MPHASE TECHNOLOGIES INC
Form 10-Q/A
May 12, 2010

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

# FORM 10-Q/A
**(Amendment No. 3)**

Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
FOR THE QUARTER ENDED **September 30, 2009**

COMMISSION FILE NO. **000-30202**

# mPhase Technologies, Inc.
(Exact name of registrant as specified in its charter)

| **NEW JERSEY** | **22-2287503** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **587 CONNECTICUT AVE., NORWALK, CT** | **06854-1711** |
| (Address of principal executive offices) | (Zip Code) |

**(203) 838-2741**
ISSUER S TELEPHONE NUMBER

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

**YES [X] NO[ ]**

**THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK AS OF NOVEMBER 2, 2009 IS 1,026,658,256 SHARES, ALL OF ONE CLASS OF $.01 PAR VALUE COMMON STOCK.**

Explanatory Note

This Form 10-Q/A (3) is being filed for the purpose of restating those financial statements contained herein affected by the restatement of the financial statements for fiscal years ended June 30, 2008 and 2009 as originally contained in the Company's Form 10-K filed with the U.S. Securities and Exchange Commission on October 7, 2009, and restated in the Company's Form 10-K/A (2) filed with the U.S. Securities and Exchange Commission on April 21, 2010. The restatement involves reclassifying certain equity instruments out of additional paid in capital into other contingent liabilities for free standing warrants to issue shares at a fixed price as such warrants were issued subsequent to the Company entering into Convertible Debenture agreements which have features that may result in the obligation to issue shares in excess of authorized shares available. The contingent liability was recorded at the fair market value at the issuance date of the free standing warrants and recalculated at June 30, 2008 and again at September 30, 2008, on the quarterly measurement date, with the net change in the contingent liability credited to the change in derivative value in the Consolidated Statement of Operations for each period in accordance with FASB standards codification topic 815 (previously known as EITF 0019). The restatements decrease the Net Loss for the fourth quarter and for the fiscal year ended June 30, 2008 by $572,900, as well as increase total liabilities and Total Stockholders Deficit at June, 30 2008 by $433,300. The restatements decrease the Net Loss for the first quarter and for the fiscal year ended June 30, 2009 by $433,300.

As discussed in the footnote to the financial, the contingent liability was recorded at the fair market value at the issuance date of the free standing warrants and recalculated on the quarterly measurement date, with the net change in the contingent liability credited to the change in derivative value in the Consolidated Statement of Operations for each period in accordance with EITF 0019.

In addition, the Company is also concurrently filing certain additional improvements to its disclosure in this amended Form 10-Q for the quarter ended September 30, 2009.

This Form 10Q/A (3) has not been updated for any events or subsequent information other than the restatements discussed above.

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

| | | June 30, 2009 (As Restated) | | September 30, 2009 (Unaudited) (As Restated) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS | | | | |
| Cash | $ | 100,138 | $ | 867,295 |
| Accounts receivable | | 46,065 | | 23,193 |
| Prepaid and other current assets | | 153,636 | | 280,149 |
| Total Current Assets | | 299,839 | | 1,170,637 |
| Property and equipment, net | | 39,648 | | 91,469 |
| Note receivable | | 3,150,000 | | 4,450,000 |
| **TOTAL ASSETS** | **$** | **3,489,487** | **$** | **5,712,106** |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | $ | 1,864,956 | $ | 1,850,365 |
| Accrued expenses | | 482,388 | | 397,245 |
| Due to related parties | | 369,920 | | 51,875 |
| Notes payable, related parties | | 1,332,400 | | 1,511,514 |
| Short term notes | | 240,820 | | 240,820 |
| Current Portion, Long term debt | | - | | 9,419 |
| TOTAL CURRENT LIABILITIES | $ | 4,290,484 | $ | 4,061,238 |
| Long term portion Equipment loan | | - | | 35,600 |
| Convertible debt derivative liability - (Note 4) | | 2,380,816 | | 1,961,370 |
| Convertible debentures net of discount of $1,385,395 and $2,404,019 on June 30, 2009 and Sept 30,2009 respectively (Note 4) | | 2,052,355 | | 2,957,981 |
| **TOTAL LIABILITIES** | **$** | **8,723,655** | **$** | **9,016,189** |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | | | |
| STOCKHOLDERS' DEFICIT | | | | |
| Common stock, par value $.01, 2,000,000,000 shares authorized 870,419,882 and 1,006,285,037 shares issued and outstanding at June 30, 2009 and Sept.30, 2009 respectively | | 8,704,197 | | 10,062,850 |
| Additional paid in capital | | 172,861,427 | | 173,829,801 |
| Deficit accumulated during development stage | | (186,791,819) | | (187,188,761) |
| Less-Treasury stock, 13,750 shares at cost | | (7,973) | | (7,973) |
| **TOTAL STOCKHOLDERS' DEFICIT** | **$** | **(5,234,168)** | **$** | **(3,304,083)** |

