited)**

	Common Stock Shares	\$.001 Par Value	Additional Paid in Capital	Accumulated Deficit	Stockholders' (Deficit) Equity
Balance June 30, 2014	13,850,576,024	\$13,850,575	\$192,230,849	\$(209,636,008)	\$(3,554,585 )
Issuance of Common Stock to accredited investors in private placements, including 30,000,000 shares to finders, net of \$10,000 fees	580,000,000	580,000	(370,000 )	-	210,000
Issuance of Common Stock for services	5,712,857	5,713	(1,632 )	-	4,081
Beneficial Conversion Feature Interest Expense Charged to Additional Paid in Capital	-	-	30,393	-	30,393
Net Loss for the Three Months Ended September 30, 2014	-	-	-	(284,289 )	(284,289 )
Balance September 30, 2014	14,436,288,881	\$14,436,288	\$191,889,610	\$(209,920,297)	\$(3,594,400 )

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



**mPHASE TECHNOLOGIES, INC.****Consolidated Statements of Cash Flows**

	For The Three Months Ended September 30,	
	2013	2014
	(Unaudited)	(Unaudited)
<b>Cash Flow From Operating Activities:</b>		
Net Loss	\$(1,073,195)	\$(284,289 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,665	2,505
Non-cash charges relating to issuance of common stock, common stock options and warrants	52,920	4,081
Derivative Value and Debt Discount charges (credits)	744,013	(229,688 )
Other non cash charges including amortization of deferred compensation and beneficial conversion interest expense	28,305	30,393
Changes in assets and liabilities:		
Accounts receivable	-	(66,372 )
Inventories	-	112,574
Prepaid expenses and Other current assets	18,090	(4,955 )
Other assets	-	(8,040 )
Accounts payable & Accrued expenses	49,227	77,579
Due to/from related parties	(2,633 )	6,092
Officers and Other	60,000	-
Net cash used in operating activities	\$(119,608 )	\$(360,120 )
<b>Cash Flow from Investing Activities:</b>		
Purchase of fixed assets	-	(6,007 )
Net Cash used in investing activities	\$0	\$(6,007 )
<b>Cash Flow from Financing Activities:</b>		
Proceeds from issuance of common stock, net of finders fees	86,000	210,000
Payment of equipment loans	(3,419 )	-
Issuance of Convertible Debentures	35,000	40,000
Repayment of Convertible Debentures	-	(40,000 )
Net Proceeds (Repayment) from notes payable related parties	1,050	-
Net cash provided by financing activities	118,631	210,000
Net decrease in cash	\$(977 )	\$(156,127 )
CASH AND CASH EQUIVALENTS, beginning of period	\$1,055	\$179,257
CASH AND CASH EQUIVALENTS, end of period	\$78	\$23,130

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

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**mPHASE TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF OPERATIONS**

mPhase Technologies, Inc. (the "Company") was organized on October 2, 1996 and is presently focused on (a) marketing its automotive battery jump starter designed for the mass market and (b) developing new "smart surface" products through the sciences of microfluidics, microelectromechanical systems (MEMS) and nanotechnology.

**BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ending September 30, 2014 are not necessarily indicative of the results that may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K, as amended, for the year ended June 30, 2014.

Through September 30, 2014, the Company had incurred cumulative (a) losses totaling \$(209,920,297), (b) stockholders' deficit of \$3,594,400 and (c) negative cash flow from operations equal to \$91,231,321. At September 30, 2014, the Company had \$23,130 of cash and \$95,966 of trade receivables to fund short-term working capital requirements. In addition, the Company relies on the continuation of funding through private placements of its common stock. The Company's ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near term to: (1) satisfy its current obligations, (2) continue its research and development efforts, and (3) allow the successful wide scale development, deployment and marketing of its products.

**INVENTORY**

The Company uses the First In First Out method (FIFO) to account for inventory which is carried at cost. As of June 30, 2014, inventory consisted primarily of its various Jump products including the Jump and the mini Jump and was valued at \$594,320. As of September 30, 2014, (unaudited) inventory consisted primarily of the Company's line of Jump products including the new Jump Plus and was valued at \$481,745. Appropriate reserves have been taken to assure that the cost of such inventory does not exceed the expected resale value.

#### USE OF ESTIMATES

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

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

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net loss adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The Company had no warrants to purchase shares of its common stock and no options to purchase shares of its common stock outstanding at September 30, 2014, as well as convertible debentures held by third parties and convertible notes plus accrued interest thereon held by officers of the Company, subject to availability, convertible into approximately 2,170,613,193 and 1,287,522,300 shares respectively of the Company's common stock based upon the conversion terms at September 30, 2014. In periods reporting a loss the inclusion of warrants and potential common shares to be issued in connection with convertible debt have an anti-dilutive effect on diluted loss per share and have been omitted in such computation.

**MATERIAL EQUITY INSTRUMENTS**

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

**2 SUPPLEMENTAL CASH FLOW INFORMATION**

	For the Three Months Ended September 30,	
	2013	2014
Statement of Operation Information:		
Interest Accrued Unpaid	\$ 76,439	\$ 47,089
Extension & Prepayment Fees on Convertible Debt	\$ 13,025	\$ 14,916
Interest Paid (net interest income)	\$ 1,475	\$ 3,314
Non Cash Investing and Financing Activities:		
Conversion of Convertible Debt and Related Expenses	\$ 96,025	\$ -

**3. EQUITY TRANSACTIONS AND CONVERTIBLE DEBT**

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

Effective June 2005, June 2006, and June 2008, the Company received authorization to increase the number of authorized shares to 500 million, 900 million and 2 billion, respectively. On April 25, 2009, July 15, 2010, and again on November 1, 2010, the Board of Directors approved motions to further increase, subject to shareholder approval, the authorized shares of common stock to 3 billion shares, 4 billion shares and 6 billion shares, respectively. The latest increase in the number of authorized shares of common stock to 6 billion was approved at a Special Meeting of Shareholders of the Company held on June 29, 2011, so that as of September 30, 2013 the Company has 6 billion

authorized shares of common stock. The Company in its annual meeting of shareholders for the fiscal year ended June 30, 2013 held on February 12, 2014 received shareholder approval to increase its authorized shares to 18 billion shares of common stock so that as of September 30, 2014 the Company has said amount of authorized shares of stock.

### **Private Placements**

During the three months ended September 30, 2013, the Company issued 215,000,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of \$86,000 and incurring no finder's fees. The proceeds were used by the Company as working capital.

During the three months ended September 30, 2014, the Company issued 580,000,000 shares of its common stock in connection with private placements included 30,000,000 shares to finders, pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of \$220,000 and paid finder's fees in the amount of \$10,000. The proceeds were used by the Company as working capital.

### **Stock Based Compensation**

During the three months ended September 30, 2014, the Company issued 5,712,857 shares of common stock compensation to employees valued at \$4,081. The Company during such period did not issue any common stock, warrants or options to officers.

During the three months ended September 30, 2013, the Company did not issue any shares of common stock compensation, warrants or options to officers or employees and issued 58,800,000 shares of common stock to consultants to cover certain legal fees and expenses valued at \$ 52,920, the entire amount of which is included in general and administrative expenses in the Consolidated Statements of Operations for that period.

### **Conversion of Debt Securities**

During the three months ended September 30, 2014, no conversions were made of convertible debt and accrued interest thereon into shares of common stock.

During the three months ended September 30, 2013, \$96,026 of convertible debt and accrued interest thereon were converted into 141,761,066 shares of common stock.

### **Long Term Convertible Debentures / Debt Discount**

The Company had 11 separate convertible debt arrangements with independent investors that were in effect at various times during the two fiscal years ended June 30, 2014, three of which were still active as of September 30, 2014.

During the three months ended September 30, 2014, no convertible debt was converted into any shares of common stock to holders of Convertible Notes.