| | | | | |
|---|---|---|---|---|
| **TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT** | **$** | **3,489,487** | **$** | **5,712,106** |

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

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

| | For the Three Months ended Ended Sept 30, 2008 (As Restated) | For the Three Months ended Ended Sept 30, 2009 | Date of Inception to Sept 30, 2009 (As Restated) |
|---|---|---|---|
| REVENUES | $ 6,266 | $ 51,837 | $ 22,800,455 |
| COSTS AND EXPENSES | | | |
| Cost of Sales | 0 | 0 | 16,424,692 |
| Research and Development (including non-cash stock related charges of $93,600, $0 and $2,503,719 for the three months ended Sept 30, 2008, 2009 and inception to date respectively) | 387,676 | 514,326 | 60,730,499 |
| General and Administrative (including non-cash stock related charges of $5,511,950, $0 and $67,844,914 for the three months ended Sept 30, 2008, 2009 and inception to date respectively) | 6,239,260 | 420,824 | 119,446,777 |
| Depreciation and Amortization | 13,483 | 5,285 | 3,309,449 |
| TOTAL COSTS AND EXPENSES | 6,640,419 | 940,435 | $ 199,911,417 |
| LOSS FROM OPERATIONS | (6,634,153) | (888,598) | (177,110,962) |
| OTHER INCOME (EXPENSE) | | | |
| Interest (Expense), net | (39,053) | (680,700) | (2,384,540) |
| Reparation, Impairment and Other (Expense) net | (198,372) | 4,284 | (8,506,423) |
| Change in Derivative Value and Debt Discount | 553,880 | 1,168,070 | 813,164 |
| TOTAL OTHER INCOME (EXPENSE) | 316,455 | 491,654 | (10,077,799) |
| NET (LOSS) | ($6,317,698) | ($396,944) | $ (187,188,761) |
| LOSS PER COMMON SHARE, basic and diluted | ($0.01) | ($0.00) | |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted | 452,895,360 | 934,821,600 | |

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

**mPHASE TECHNOLOGIES, INC.**
**(A Development Stage Company)**
**Consolidated Statement of Changes in Shareholders' Deficit For The Three Months Ended September 30, 2009**
(unaudited)

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | **Shares** | **$.01 Par Value** | **Treasury Stock** | **Additional Paid in Capital** | **Accumulated Deficit** | **Total Shareholders' (Deficit) Equity** |
| Balance July 1, 2009, as restated | 870,419,882 | $ 8,704,198 | $ (7,973) | $ 172,861,427 | $ (186,791,817) | $ (5,234,168) |
| Conversions of Convertible Debentures plus accrued interest | 82,531,821 | 825,318 | - | 452,432 | - | 1,277,750 |
| Conversions of Accounts Payable | 26,666,667 | 266,667 | - | (66,667) | - | 200,000 |
| Issuance of common stock in private placements net of offering cost ($20,000) | 26,666,667 | 266,667 | - | (86,667) | - | 180,000 |
| Beneficial Conversion feature of Officers' Notes Payable and conversion of accounts payable | - | - | - | 669,276 | - | 669,276 |
| Net Loss for the Three Months Ended September 30, 2009 | - | - | - | - | (396,944) | (396,944) |
| Balance September 30, 2009, as restated | 1,006,285,037 | $ 10,062,850 | $ (7,973) | $ 173,829,801 | $ (187,188,761) | $ (3,304,083) |

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

| | For Three Months Ended | | October 2, 1996 (Date of Inception) |
|---|---|---|---|
| | Sept 30, 2008 (As Restated) | Sept 30, 2009 | To Sept 30, 2009 (As Restated) |
| **Cash Flow From Operating Activities:** | | | |
| Net Income (Loss) | ($6,317,698) | ($396,944) | (187,188,761) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 40,307 | 8,198 | 7,408,498 |
| (Gain) loss on debt extinguishments | - | - | (937,370) |
| Non-cash charges relating to issuance of common stock, common stock options and warrants | 5,605,550 | - | 70,217,431 |
| Reparation charges | 216,689 | - | 8,228,734 |
| Derivative Value and Debt Discount charges | (553,880) | (1,168,070) | (163,013) |
| Write off of Granita Inventory/Sovereign Investment | - | | 615,910 |
| Other non cash charges including amortization of deferred compensation and beneficial conversion interest expense | - | 669,276 | 2,712,901 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (6,266) | 22,872 | 404,683 |
| Inventories | - | - | (510,471) |
| Prepaid expenses and Other current assets | 82,395 | 5,489 | (67,086) |
| Other | | - | 906,535 |
| Accounts payable, Accrued expenses, Deferred revenue | 58,123 | (99,733) | 8,210,148 |
| Due to/from related parties | | | - |
| Microphase / Janifast//Lintel | - | (118,045) | 5,391,842 |
| Officers and Other | 20,836 | 179,114 | 1,890,471 |
| **Net cash used in operating activities** | **($853,944)** | **($897,843)** | **($82,879,548)** |
| **Cash Flow from Investing Activities:** | | | |
| Payments related to patents and licensing rights | - | - | (450,780) |
| Purchase of fixed assets | - | (15,000) | (3,302,560) |
| Investment in Sovereign | - | - | (110,000) |
| **Net Cash (used) in investing activities** | **$ 0** | **($15,000)** | **($3,863,340)** |
| **Cash Flow from Financing Activities:** | | | |
| Proceeds from issuance of common stock, | | | - |
| exercises warrants and finders fees, net | 180,000 | 180,000 | 82,878,879 |
| Payments of short term notes | | | (1,281,552) |
| Advances from Microphase | | | 347,840 |
| Issuance of Convertible Debentures | | | 266,500 |
| Net Proceeds (Repayment) from notes payable related parties | | | 234,516 |
| Proceeds from the collection of Notes Receivable under securities purchase agreements (note 4) | 700,000 | 1,500,000 | 4,650,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Sale of minority interest in Granita subsidiary | | | | | | 514,000 |
| Repurchase of treasury stock at cost | | | | | | - |
| **Net cash provided by financing activities** | **$** | **880,000** | **$** | **1,680,000** | **$** | **87,610,183** |
| **Net increase in cash** | **$** | **26,056** | **$** | **767,157** | **$** | **867,295** |
| CASH AND CASH EQUIVALENTS, beginning of period | | 15,533 | | 100,138 | | |
| CASH AND CASH EQUIVALENTS, end of period | **$** | **41,589** | **$** | **867,295** | **$** | **867,295** |

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

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

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

NATURE OF OPERATIONS - mPhase Technologies, Inc. (the "Company") was organized on October 2, 1996 and is in the development stage, as defined by Statement of Accounting Standards Codification ("ASC") 915-10-20, "Accounting and Reporting by Development Stage Enterprises." The Company's present activities are focused on microfluidics, microelectromechanical systems (MEMS) and nanotechnology. Since mPhase is in the development stage, the accompanying consolidated financial statements should not be regarded as typical for normal operating periods.