During the three months ended September 30, 2013, \$96,026 of debt including \$3,971 accrued interest and \$9,054 prepayment fees thereon was converted into 141,761,066 shares of common stock to holders of Convertible Notes.

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

**Arrangement #1 (JMJ Financial, Inc.)**

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

To date the Company has received a total of \$639,500 in cash and has issued 322,187,500 shares of common stock to the holder upon conversions of \$325,440 of principle and \$994,766 of conversion fees. The remaining \$604,600 of cash which was to be received from the holder plus accrued and unpaid interest was convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. Based upon the price of the Company's common stock on June 30, 2011 of \$.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 222,142,857 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated. At June 1, this note was combined with arrangement #4 JMJ Financial, Inc.

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

During the year ended June 30, 2012, the Company reduced the note payable and debt discount by \$42,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to \$27,067 reducing the balance to \$30,933. Also during the year ended June 30, 2012, the Company had incurred \$994,766 of conversion fees which together with \$291,690 of principle was converted into 322,187,500 shares of common stock. At June 30, 2012 this convertible note had \$372,060 outstanding which was combined with arrangement #3 JMJ Financial, Inc.



**Arrangement #2 (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 #3 JMJ Financial, Inc.

**Arrangement #3 (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.

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

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

As of June 30, 2012, this convertible note has \$109,000 outstanding, which when combined with arrangements #8 and #9 totaled \$802,060, which the Company entered into an amended agreement on June 1, 2012 whereby the Company agreed to make payments of principle and interest of \$37,018 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company's common stock would be available to the holder. Also as of June 30, 2012 the derivative value of the embedded conversion feature of this arrangement when combined with arrangements #2 and #3 totaled \$0; which when compared to the combine value of \$1,567,512 created a non-cash credit to earnings of \$1,567,512 in fiscal 2012. As of, June 30, 2014, and September 30, 2014, the combined arrangements with JMJ in this note would be convertible into 237,807,785 and 242,752,575 at the conversion floor price of \$.004; and only so if the Company does not make the scheduled payments pursuant to the June 1, 2012 amended agreement. The Company has not made any payments of the \$37,018 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance.

#### **Arrangement #5 (John Fife dba St. George Investors)**

On September 13, 2011, the Company issued a second Convertible Note to John Fife founder and president of St. George Investments, in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933. The initial principal amount of the first funded tranche of the Convertible Note was \$357,500 and the Company received cash proceeds of \$300,000.

A second tranche of the Convertible Note in the amount of \$200,000 cash is funded upon the filing by the Company of a Registration Statement on Form S-1 with the Securities and Exchange Commission providing for the registration of 185,400,000 shares of common stock that may be converted into from time to time by the holder of the Convertible Note.

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

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

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be \$137,481 and the loan discount totaled \$194,981 for the initial tranche and the embedded conversion feature of this

security and the warrant for a second tranche of the Convertible Note was calculated to be \$46,379. On June 30, 2012, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2012 and conversions during the period this estimated liability had increased from \$183,860 to \$771,079, an increase this period of \$587,219, creating a non-cash charge to earnings for the twelve months ended June 30, 2012 of that amount.

During the twelve month period ended June 30, 2012 amortization of debt discount amounted to \$185,456 reducing the combined balance to \$55,903. On June 30, 2013, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2013, this estimated liability had decreased to \$138,696, a decrease this period of \$689,007, creating a non-cash credit to earnings for the year ended June 30, 2013 of that amount. During the year ended June 30, 2013, amortization of debt discount amounted to \$55,903, reducing the combined balance to \$0. On September 30, 2013, this estimated liability had increased to \$910,771, an increase of \$772,075, creating a non-cash charge to earnings for the three month period.

The company entered into an amended agreement on June 1, 2012, when principle of \$557,500 accrued interest of \$66,338 and \$95,611 of contractual charges totaled \$719,449; with this noteholder whereby the Company agreed to make payments of principle and interest of \$33,238 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company's common stock would be available to the holder. As of September 30, 2012 this note would be convertible into 789,645,351 shares of common stock at the original terms. The Company has not made any payments of the \$33,238 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance (see note 4). On November 20, 2012, mPhase Technologies, Inc. (the "Company") formally received an Event of Default and Redemption Notice dated November 16, 2012 with respect to an 8% Convertible Note dated September 13, 2011 issued by the Company to St. George Investments LLC and assigned to John Fife. The notice included alleged defaults with respect to payments owed by the Company under the Convertible Note and the failure to convert the Note into shares of the Company's common stock. The alleged amount owed according to the notice is approximately \$902,279. The Company believes it has affirmative defenses to the actions of the holder of the Convertible Note as well as counterclaims against the Holder. As of June 30, 2013 and September 30, 2013, this note would be convertible into 700,806,707 and 1,224,139,360 shares of common stock at the original terms. As of June 30, 2014 and September 30, 2014 this note would be convertible, at the original terms, into 1,392,162,326 shares and 1,815,638,396 shares respectively of common stock.

**Arrangement #6 (Black Arch Opportunity Fund L.P.)**

On January 14, 2013, the Company issued to Black Arch Opportunity Fund L.P., Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received \$30,000 in gross proceeds. The instrument is in the principal amount of \$30,000 and matures on November 9, 2013. Interest only is payable at the rate of 12% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 45% discount (60% while the Company's stock is "chilled" by the DTC) 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 was calculated to be \$70,001 and the loan discount totaled \$70,001. On June 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to \$43,508, a decrease this period of \$26,423 creating a non-cash credit to earnings of that amount. During the year ended June 30, 2013, amortization of debt discount amounted to \$70,001, reducing the balance to \$0. Based upon the price of the Company's common stock on June 30, 2013, this Note is convertible into approximately 57,668,070 shares of common stock.

During the three months ended September 30, 2013, the Company issued 53,313,811 shares of common stock to repay this note in full together with \$1,811 accrued interest and \$9,054 prepayment fees thereon. The estimated liability for the embedded conversion fee was reduced by \$43,508, creating a non cash credit to earnings for this period as the note was paid in full.

**Arrangement #7 (Asher Enterprises, Inc. V)**

On January 31, 2013, 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 \$50,000 in gross proceeds, net of \$3,000 closing fees. The instrument is in the principal amount of \$53,000 and matures on November 4, 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 \$57,418 and the loan discount totaled \$60,418. On June 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to \$29,729, a decrease this period of \$27,689 creating a non-cash charge to earnings of that amount. During the year ended June 30, 2013, amortization of

debt discount amounted to \$48,787 reducing the balance to \$0.

During the three months ended September 30, 2013, the Company issued 88,447,255 shares of common stock to repay this note in full, together with \$2,120 accrued interest. The estimated liability for the extended conversion fee of \$29,729 at June 30, 2013 was reduced to zero at September 30, 2013, creating a non cash credit to earnings for this period as the loan was repaid in full.

#### **Arrangement #8 (Asher Enterprises, Inc. VI)**

On July 2, 2013, 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 \$37,500 and matures on March 28, 2014. 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 \$28,216 and the loan discount totaled \$30,626. On September 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to \$36,212, an increase this period of \$8,086 creating a non-cash charge to earnings of that amount. During the three months ended ended September 30, 2013, amortization of debt discount amounted to \$30,626 reducing the balance to \$0. Based upon the price of the Company's common stock on September 30, 2013, this Note is convertible into approximately 57,688,070 shares of common stock.

On January 8, 2014 this note was prepaid in full, together with a prepayment fee of \$17,500 and accrued interest totaling \$2,729.

**Arrangement #9 (MH Investment trust I)**

On December 27, 2013, the Company issued to the MH Investment Trust, a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 which was executed funded with \$40,000 in gross proceeds on January 7, 2014. The instrument is in the principal amount of \$40,000 and matures on October 1, 2014. Interest only is payable at the rate of 12% 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, or 65 % when the trading price exceeds \$.0020 for the five days before 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 \$35,556 and the company recorded no loan discount as the quantity of shares was considered indeterminable at the date of funding. On June 30, 2014, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to \$88,637, an increase for this period of \$53,081 creating a non-cash charge to earnings of that amount. Based upon the price of the Company's common stock on June 30, 2014 this Note is convertible into approximately 100,952,381 shares of common stock. During July of 2014 this note was repaid, in full, together with \$2,632 of accrued interest and \$14,916 of prepayment fees.

**Arrangement #10 (MH Investment trust II)**

On August 26, 2014, the Company issued to the MH Investment Trust, a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 which was executed funded with \$40,000 in gross proceeds on May 1, 2015. The instrument is in the principal amount of \$40,000 and matures on October 1, 2014. Interest only is payable at the rate of 12% 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, or 65 % when the trading price exceeds \$.0020 for the five days before 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 \$37,778 and the company recorded a loan discount of the same amount. On September 30, 2014, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to \$38,156, an increase for this period of \$378 creating a non-cash charge to earnings of that amount. Based upon the price of the Company's common stock on September 30, 2014 this Note is convertible into approximately 112,222,222 shares of common stock.

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The following table summarizes notes payable under convertible debt and debenture agreements as of:

	June 30, 2014	September 30, 2014
Arrangement #3 - JMJ Financial, Inc	\$802,060	\$ 802,060
Arrangement #6 - St. George Investments	720,157	720,157
Arrangement #9 -MH Investment trust I	40,000	-
Arrangement #10 -MH Investment trust II	-	40,000
Total notes payable	\$1,562,217	\$ 1,562,217
less: unamortized debt discount	-	(30,432 )
Convertible Notes payable, net of discount	1,562,217	1,531,785
Convertible Notes payable-short term portion	1,522,217	1,522,217
Convertible Notes payable-long term portion	\$40,000	\$ 9,568

Included in accrued expenses is \$285,274 and \$320,700 interest accrued on these notes at June 30, 2014 and September 30, 2014 respectively.



## **DERIVATIVE LIABILITY**

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

## **EQUITY LINE OF CREDIT**

The Company entered into a \$10,000,000 equity line of Credit with Dutchess Opportunity Fund II, LLC in December of 2011. Under the equity line, the Company is eligible to "PUT" to the fund, 20,000,000 shares of its common stock during any pricing period. The Company has registered a total of 250,000,000 shares of its common stock on a Form S-1 Registration Statement with the Securities and Exchange Commission that was declared effective on January 17, 2012 in connection with the Dutchess Equity Line.

As of September 30, 2014 and June, 2014, the Company has received \$227,744 of proceeds under the Equity Line relating to the resale of 135,990,000 shares of the Company's common stock, net of \$22,920 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. As of June 30, 2014, the Company has received \$145,428, \$80,053 and \$6,263 in Fiscal Years Ended June 30, 2012, 2013 and 2014, under the Equity Line relating to the resale of 89,587,447, 42,412,553 and 3,990,000 shares of the Company's common stock in Fiscal Years Ended June 30, 2012, 2013 and 2014. 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.

## **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. During the fiscal year ended June 30, 2014, the officers' were authorized by the board of directors' to enter into agreements to convert certain officer notes, previously convertible at \$.004 from 2009 through April 2014, based upon the then concurrent terms of private placements with accredited investors; at \$.0004, representing the now current terms of private placements with accredited investors. On June 30, 2014, these Notes are convertible into approximately 1,275,863,375 shares of common stock, if available. As of September 30, 2014 these Notes are convertible into approximately 1,287,522,300 shares of common stock if available.

#### **4. COMMITMENTS AND CONTINGENCIES**

##### **COMMITMENTS**

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 provided office space on a month-to-month basis for \$993 per month through December 31, 2013. As of January 1, 2014, the lease increased to \$1,675 per month and as of April 1, 2014, increased to \$3,175. The Company also leased an office in East Rutherford, New Jersey for an average monthly cost of \$1,880 from July 1, 2013 to August 31, 2014. On August 15, 2014, the Company moved its New Jersey office to Clifton, New Jersey with a one year lease with monthly rent of \$4,020.

##### **CONTINGENCIES**

As noted above, the Company is in litigation with John Fife with respect to a Convertible Note issued on September 13, 2011 in the original principal amount of \$557,000. Fife is seeking damages including attorney's fees on a Motion for Summary Judgment in the amount in excess of \$1,300,000. The Company has filed a motion opposing Summary Judgment and is seeking to void the Convertible Note under Section 29(b) of the Securities Exchange Act of 1934, as amended, on the basis that Fife failed to disclose a prior Consent Decree in a Registration Statement filed by the Company effective January 17, 2012 under which Fife sold shares in April of 2012. The matter is pending in the federal district court in the North East District of Illinois. The Company is unable to predict the outcome of this litigation at this time.

## 5. FAIR VALUE MEASUREMENTS

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

The table below presents reconciliation for liabilities measured at fair value on a recurring basis at September 30, 2013 and 2014:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivative Liability	
	September 30, 2013	September 30, 2014
Balance at July 1, 2013 and 2014	\$ 212,023	\$ 637,543
Increase (Decrease) in Derivative and associated liabilities	744,014	(237,034 )
Debt discounts	(9,054 )	37,778
Balance at September 30, 2013 and 2014	\$ 946,983	\$ 438,287

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

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

We have determined that it is not practical to estimate the fair value of our notes payable because of their unique nature and the costs that would be incurred to obtain an independent valuation. We do not have comparable outstanding debt on which to base an estimated current borrowing rate or other discount rate for purposes of estimating the fair value of the notes payable and we have not been able to develop a valuation model that can be applied consistently in a cost efficient manner. These factors all contribute to the impracticability of estimating the fair value of the notes payable. At September 30, 2014, the carrying value of the notes payable and accrued interest for convertible agreements and officers' notes was approximately \$2.35 million. The JMJ convertible notes, which were originally due at various times through December 31, 2012, yield an interest rate of 12%. Refer to Note 3 of these financial statements for more information about the Company's notes payable.

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## **6. RELATED PARTY TRANSACTIONS**

### **MICROPHASE CORPORATION**

mPhase's President is also an officer and shareholder of Microphase and mPhase's Chief Operating Officer is also an employee of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase whereby it would use office space as well as the administrative services of Microphase, including the use of accounting personnel. This agreement was for \$5,000 per month and was on a month-to-month basis. In July 1998, the office space agreement was revised to \$10,000, in January 2000 to \$11,050 per month, in July 2001 to \$11,340 per month, in July 2002 to \$12,200 per month, in January 2003 to \$10,000 per month, and in July 2003 to \$18,000 per month. Additionally, in July 1998, mPhase entered into an agreement with Microphase whereby mPhase would reimburse Microphase \$40,000 per month for technical research and development. In January 2003 the technical research and development agreement was revised to \$20,000 per month, and in July 2003 it was further revised to \$5,000 per month for technical and research development, \$5,000 per month for administrative services and \$5,000 per month under the office space agreement. Beginning July 1, 2006, billings for all of the above services have been \$5,000 per month and in July 2008; such fees were reduced to \$3,000 per month. As of July 1, 2011, the fees have increased to \$3,630 per month. In addition, Microphase also charges fees for specific projects on a project-by-project basis. During the three months ended September 30, 2013 and September 30, 2014 \$4,867 and \$13,982 respectively, have been charged to expense. As a result of the foregoing transactions, as of September 30, 2014, the Company had a \$12,275 payable to Microphase.

### **JANIFAST LTD.**

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

Janifast Limited had been a significant shareholder of the Company until September 19, 2009, when it transferred to Mr. Durando 11,735,584 shares, representing all the shares of the Company held by Janifast, in consideration of the cancellation in loan obligations of \$181,901 to Mr. Durando in connection with the plan of its liquidation.

### **OTHER RELATED PARTIES**

Mr. Abraham Biderman was employed until September 30, 2003 by our former investment-banking firm Lipper & Company. On September 30, 2014, Mr. Biderman's affiliated firms of Palladium Capital Advisors and Eagle Strategic Advisers were owed unpaid finders' fees in the amount of \$160,000, which is included in due to related parties.