BASIS OF PRESENTATION - The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ending September 30, 2009 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/A (Amendment No. 2) for the year ended June 30, 2009.

Through September 30, 2009, the Company had incurred cumulative (a) development stage losses totaling $187,188,761 (b) stockholders' deficit of $3,304,083, and (c) negative cash flow from operations equal to $82,879,548. At September 30, 2009, the Company had $867,295 of cash and $23,193 of trade receivables to fund short-term working capital requirements. In addition, the Company relies on the continuation of funding under certain convertible securities agreements (See Note 4) The Company's ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near term to: (1) satisfy its current obligations, (2) continue its research and development efforts, and (3) allow the successful wide scale development, deployment and marketing of its products.

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

LOSS PER COMMON SHARE, BASIC AND DILUTED - The Company accounts for net loss per common share in accordance with the provisions of ASC 260-10, "EARNINGS PER SHARE" ("EPS"). ASC 260-10 requires the disclosure of the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Common equivalent shares have been excluded from the computation of diluted EPS for all periods presented since their affect is anti dilutive. At September 30, 2009, the Company's convertible debentures agreements are convertible into approximately 315,100,000 shares of common stock. The officer's notes payable and accrued interest therein are convertible into 199,140,000 shares of common stock.

MATERIAL EQUITY INSTRUMENTS

The Company has material equity instruments including Convertible Debentures and Convertible Notes which are accounted for as Derivative liabilities and options and warrants that are evaluated quarterly for potential reclassification as liabilities pursuant to EITF 00-19 (SEE ALSO NOTE 4- Equity Transactions and Convertible Debt under the captions.. Derivative Financial Instruments and Other Equity ).

NEW ACCOUNTING PRONOUNCEMENTS- In June 2008, the Financial Accounting Standards Board (FASB) ratified the final consensuses for ASC 815-40-5 Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock ( ASC 815-40-5 ). ASC 815-40-5 became effective for fiscal years beginning after December 15, 2008. The adoption of ASC 915-40-50 did not have a material effect on the Company's results of operations or financial condition.

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 105-10, *Generally Accepted Accounting Principles Overall*

( ASC 105-10 ). ASC 105-10 establishes the *FASB Accounting Standards Codification* (the Codification ) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ( ASUs ). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification.

Effective January 1, 2009, the Company adopted FASB ASC Topic 805, *Business Combinations* ( ASC 805 ). ASC 805 establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. ASC 805 also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805 also provides guidance for recognizing changes in an acquirer s existing income tax valuation allowances and tax uncertainty accruals that result from a business combination transaction as adjustments to income tax expense. The adoption of ASC 805 did not have an impact on the Company's results of operations or financial condition.

In April 2009, the FASB issued updated guidance related to business combinations, which is included in the Codification in ASC 805-20, *Business Combinations Identifiable Assets, Liabilities and Any Noncontrolling Interest* ( ASC 805-20 ). ASC 805-20 amends and clarifies ASC 805 to address application issues regarding initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. In circumstances where the acquisition-date fair value for a contingency cannot be determined during the measurement period and it is concluded that it is probable that an asset or liability exists as of the acquisition date and the amount can be reasonably estimated, a contingency is recognized as of the acquisition date based on the estimated amount. ASC 805-20 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not believe ASC 805-20 will have a material impact on the Company s future financial statements.

Effective January 1, 2008, the Company adopted FASB ASC 820-10, *Fair Value Measurements and Disclosures Overall* ( ASC 820-10 ) with respect to its financial assets and liabilities. In February 2008, the FASB issued updated guidance related to fair value measurements, which is included in the Codification in ASC 820-10-55, *Fair Value Measurements and Disclosures Overall Implementation Guidance and Illustrations*. The updated guidance provided a one year deferral of the effective date of ASC 820-10 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company adopted the provisions of ASC 820-10 for non-financial assets and non-financial liabilities effective January 1, 2009, and such adoption did not have a material impact on the Company s results of operations or financial condition.