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**Transactions with Officers**

At various points during past fiscal years the Messrs. Durando, Dotoli and Smiley provided bridge loans to the Company evidenced by individual promissory notes and deferred compensation so as to provide working capital to the Company. All of the notes are payable on demand. Total compensation (including the value of stock awards) to related parties and payables to officers and Microphase are summarized as follows:

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

**Summary of compensation to related parties for the Three Months Ended September 30, 2014**

	Durando	Dotoli	Smiley	K. Durando	Biderman	Microphase	Total
Consulting / Salary	\$ 50,000	\$ 25,000	\$ 25,000				\$ 288,333
Interest	\$ 49,556	\$ 37,614	\$ 33,516				\$ 120,686
Rent						\$ 4,457	\$ 20,090
S,G&A				\$ 23,000		\$ 9,525	\$ 60,281
R&D							\$ 0
Finders Fees					\$ 10,000		\$ 54,000
<b>Total compensation for the Three Months Ended September 30, 2014</b>	<b>\$ 99,556</b>	<b>\$ 62,614</b>	<b>\$ 58,516</b>	<b>\$ 23,000</b>	<b>\$ 10,000</b>	<b>\$ 13,982</b>	<b>\$ 543,390</b>

**Summary of compensation to related parties for the Three Months Ended September 30, 2013**

	Durando	Dotoli	Smiley	K. Durando	Biderman	Microphase	Total
Consulting / Salary	\$20,000	\$20,000	\$20,000				\$60,000
Interest	\$17,370	\$12,230	\$10,437				\$40,037
Rent						\$ 2,979	\$2,979
S,G&A						\$ 1,888	\$1,888
R&D							\$
Finders Fees							\$
<b>Total compensation for the Three Months Ended September 30, 2013</b>	<b>\$37,370</b>	<b>\$32,230</b>	<b>30,437</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 4,867</b>	<b>104,904</b>

**Summary of payables to related parties as of September 30, 2014**

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	Durando	Dotoli	Smiley	Total Notes Payable	Biderman	Microphase	Total
Notes Payable	\$287,515	\$121,365	\$0	\$408,880			\$408,880
Accrued Wages Officers	\$0	\$0	\$0	\$0			\$0
Due to Officers/Affiliates					\$160,000	\$12,275	\$172,275
Interest Payable	\$11,702	\$4,980	\$89,447	\$106,129			\$106,129
Total Payable to Officers/ Affiliates as of September 30, 2014	\$299,217	\$126,345	\$89,447	\$515,009	<b>\$160,000</b>	<b>\$12,275</b>	\$687,284

**Summary of payables to related parties as of June 30, 2014**

	Durando	Dotoli	Smiley	Total Notes Payable	Biderman	Microphase	Total
Notes Payable	\$289,015	\$122,865	\$0	\$411,880			\$411,880
Accrued Wages Officers	\$0	\$0	\$0	\$0			\$0
Due to Officers/Affiliates					\$150,000	\$16,183	\$166,183
Interest Payable	\$7,250	\$3,096	\$88,119	\$98,465			\$98,465
Total Payable to Officers/ Affiliates as of June 30, 2014	\$296,265	\$125,961	\$88,119	\$510,345	<b>\$150,000</b>	<b>\$16,183</b>	\$676,528



## **7.SUBSEQUENT EVENTS**

From October 1, 2014 through November 13, 2014 the Company has completed transactions in a private placement of its common stock to investors pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. The Company received proceeds of \$100,000, made available for working capital, in connection with the issuance of 250,000,000 shares of its common stock at \$.0004.

The Company entered into a conditional lease for a production facility located in Passaic, New Jersey, the commencement of which is contingent upon the Company obtaining funding from investors pursuant to an economic development program within governmental guidelines. The Company paid \$9,000 in November 2014 as the security deposit and the annual base lease cost approximates \$30,000 per year for a period of five years with escalations each year up to almost \$35,000 in year five, and is subject to final acceptance or cancelation by the Company on or before January 31, 2015.

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

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

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

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

### **RESULTS OF OPERATIONS OVERVIEW**

mPhase, a New Jersey corporation founded in 1996, is a publicly-held company with over 23,000 shareholders and approximately 14.5 billion shares of common stock outstanding. The Company's common stock is traded on the Over the Counter Bulletin Board under the ticker symbol XDSSL. We are headquartered in Norwalk, Connecticut with an office in Clifton, NJ. mPhase shares common office space with Microphase Corporation, a privately held company. Microphase is a leader in the field of radio frequency and filtering technologies within the defense and telecommunications industry. It has been in operation for over 50 years and supports mPhase with both engineering and administrative and financial resources as needed.

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

power, programmable control, and direct integration with microelectronic devices.

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

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

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

## Description of Operations Microfluidics, MEMS, and Nanotechnology

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

In the Smart NanoBattery application, mPhase uses electrowetting as a new technique to activate or literally "turn on" a battery once it is ready to be used for the first time. At the heart of the Smart NanoBattery is a porous, nanostructured 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 this is also the basis for other possible applications such as self-cleaning surfaces, filtration and separation and liquid delivery systems.

## **History of Nanotechnology Operations Smart NanoBattery**

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

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

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

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

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

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

In fiscal years ended June 30, 2009 and June 30, 2011, the Company focused upon further development of its Smart Nano Battery under a Phase II STTR grant from the U.S. Army as a potential reserve battery for a back-up computer memory application for a weapons system. The Company has recently completed such Phase II Army grant. On November 12, of 2010, the Company announced that it had successfully triggered and activated its first functional

multi-cell smart nano battery. Triggering and activation of the cells of the battery were achieved by using the technique of electrowetting or programmable triggering. Triggering was accomplished by applying a pulse of electrical energy to a porous, smart surface membrane located inside each cell in the battery causing the electrolyte to come in contact with the cell's electrodes, creating the chemical reaction to produce voltage inside of the multi-cell battery. The multi-cell battery consists of a matrix of 12 individual cells populated with an electrode stack consisting of lithium and carbon monofluoride materials with each rated at 3.0 volts. Using a custom designed circuit board for testing, each of the cells in the battery were independently triggered and activated without affecting any of the non-activated cells in the multi-cell configuration. Each cell in the battery has a very long shelf-life prior to triggering.

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

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

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

On August 23, 2012, the Company announced that, subject to the availability of sufficient funding, it will engage in further development of its SmartNanoBattery to make it rechargeable.

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

On October 26, 2012, the Company announced the development of a prototype of a new product “the mPower Jump” designed by Porsche Design Studio and Porsche Engineering as an automatic jump starter for a dead car battery. The device is portable, light in weight and small in size designed to fit in the glove compartment of most cars.

On January 24, 2013, the Company announced that it had received a notice of allowance from the U.S. patent office of a patent covering a device for fluid spreading and transport. The invention relates to a single porous substrate formed from a network of filaments wherein the network of filaments is comprised of a first plurality of filaments and a second plurality of filaments is exposed to a surface modification treatment and the second plurality of filaments is



covered with a conformal coating. A wetting region comprised of the first plurality of filaments extends through a first portion of the porous substrate and is permeable to fluid transport and a non-wetting region comprised of the second plurality of filaments which is operable to switch between a wetting and non-wetting state by an electrical source coupled to the second plurality of filaments. The invention protects a porous substrate with integrated wetting and non-wetting regions and is a key patent win for the Company relative to the protection of its intellectual property in the area of microfluid dynamics.

On January 30, 2013, the Company announced that it had received a patent from the U.S. patent office for a reserve battery system. The invention patented generally relates to a battery system that is easily activated via low mechanical force thus allowing a reserve battery to be used in a wide variety of consumer related and non-consumer related electrical devices.