Effective April 1, 2009, the Company adopted FASB ASC 820-10-65, *Fair Value Measurements and Disclosures Overall Transition and Open Effective Date Information* ( ASC 820-10-65 ). ASC 820-10-65 provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for an asset or liability have significantly decreased. ASC 820-10-65 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of ASC 820-10-65 did not have an impact on the Company s results of operations or financial condition.

Effective April 1, 2009, the Company adopted FASB ASC 825-10-65, *Financial Instruments Overall Transition and Open Effective Date Information* ( ASC 825-10-65 ). ASC 825-10-65 amends ASC 825-10 to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements and also amends ASC 270-10 to require those disclosures in all interim financial statements. The adoption of ASC 825-10-65 did not have a material impact on the Company s results of operations or financial condition.

Effective April 1, 2009, the Company adopted FASB ASC 855-10, *Subsequent Events Overall* ( ASC 855-10 ). ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements

being presented. Adoption of ASC 855-10 did not have a material impact on the Company s results of operations or financial condition.

Effective July 1, 2009, the Company adopted FASB ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820)* ( ASU 2009-05 ). ASU 2009-05 provided amendments to ASC 820-10, *Fair Value Measurements and Disclosures Overall,* for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using certain techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. Adoption of ASU 2009-05 did not have a material impact on the Company s results of operations or financial condition.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements,* (amendments to FASB ASC Topic 605, *Revenue Recognition* ) ( ASU 2009-13 ) and ASU 2009-14, *Certain Arrangements That Include Software Elements*, (amendments to FASB ASC Topic 985, *Software* ) ( ASU 2009-14 ). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect adoption of ASU 2009-13 or ASU 2009-14 to have a material impact on the Company s results of operations or financial condition.

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**2 SUPPLEMENTAL CASH FLOW INFORMATION**

For the three months ended September 30,

| | | 2008 | | 2009 |
|---|---|---|---|---|
| Interest Accrued Unpaid | $ | 39,053 | $ | 39,972 |
| Non Cash Investing and Financing Activities: Stock issued in settlement of accounts payable and accrued expenses | $ | 0 | $ | 200,000 |
| Conversion of convertible debt and accrued interest | $ | 615,000 | $ | 1,277,500 |
| Beneficial Conversion of Officer's Notes and Conversion of Accounts Payable | $ | - | $ | 669,276 |
| Convertible Debt issued for Notes Receivable | $ | - | $ | 2,800,000 |

**4. EQUITY TRANSACTIONS AND CONVERTIBLE DEBT**

**Private Placements**

During the quarter ended September 30, 2009, the Company issued 2,666,667 shares of its common stock at $.0075 per share in private placements generating gross proceeds of $200,000 with placement costs of $20,000, netting $180,000.

During the quarter ended September 30, 2008, the Company issued 4,000,000 shares of its common stock at $.05 per share in private placements generating net proceeds of $180,000, after placement costs of $20,000. Related to this transaction was the issuance of 3,862,000 shares as reparations shares to effect repricing costing an estimated $216,689.

**Stock Based Compensation**

During the quarter ended September 30, 2009, the Company did not issue any stock-based compensation, warrants or options to officers, employees or consultants.

During the three months ended September 30, 2008, the Company issued 5 year options to purchase 104,675,000 shares of common stock at $.05 per share. The value of such options was estimated to be $2,825,900 using the Black Scholes method. In addition, 61,750,000 shares of common stock valued at $2,779,650 were issued to employees and consultants.

**Conversion of debt securities and Strategic vendor payables**

During the three months ended September 30, 2009, $1,277,750 of convertible debt and accrued interest thereon was converted into 82,531,821 shares of Common stock.

During the three months ended September 30, 2009, $200,000 of accounts payable to Microphase Corporation was converted into 26,666,667 shares of Common stock. The Company recorded $586,667 interest expense on the beneficial conversion feature.

During the three months ended September 30, 2008, $615,000 of convertible debt and accrued interest thereon was converted into 16,226,500 shares of Common stock.

DERIVATIVE FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" require all derivatives to be recorded on the balance sheet at fair value. The beneficial conversion features of the convertible debentures are embedded derivatives and are separately valued and accounted for on our balance sheet with changes in fair value recognized during the period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model we use for determining fair value of our derivatives is the Black-Scholes Pricing Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income.

**Long Term Convertible Debentures / Note Receivable / Debt Discount**

The Company currently has four separate convertible debt arrangements with independent investors. During the three months ended September 30, 2009, $1,277,750 of these convertible debt arrangements and accrued interest thereon was converted into 82,531,821 shares of Common stock. These transactions are intended to provide liquidity and capital to the Company and are summarized below.

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

On Sept 11, 2008, the Company received proceeds of $200,000 under a Securities Purchase Agreement from La Jolla Cove Investors, Inc. This transaction involves three related agreements: 1) A Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to $2,000,000 of funds; 2) A Convertible Debenture totaling $2,000,000, with a interest rate of 7 1/4% and a maturity date of September 30, 2011 and 3) A Secured Note Receivable in the amount of $1,800,000, with a interest rate of 8 1/4% and maturity dates of September 30,2011 due from the same parties who are the holders of the Convertible Debentures.

Conversion of outstanding debentures into common shares is at the option of the holder at a price equal to the dollar amount of the debenture divided by the lesser of $.35 per share or 80% of the three lowest Volume Weighted Average Price during a 20 day trading period. At the time of the transaction (September 11, 2008) the derivative value of this security was calculated to be $1,176,471.On June 30, 2009 the derivative value of this security was calculated to be $1,080,343. On September 30, 2009, given the changes in the stock price, this value had decreased to $519,044, a $561,299 decrease this quarter creating a non-cash credit to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $71,646 reducing the balance to $502,790.

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

In April, 2008, the Company received proceeds of $300,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) A Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to $1,000,000 of funds; 2) Two Convertible Debentures totaling $1,450,000, with a one time interest factor of 12% and a maturity date of March 25, 2011 and 3) A Secured Note Receivable in the amount of $1.0 million, with a one time interest factor of 13.2 % and maturity dates of March 25, 2012 due from the same parties who are the holders of the Convertible Debentures .

Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75%- 80% of the 3 lowest Volume Weighted Average Prices during a 20 day trading period. At the time of the transaction the derivative value of this security was calculated to be $2,493,212. On June 30, 2008, given the decrease in the stock price, this value had decreased to $284,922. On September 30, 2008, such value had increased to $378,662 creating a non-cash charge to earnings over the year of $93,740. In addition, the transaction resulted in a note discount which is being amortized as expense over the life of the loan. Draws under the Note Receivable are not anticipated until November 2008 and are collateralized by $1 million of Blue Chip Stocks. In total 2 million shares were issued in connection with the convertible debentures with a relative fair value of $160,000 included in debt discount. During the three month period ended Sept 30, 2008, amortization of debt discount amounted to $132,917 reducing the balance to $1,196,250.

On June 30, 2009 the derivative value of this security was calculated to be $444,552. On September 30, 2009, given the changes in the stock price combined with the fact that the principle amount of the two convertible debentures was converted in full satisfaction during the three months ended September 30, 2009, this value had decreased to $0, a $444,552 decrease this quarter creating a non-cash credit to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $322,070 reducing the balance to $0.

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

On December 31, 2008, the Company entered into a second agreement with JMJ Financial. This transaction involves; 1) A Convertible Debenture in the amount of $1.1 million, plus a one time interest factor of 12% ($132,000) and a maturity date of December 31, 2011 and 2) A Secured Note Receivable in the amount of $1.0 million, plus a one time interest factor of 13.2 % ($132,000) and maturity date of December 31, 2012 due from the same parties who are the holders of the Convertible Debentures. No cash was exchanged relative to this agreement.

Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest Price during the 20 day trading period prior to conversion. At the commitment date the embedded conversion feature of such security was $586,667 and the debt discount valued at $586,667.

On June 30, 2009 the derivative value of this security was calculated to be $855,921. On September 30, 2009, given the changes in the stock price and conversions reducing the principle balance to 482,000, this value had decreased to $195,721 a $660,200 decrease this quarter creating a non-cash credit to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $241,689 reducing the balance to $247,200.

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

On August 19, 2009, the Company received proceeds of $250,000 in connection with a third agreement with JMJ Financial. This transaction involves 1) a Convertible Debenture in the amount of $1,870,000, plus a one time interest factor of 12% ($224,400) and a maturity date of August 10, 2012 and 2) A Secured Note Receivable in the amount of

$1,700,000 plus a one time interest factor of 13.2% ($224,400) and a maturity date of August 10, 2012 due from the same parties who are the holders of the Convertible Debenture.

Conversion of outstanding into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest trade price during the 20 day trading period prior to conversion. At the commitment date the embedded conversion feature of such security was $1,054,395 and the debt discount valued at $1,224,395.

On September 30, 2009, given the changes in the stock price this value had decreased to $759,333 a $295,062 decrease this quarter creating a non-cash credit to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $102,333 reducing the balance to $1,122,362.

**Arrangement#5 (JMJ Financial, Inc.)**

On September 30, 2009, the Company received a total of $150,000 of proceeds in connection with another agreement with JMJ Financial. This transaction involves 1) A Convertible Debenture 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 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 same parties who are the holders of the Convertible Debentures.

Conversion of outstanding into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest trade price during the 20 day trading period prior to conversion. In addition, the Company has received a commitment from JMJ Financial to enter into an identical financing not later than 60 days from September 23, 2009.

At the commitment date the embedded conversion feature of such security was $480,000 and the debt discount valued at $580,000.

On September 30, 2009, given the changes in the stock price this value had increased to $487,272 a $7,272 increase this quarter creating a non-cash charge to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $48,333 reducing the balance to $531,667.

**Other Equity**

During the years ended June 30, 2008 and 2009 the Company reevaluated warrants contracts to purchase 13,104,168 shares at fixed prices ranging from $.05 to $.15 per share originally issued during Fiscal Year Ended June 30, 2008 pursuant to FASB Standards Codification Topic 815 (previously known EITF 00-19) , such reevaluation was to review if the Company should record an additional Derivative Liability which would be recordable if the other convertible instruments the Company has outstanding; primarily the Convertible Debentures discussed above; would limit or prevent the Company from honoring the conversion of these fixed price warrants during their contract term. The evaluation was performed on a contract by contract basis to equity instruments subject to FASB Standards Codification Topic 815 (previously known EITF 00-19); namely the warrants discussed above and the Convertible Debenture agreements whereby the Company utilized a sequencing method prescribed therein, 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 of the Company s common stock at fixed prices ranging from $.13 to $.15 per share to contingent liabilities. Contracts for warrants to purchase 11,111,113 shares of the Company s common stock at $.14 per share continued to be subject to reevaluation through March 31, 2009 and contracts for warrants to purchase 1,604,168 shares of the Company s common stock at fixed prices ranging from $.13 to $.15 per share continued to be subject to reevaluation through September 30, 2009.

At the issuance dates during the fiscal year ended June 30, 2008 the estimated value of the contingent liability of these warrants approximated $1,006,200; and as recalculated on the quarterly measurement dates, as of June 30, 2008 the estimated value of the contingent liability approximated $433,300, and during the six months ended December 31, 2008 the estimated value of the contingent liability was determined to no longer be material. The net change in the contingent liability was credited to the change in derivative value in the Consolidated Statement of Operations for each period in accordance FASB Standards Codification Topic 815 (previously known EITF 00-19).