On February 12, 2013, the Company announced that it has filed a United States Letter Patent application for a novel drug delivery system based on its Smart Surface technology. The drug delivery patent is based on mPhase's Smart Surface technology electronically or manually enabling the precise control of a fluid on a nano-structured surface. The drug delivery system generally relates to a drug delivery system for automatically dispensing a pre set dosage of a drug agent or medication.

On June 18, 2013, the Company announced that it had received the Frost & Sullivan award for its Innovative nano battery technology. Frost & Sullivan noted that the smart nanobattery is sustainable, cost-effective, easy to handle, and possesses a long shelf life, all of which clearly differentiate it from competing battery technologies. Frost & Sullivan further noted that this positions the technology to enhance the effectiveness of conventional batteries and encourage widespread use of reserve batteries.

On October 31, 2013, the Company announced that it had developed a cost-reduced version of its automotive battery jump starter product designed to appeal to the mass market.

During the remainder of fiscal year ended June 30, 2014 the Company began to receive its first revenues from sales of the Jump and mini Jump automotive battery jump starter from the commercial wholesale and retail markets in the United States.

### **Emergency Flashlight**

On December 5, 2008, mPhase Technologies, Inc. signed a contract with Porsche Design Gesellschaft m.b.H. in Austria (“Porsche Design’ Studio”), to design a premium version of the AlwaysReady Emergency Flashlight. A pilot program that began in March of 2010 has resulted in the sale of approximately 84 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. The Company maintains a small inventory of this product, which it continues to sell but does not, at this time, consider it a core product.

### **mPower Jump, mPower Mini Jump and mPower Jump Plus Products**

During fiscal year ended June 30, 2014, the Company announced that it had commenced sales through its wholly-owned subsidiary mPower Technologies, Inc. of the mPower Jump, mPower Mini Jump and mPower Jump Plus products. Each product is a rechargeable, compact device designed to jump start a dead battery in an automobile. Each product is rechargeable in a significantly shorter period of time than other jump starters and has a much smaller footprint enabling them to fit in the glove compartment in most cars. The Company views these three products as core strategic products.

The mPower Jump starts all 12V cars including 8 cylinder engines. Its peak current is 600 Amps and weighs 1.5 pounds. It has an operating temperature range of -4 degrees Fahrenheit to 140 degrees Fahrenheit. The mPower Mini Jump starts all 12 V vehicles and can charges smartphones, tablets and cameras and has three charging modes. It has the same temperature operating range as the mPower Jump. The mPower Jump Plus starts up to 40 vehicles on a single charge and recharges in approximately 8 hours. It has the same operating temperature range as the mPower Jump and also will fit into the glove compartment of most cars.

Finally, mPower Technologies, Inc. intends to provide multiple marketing services for small businesses and campaigns wishing to establish recognizable brands. The marketing offerings to potential clients will target improvement of their company image, assist in the growth of their service, campaign or product brands and engage their target audience by driving purchases, establishing trust and building brand loyalty.

mPower marketing support offerings could include a call center, web development and support, branding strategies, data management mining, ecommerces as well as 24/7 customer support services.

We are targeting campaigns and small businesses seeking public awareness and customer support services.

### **IPTV and Magnetomer**

The Company has discontinued these products.

## FINANCIAL OVERVIEW

**Revenues.** Since October 1, 2013, quarterly revenue, if any, has primarily been attributable to sales of its Jump and Mini Jump Products

**Cost of revenues.** Cost associated with revenues are comprised primarily of the cost to purchase out-sourced developed and manufactured products internationally and having them private labeled under the mPower brand name. These costs may be reduced assuming the Company moves forward with the commercialization and distribution of its automotive battery jump starter product and other potential products associated with its mechanically-activated reserve battery in large volumes.

**Research and development.** Research and development expenses have consisted principally of direct labor and payments made to various outside vendors including Porsche Design Studio and cost reduction vendors of the Porsche Designed products outside of the United States in connection with the Company's Automotive Battery Jump Starter products. The Company is continuing to seek SBIR grants and take advantage of other U.S. government financial programs to fund continued research and development of its Smart Nano Battery..

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

**Non-cash compensation charges.** The Company makes extensive use of stock, stock options and warrants as a form of compensation to employees, directors and outside consultants. .

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

### Cumulative losses, net worth and capital needs

The Company has incurred cumulative losses of \$209,920,297 and cumulative negative cash flow from operations of \$91,231,321 from inception through September 30, 2014. The auditors' report for the fiscal year ended June 30, 2014 includes the statement that "there is substantial doubt of the Company's ability to continue as a going concern". As of September 30, 2014, the Company had a negative net worth of (\$3,594,400) compared to a negative net worth of (\$3,554,585) as of June 30, 2014 as a result of continuing net losses.

The Company raised \$210,000 from private placements of 580,000,000 shares of common stock during the three months ended September 30, 2014. The Company also issued a \$40,000 Convertible Note to MH Investment Trust in August of 2014. The Company raised \$86,000 from private placements of 215 million shares of its common stock plus a \$37,500 Convertible Note issued to an Accredited Investor during the three months ended September 30, 2013. The Company has entered into an equity line of credit with Dutchess Capital and has registered a total of 250 million shares of common stock on an Form S-1 Registration Statement effective January 17, 2012. Under the terms of the Equity Line, the Company is eligible to "PUT" from time to time to the Dutchess fund at a price equal to 94% of the proceeds received from periodic sales of the common stock in the open market by the Dutchess fund. The Company received \$0 under the Equity Line for the 3 month period ended September 30, 2013.

While the Company believes it will be able to fund short term capital needs, it will from time to time need to supplement such funding. In the longer term, we estimate that the Company will need to raise approximately \$3,000,000 of additional funds through June 30, 2015 in order to fund commercialization of its products.

The Company does not expect to derive any material revenue from its nanotechnology product development during the current fiscal year. The Company estimates that material revenues from its SmartNanoBattery could occur in 18 months depending upon the Company's ability to secure federal funding in the form of SBIR grants and adoption and custom tailoring of such product as a reserve battery to a computer memory or other function for a specific weapons system. Additional revenues may be derived in fiscal year 2015 from sales of the Company's cost-reduced jump starter product depending upon the establishment of a successful licensing arrangement with a major high-end product distributor.

### **THREE MONTHS ENDED SEPTEMBER 30, 2014 VS. SEPTEMBER 30, 2013**

#### **REVENUE**

Total revenues were \$254,071 for the three months ended September 30, 2014 compared to \$0 for the three months ended September 30, 2013. The increase in revenue was the result of the Company's continued roll-out of its mPower Jump products..

#### **RESEARCH AND DEVELOPMENT**

Research and development expenses were \$2,502 for the three months ended September 30, 2014 as compared to \$665 during the comparable period in 2013. The Company has curtailed its program in research and development in order to conserve funds during the period.

Subject to available funds, the Company expects to increase its research and development efforts throughout fiscal 2015 and 2016. Such research is expected to focus on other applications for "smart surfaces" including the Smart Nano Battery. The initial applications for the nano power cell technology will address the need to supply emergency and reserved power to a wide range of electronic devices for both commercial and defense applications.

#### **SELLING AND MARKETING EXPENSES**

Selling and marketing expenses were \$55,854 for the three months ended September 30, 2014 as compared to \$35,719 for the comparable period in 2013.

## **GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative (G&A) expenses were \$428,853 for the three months ending September 30, 2014, up from \$211,883 or an increase of \$216,970 from the comparable period in 2013. Administrative expenses were held in check as the Company has made a concentrated effort to freeze or otherwise reduce administrative costs while it seeks to commercialize its smartnanobattery product capabilities and secure more substantial research funding for possible applications of its “smart surfaces” technology.

## **OTHER (EXPENSE) AND INCOME**

Included in this category are non-cash gains and costs associated with convertible debt derivative liabilities that include a non-cash gain for the change in derivative value of \$237,034, plus amortization of debt discount costs of \$7,346 and prepayment fees of \$14,916, resulting in a net gain of \$214,772 from derivative liabilities associated with the Company’s convertible debt and is not indicative of operating results. Additionally, net interest expense of \$78,396 brought total other income to \$136,376 in the current period. For the same period ended September 30, 2013, net other income totaled \$821,928, consisting primarily of net loss of \$744,013 from derivative liabilities, increased by interest expense of \$77,915.

## **NET INCOME AND (LOSS)**

The Company recorded net loss of \$284,289 for the three months ended September 30, 2014 as compared to net loss of \$1,073,195 for the three months ended September 30, 2013. This represents a net loss per common share of (\$0.0) and loss per share of \$(0.0) for the three month periods ended September 30, 2014 and 2013 respectively. The net loss recorded in the current period as compared to the net loss reported for the same period last year is directly attributable to the magnitude of the net gain from derivative liabilities associated with the Company’s convertible debt recorded for the three months ended September 30, 2014 and is not indicative of operating results.

## **CRITICAL ACCOUNTING POLICIES**

### **REVENUE RECOGNITION**

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

### **RESEARCH AND DEVELOPMENT**

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

### **MATERIAL EQUITY INSTRUMENTS**

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

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



purchase 1,493,056 shares, representing all of the contracts for warrants to purchase 12,604,168 shares that were reclassified to liabilities during the fiscal year ended June 30, 2008, were reclassified to permanent equity.

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

## **DERIVATIVE LIABILITY**

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

## **STOCK-BASED COMPENSATION**

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

## **MATERIAL RELATED PARTY TRANSACTIONS**

### ***MICROPHASE CORPORATION***

mPhase's President is also an officer and shareholder of Microphase and mPhase's Chief Operating Officer is also an employee of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase whereby it would use office space as well as the administrative services of Microphase, including the use of accounting personnel. This agreement was for \$5,000 per month and was on a month-to-month basis. In July 1998, the office space agreement was revised to \$10,000, in January 2000 to \$11,050 per month, in July 2001 to \$11,340 per month, in July 2002 to \$12,200 per month, in January 2003 to \$10,000 per month, and in July 2003 to \$18,000 per month. Additionally, in July 1998, mPhase entered into an agreement with Microphase, whereby mPhase would reimburse Microphase \$40,000 per month for technical research and development. In January 2003 the technical research and development agreement was revised to \$20,000 per month, and in July 2003 it was further revised to \$5,000 per month for technical and research development, \$5,000 per month for administrative services and \$5,000 per month under the office space agreement. Beginning July 1, 2006, billings for all of the above services has been \$5,000 per month and in July, 2008, such fees were reduced to \$3,000 per month. As of July 1, 2011, the fees were increased to \$3,630 per month. In July 2012, the fees were reduced to \$993 per month. In addition, Microphase also charges fees for specific projects on a project-by-project basis.

During the three months ended September 30, 2014 and September 30, 2013 \$ 4,867 and \$13,982 respectively, have been charged to expense. As a result of the foregoing transactions as of September 30, 2014, the Company had a \$12,275 payable to Microphase.

### ***JANIFAST LTD.***

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

Janifast Limited had been a significant shareholder of the Company until September 19, 2009, when it transferred to Mr. Durando 11,735,584 shares, representing all the shares of the Company held by Janifast, in consideration of the cancellation of loan obligations of \$181,901.57 to Mr. Durando in connection with the plan of its liquidation.

During the three months ended September 30, 2013 and 2014 nothing has been charged by Janifast to inventory or is included in operating expenses in the accompanying statements of operations.

***OTHER RELATED PARTIES***

Mr. Abraham Biderman was employed until September 30, 2003 by our former investment-banking firm Lipper & Company. On September 30, 2014, Mr. Biderman's affiliated firms of Palladium Capital Advisors and Eagle Strategic Advisers were owed unpaid finders' fees in the amount of \$160,000, which is included in due to related parties.

**Transactions with Officers**

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

**Total compensation and payables to related parties and to officers is summarized below:****Summary of compensation to related parties for the Three Months Ended September 30, 2014**

	Durando	Dotoli	Smiley	K. Durando	Biderman	Microphase	Total
Consulting / Salary	\$ 50,000	\$ 25,000	\$ 25,000				\$ 288,333
Interest	\$ 49,556	\$ 37,614	\$ 33,516				\$ 120,686
Rent						\$ 4,457	\$ 20,090
S,G&A				\$ 23,000		\$ 9,525	\$ 60,281
R&D							\$ 0
Finders Fees					\$ 10,000		\$ 54,000
<b>Total compensation for the Three Months Ended September 30, 2014</b>	<b>\$ 99,556</b>	<b>\$ 62,614</b>	<b>\$ 58,516</b>	<b>\$ 23,000</b>	<b>\$ 10,000</b>	<b>\$ 13,982</b>	<b>\$ 543,390</b>

**Summary of compensation to related parties for the Three Months Ended September 30, 2013**

	Durando	Dotoli	Smiley	K. Durando	Biderman	Microphase	Total
Consulting / Salary	\$20,000	\$20,000	\$20,000				\$60,000
Interest	\$17,370	\$12,230	\$10,437				\$40,037
Rent						\$ 2,979	\$2,979
S,G&A						\$ 1,888	\$1,888
R&D							\$
Finders Fees							\$
<b>Total compensation for the Three Months Ended September 30, 2013</b>	<b>\$37,370</b>	<b>\$32,230</b>	<b>30,437</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 4,867</b>	<b>104,904</b>

**Summary of payables to related parties as of September 30, 2014**

	Durando	Dotoli	Smiley	Total Notes Payable	Biderman	Microphase	Total
Notes Payable	\$287,515	\$121,365	\$0	\$408,880			\$408,880
Accrued Wages Officers	\$0	\$0	\$0	\$0			\$0
Due to Officers/Affiliates					\$160,000	\$ 12,275	\$172,275
Interest Payable	\$11,702	\$4,980	\$89,447	\$106,129			\$106,129
<b>Total Payable to Officers/ Affiliates as of September 30, 2014</b>	<b>\$299,217</b>	<b>\$126,345</b>	<b>\$89,447</b>	<b>\$515,009</b>	<b>\$160,000</b>	<b>\$ 12,275</b>	<b>\$687,284</b>

**Summary of payables to related parties as of June 30, 2014**

	Durando	Dotoli	Smiley	Total Notes Payable	Biderman	Microphase	Total
Notes Payable	\$289,015	\$122,865	\$0	\$411,880			\$411,880
Accrued Wages Officers	\$0	\$0	\$0	\$0			\$0
Due to Officers/Affiliates					\$150,000	\$16,183	\$166,183
Interest Payable	\$7,250	\$3,096	\$88,119	\$98,465			\$98,465
Total Payable to Officers/ Affiliates as of June 30, 2014	\$296,265	\$125,961	\$88,119	\$510,345	<b>\$150,000</b>	<b>\$16,183</b>	\$676,528

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company has incurred cumulative losses of \$209,920,297 and negative cash flows from operations of \$91,240,167 since inception as of September 30, 2014. The auditors' report for the fiscal year ended June 30, 2014 includes the statement that "there is substantial doubt of the Company's ability to continue as a going concern". As of September 30, 2014, the Company had a negative net worth of (\$3,594,400) compared to a negative net worth of (\$3,554,585) as of June 30, 2014 as a result of continuing net losses. .

The Company raised \$210,000 from private placements of 580,000,000 shares of common stock during the three months ended September 30, 2014. The Company also issued a \$40,000 Convertible Note to MH Investment Trust in August of 2014.

The Company raised \$86,000 from private placements of 215,000,000 shares of its common stock during the three months ended September 30, 2013. Finally, the Company entered into a \$10,000,000 equity line of Credit with Dutchess Opportunity Fund II, LLC in December of 2011. Under the equity line, the Company is eligible to "PUT" to the fund, 20,000,000 shares of its common stock during any pricing period. The Company has registered a total of 250,000,000 shares of its common stock on a Form S-1 Registration Statement with the Securities and Exchange Commission that was declared effective on January 17, 2012 in connection with the Dutchess Equity Line. As of September 30, 2013, the Company has received \$221,481 of proceeds under the Equity Line. The amount of proceeds to be received under the Equity Line, will depend upon the stock price of the Company at the various points in time it exercises the Put Option.

While the Company believes that private placements of its common stock to be issued from time to time will fund short term capital needs it will soon need to seek shareholder approval to increase its authorized shares of common stock. The Company is seeking to access a federal government sponsored funding programs designed to enable small business create additional job opportunities in the United States.. Such monies would be necessary primarily to fund expenditures for commercialization and distribution of its cost reduced automotive jump starter product designed for the mass market . The Company has been seeking distributors with which to establish licensing or distribution agreements in order to maximize potential revenue associated with the product.

The Company does not expect to derive any material revenue from its nanotechnology product development until after a deployment and custom tailoring of its Smart Nanobattery takes place by the Army which the Company currently estimates could occur during the next 18 months.

## **MANAGEMENT'S PLANS**

The Company has shifted its focus to the development its automotive jump starter product and its “smart surfaces” using the science of nanotechnology. The Company believes it will continue to generate revenues with respect to its cost-reduced automotive jump starter through Fiscal 2015. The Company does not expect to derive any material revenue from its nanotechnology products under development during the next 18 months. The Company anticipates that it will need not less than \$3,000,000 of additional capital to commence cost reduction, marketing and continued expansion of the distribution of its additional Jump Starter products. The Company’s ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near term to: (1) satisfy its current obligations, (2) continue its research and development efforts, and (3) allow the successful wide scale development, deployment and marketing of its products.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is not exposed to changes in interest rates as the Company has no debt arrangements and no investments in certain held-to-maturity securities. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of any financial instruments at September 30, 2014.

### **ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On November 20, 2012, mPhase Technologies, Inc. (the “Company”) formally received an Event of Default and Redemption Notice dated November 16, 2012 with respect to an 8% Convertible Note dated September 13, 2011 issued by the Company to St. George Investments LLC and assigned to John Fife. The Triggering Events include alleged defaults with respect to payments owed by the Company under the Convertible Note and the failure to convert the Note into shares of the Company’s common stock. The alleged amount owed according to the notice is approximately \$902,279. A lawsuit was commenced in late November in the Federal District Court, Northern District of Illinois Eastern Division by Fife against the Company alleging breach of contract and other actions in connection with the 8% Convertible Note.

On February 26, 2013, mPhase Technologies, Inc. (the “Company”) filed its Answer to a lawsuit filed by John Fife against the Company in the U.S. District Court, Northern District of Illinois Eastern Division. In the Answer the Company has asserted various affirmative defenses and counterclaims against Mr. Fife, including but not limited to claims for significant monetary damages caused to the Company’s common stock as the result of the failure to disclose a prior Consent Decree entered into between Mr. Fife and the Securities and Exchange Commission. The Company is not able to predict the outcome of such litigation but intends to pursue all of its rights and remedies vigorously under the Federal Securities Laws.

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

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

#### **Private Placements**

During the three months ended September 30, 2014, the Company issued 580,000,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of \$210,000. The proceeds were used by the Company as working capital.

During the three months ended September 30, 2013, the Company issued 215,000,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended,

raising gross proceeds of \$86,000 and incurring no finder's fees. The proceeds were used by the Company as working capital.

### **Stock Based Compensation**

During the three months ended September 30, 2014, the Company issued 5,712,857 shares of common stock compensation to employees valued at \$4,081. The Company during such period did not issue any common stock, warrants or options to officers.

During the three months ended September 30, 2013, the Company did not issue any shares of common stock compensation, warrants or options to officers or employees and issued 58,800,000 shares of common stock to consultants to cover certain legal fees and expenses valued at \$ 52,920, the entire amount of which is included in general and administrative expenses in the Consolidated Statements of Operations for that period.

### **Conversion of Debt Securities**

During the three months ended September 30, 2013, \$96,026 of debt including \$3,971 of accrued interest and \$9,054 prepayment fees thereon were converted into 141,761,066 shares of common stock.

During the three months ended September 30, 2014, there were no conversions of convertible debt and accrued interest thereon into shares of common stock.

### **Long Term Convertible Debentures / Debt Discount**

The Company had 11 separate convertible debt arrangements with independent investors that were in effect at various times during the two fiscal years ended June 30, 2014, 3 of which were still active as of September 30, 2014.

During the three months ended September 30, 2013, \$ 96,026 of debt including \$3,971 accrued interest and \$9,054 prepayment fees thereon was converted into 141,761,066 shares of common stock to holders of Convertible Notes.

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

#### **Arrangement #1 (JMJ Financial, Inc.)**

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

To date the Company has received a total of \$639,500 in cash and has issued 322,187,500 shares of common stock to the holder upon conversions of \$325,440 of principle and \$994,766 of conversion fees. The remaining \$604,600 of cash which was to be received from the holder plus accrued and unpaid interest was convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. Based upon the price of the Company's common stock on June 30, 2011 of \$.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 222,142,857 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated. At June 1, this note was combined with arrangement #4 JMJ Financial, Inc.

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

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

arrangement #3 JMJ Financial, Inc.

**Arrangement #2 (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 #3 JMJ Financial, Inc.

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

On April 5, 2010, the Company entered into a new financing agreement with JMJ Financial that consists of the following: 1) a convertible note issued by the Company in the principal amount of \$1,200,000 plus a one-time interest factor of 12% (\$144,000) and a maturity date of December 15, 2012, and (2) a secured promissory note from the holder of the convertible note in the amount of \$1,100,000 plus a one-time interest rate factor of 13.2% (\$144,000 each) and a maturity date of December 15, 2012. To date the Company has received a total of \$100,000 cash and has issued no shares of common stock to the holder upon conversions. The remaining \$1,144,000 of cash to be received from the holder plus accrued and unpaid interest is convertible into shares of common stock at the option of the holder.

Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. The number of shares into which this convertible note can be converted is equal to the dollar amount of the note divided by 75% of the lowest trade price during the 20 day trading period prior to conversion. Based upon the price of the Company's common stock on June 30, 2011 of \$.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 228,571,429 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated.

For accounting purposes the note receivable has been fully reserved, and the liability is recorded, when netted against the debt discount and cumulative conversions, at the amount funded. Based upon the price of the Company's common stock on June 30, 2011, the net liability of this note is convertible into approximately 19,047,619 shares of common

stock. At the commitment date, the derivative value of the embedded conversion feature of such security was \$421,891 and the debt discount was valued at \$521,891. As of June 30, 2011, this value was calculated to be \$486,795. During the year ended June 30, 2011, amortization of debt discount amounted to \$378,761, reducing the balance to \$ 100,000.

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

As of June 30, 2012, this convertible note has \$109,000 outstanding, which when combined with arrangements #8 and #9 totaled \$802,060, which the Company entered into an amended agreement on June 1, 2012 whereby the Company agreed to make payments of principle and interest of \$37,018 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company's common stock would be available to the holder. Also as of June 30, 2012 the derivative value of the embedded conversion feature of this arrangement when combined with arrangements #2 and #3 totaled \$0; which when compared to the combine value of \$1,567,512 created a non-cash credit to earnings of \$1,567,512 in fiscal 2012. As of, June 30, 2014, and September 30, 2014, the combined arrangements with JMJ in this note would be convertible into 237,807,785 and 242,752,575 at the conversion floor price of \$.004; and only so if the Company does not make the scheduled payments pursuant to the June 1, 2012 amended agreement. The Company has not made any payments of the \$37,018 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance.

**Arrangement #5 (John Fife dba St. George Investors)**

On September 13, 2011, the Company issued a second Convertible Note to John Fife founder and president of St. George Investments, in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933. The initial principal amount of the first funded tranche of the Convertible Note was \$357,500 and the Company received cash proceeds of \$300,000.

A second tranche of the Convertible Note in the amount of \$200,000 cash is funded upon the filing by the Company of a Registration Statement on Form S-1 with the Securities and Exchange Commission providing for the registration of 185,400,000 shares of common stock that may be converted into from time to time by the holder of the Convertible Note.

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

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

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be \$137,481 and the loan discount totaled \$194,981 for the initial tranche and the embedded conversion feature of this security and the warrant for a second tranche of the Convertible Note was calculated to be \$46,379. On June 30, 2012, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2012 and conversions during the period this estimated liability had increased from \$183,860 to \$771,079, an increase this period of \$587,219, creating a non-cash charge to earnings for the twelve months ended June 30, 2012 of that amount.

During the twelve month period ended June 30, 2012 amortization of debt discount amounted to \$185,456 reducing the combined balance to \$55,903. On June 30, 2013, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2013, this estimated liability had decreased to \$138,696, a decrease this period of \$689,007, creating a non-cash credit to earnings for the year ended June 30, 2013 of that amount. During the year ended June 30, 2013, amortization of debt discount amounted to \$55,903, reducing the combined balance to \$0. On September 30, 2013, this estimated liability had increased to \$910,771, an increase of \$772,075, creating a non-cash charge to earnings for the three month period.

The company entered into an amended agreement on June 1, 2012, when principle of \$557,500 accrued interest of \$66,338 and \$95,611 of contractual charges totaled \$719,449; with this noteholder whereby the Company agreed to make payments of principle and interest of \$33,238 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company's common stock would be available to the holder. As of September 30, 2012 this note would be convertible into 789,645,351 shares of common stock at the original terms. The Company has not made any payments of the \$33,238 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance (see note 4). On November 20, 2012, mPhase Technologies, Inc. (the "Company") formally received an Event of Default and Redemption Notice dated November 16, 2012 with respect to an 8% Convertible Note dated September 13, 2011 issued by the Company to St. George Investments LLC and assigned to John Fife. The notice included alleged defaults with respect to payments owed by the Company under the Convertible Note and the failure to convert the Note into shares of the Company's common stock. The alleged amount owed according to the notice is approximately \$902,279. The Company believes it has affirmative defenses to the actions of the holder of the Convertible Note as well as counterclaims against the Holder. As of June 30, 2013 and September 30, 2013, this note would be convertible into 700,806,707 and 1,224,139,360 shares of common stock at the original terms. As of June 30, 2014 and September 30, 2014 this note would be convertible, at the original terms, into 1,392,162,326 shares and 1,815,638,396 shares respectively of common stock.

#### **Arrangement #6 (Black Arch Opportunity Fund L.P.)**

On January 14, 2013, the Company issued to Black Arch Opportunity Fund L.P., Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received \$30,000 in gross proceeds. The instrument is in the principal amount of \$30,000 and matures on November 9, 2013. Interest only is payable at the rate of 12% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 45% discount (60% while the Company's stock is "chilled" by the DTC) 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 was calculated to be \$70,001 and the loan discount totaled \$70,001. On June 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to \$43,508, a decrease this period of \$26,423 creating a



non-cash credit to earnings of that amount. During the year ended June 30, 2013, amortization of debt discount amounted to \$70,001, reducing the balance to \$0. Based upon the price of the Company's common stock on June 30, 2013, this Note is convertible into approximately 57,668,070 shares of common stock. During the three months ended September 30, 2013, the Company issued 53,313,811 shares of common stock to repay this note in full together with \$1,811 accrued interest and \$9,054 prepayment fees thereon. The estimated liability for the embedded conversion fee was reduced by \$43,508, creating a non cash credit to earnings for this period as the note was paid in full.

#### **Arrangement #7 (Asher Enterprises, Inc. V)**

On January 31, 2013, 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 \$50,000 in gross proceeds, net of \$3,000 closing fees. The instrument is in the principal amount of \$53,000 and matures on November 4, 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 \$57,418 and the loan discount totaled \$60,418. On June 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to \$29,729, a decrease this period of \$27,689 creating a non-cash charge to earnings of that amount. During the year ended June 30, 2013, amortization of debt discount amounted to \$48,787 reducing the balance to \$0.

During the three months ended September 30, 2013, the Company issued 88,447,255 shares of common stock to repay this note in full, together with \$2,120 accrued interest. The estimated liability for the extended conversion fee of \$29,729 at June 30, 2013 was reduced to zero at September 30, 2013, creating a non cash credit to earnings for this period as the loan was repaid in full.

**Arrangement #8 (Asher Enterprises, Inc. VI)**

On July 2, 2013, 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 \$37,500 and matures on March 28, 2014. 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 \$28,216 and the loan discount totaled \$30,626. On September 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to \$36,212, an increase this period of \$8,086 creating a non-cash charge to earnings of that amount. During the three months ended September 30, 2013, amortization of debt discount amounted to \$30,626 reducing the balance to \$0. Based upon the price of the Company's common stock on September 30, 2013, this Note is convertible into approximately 57,688,070 shares of common stock.

On January 8, 2014 this note was prepaid in full, together with a prepayment fee of \$17,500 and accrued interest totaling \$2,729.

**Arrangement #9 (MH Investment trust I)**

On December 27, 2013, the Company issued to the MH Investment Trust. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 which was executed funded with \$40,000 in gross proceeds on January 7, 2014. The instrument is in the principal amount of \$40,000 and matures on October 1, 2014. Interest only is payable at the rate of 12% 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, or 65 % when the trading price exceeds \$.0020 for the five days before 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 \$35,556 and the company recorded no loan discount as the quantity of shares was considered indeterminable at the date of funding. On June 30, 2014, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to \$88,637, an increase for this period of \$53,081 creating a non-cash charge to earnings of that amount. Based upon the price of the Company's common stock on June 30, 2014 this Note is

convertible into approximately 100,952,381 shares of common stock. During July of 2014 rha Note was repaid, in full, together with \$2,632 of accrued interest and \$14,900 of prepayment fees.

**Arrangement #10 (MH Investment trust II)**

On August 26, 2014, the Company issued to the MH Investment Trust, a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 which was executed funded with \$40,000 in gross proceeds on May 1, 2015. The instrument is in the principal amount of \$40,000 and matures on October 1, 2014. Interest only is payable at the rate of 12% 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, or 65 % when the trading price exceeds \$.0020 for the five days before 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 \$37,778 and the company recorded a loan discount of the same amount. On September 30, 2014, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to \$38,156, an increase for this period of \$378 creating a non-cash charge to earnings of that amount. Based upon the price of the Company's common stock on September 30, 2014 this Note is convertible into approximately 112,222,222 shares of common stock.

## **EQUITY LINE OF CREDIT**

The Company entered into a \$10,000,000 equity line of Credit with Dutchess Opportunity Fund II, LLC in December of 2011. Under the equity line, the Company is eligible to “PUT” to the fund, 20,000,000 shares of its common stock during any pricing period. The Company has registered a total 465,076,471 shares of its common stock on a Form S-1 Registration Statement with the Securities and Exchange Commission that was declared effective on January 17, 2012 in connection with the Dutchess Equity Line. As of September 30, 2013, the Company has received \$221,481 of proceeds under the Equity Line. The amount of proceeds to be received under the Equity Line, will depend upon the stock price of the Company at the various points in time it exercises the Put Option.

## **ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

## **ITEM 4 (REMOVED AND RESERVED)**

## **ITEM 5 OTHER INFORMATION**

None.

## **ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K**

Form 8-K dated September 5, 2014 announcing the sale of a \$40,000 Convertible Note to MH Investment Trust

## **EXHIBITS**

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

mPHASE TECHNOLOGIES, INC.

Dated: November 13, 2014 By: /s/ Martin S. Smiley

Martin S. Smiley

Executive Vice President Chief Financial Officer and General Counsel