As recalculated on each of the quarterly measurement dates subsequent to December 31, 2008, the estimated value of the contingent liability of the contracts for the warrants to purchase 12,604,168 shares of the Company s common stock continued to not be material.

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**5. GRANITA MEDIA**

Effective July 1, 2007, the Company formed Granita Media, Inc. to separate its IPTV business and facilitate the raising of capital. Pursuant to an arrangement with 4 employees of mPhase, such employees were terminated from mPhase as of July 1, 2007 and became employees of Granita Media Inc and invested solely in the common stock of Granita Media Inc. Under the arrangement, each of the 4 employees were required to invest $125,000 in exchange for an aggregate 2% equity interest in Granitia Media, Inc with mPhase continuing to own 98% of the Company. The 4 employees contributed a total of $339,000 of the total $500,000 equity investment required from them and raised from third party investors another $175,000 for a total of $514,000 Granita Media has 19,000,000 shares of common stock outstanding of which 18,000,000 was owned by mPhase Technology and 1,000,000 is being held for issuance the 4 employees and the third party investors pending an agreement among such persons of the allocation of such shares.

Under the terms of the arrangement between mPhase and the 4 employees, such employees were authorized to sell up to 7.99% of additional equity in the Company for a total of not less than $2,000,000 of additional capital by December 31, 2007. As noted above, the employees raised a total of $175,000 of outside capital only and pursuant to the arrangement, such employees either resigned or were terminated by mPhase together with several lower level employees of Granita. A dispute has arisen between Granita Media and one of the former employees with respect to a sum of approximately $176,000 included in short term loans. It is the Company s position that such sums were voluntarily advanced to fund operating expenses after July 1, 2007. Since the 4 employee / officers of Granita Media were required to cover operating expenses of Granita Media after July 1, 2007 through equity investments either directly or from third parties, the Company has taken the position that such amount nor any related interest and fees are not owed to the employee. In addition, the Company has substantial rights of offset for unpaid rent with respect to the portion of its Little Falls office occupied by Granita Media after July 1, 2007. Granita Meida, Inc. ceased operations in December of 2007.

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**6. COMMITMENTS AND CONTINGENCIES**

The Company has a lease obligation for the rental of office space in Little Falls New Jersey until May 1, 2010. The annual obligation under such lease requires rent of $2,245 per month ($21,600 annually) for the year beginning June 1, 2009 and ending May 1, 2010.

mPhase has entered into various agreements with Georgia Tech Research ("GTRC") and its affiliate, Georgia Tech Applied Research Corporation, ("GTARC"), pursuant to which the Company receives technical assistance in developing the commercialization of its Digital Video and Data Delivery System. The amount incurred by the Company for GTRC technical assistance with respect to its research and development activities during the nine months ended, September 30,2007, 2008 and 2009 respectively totaled $0, $0 and $0 respectively, and $13,539,952 from the period from inception through September 30, 2009.

**Legal Proceedings**

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

**7. 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 820-10-20defines 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 a reconciliation for liabilities measured at fair value on a recurring basis at September 30, 2009 and 2008:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivative Liability | |
|---|---|---|
| | September 30, 2009 (As Restated) | September 30, 2008 (As Restated) |
| Balance at July 1, | $ 2,380,816 | $ 1,183,451 |
| Decrease in Derivative Liability | (1,953,841) | (553,880) |
| Debt discounts | 1,534,395 | 397,153 |

| Balance at September 30, | $ | 1,961,370 | $ | 1,026,724 |
|---|---|---|---|---|

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, 2009, the carrying value of the notes payable and accrued interest was $4.0 million. The JMJ Convertible Notes, which are due at various times through December 2012, yield an interest rate of 12%. Refer to Note 4 of these financial statements for more information about the Company s notes payable.

**8. SUBSEQUENT EVENTS**

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

Through October 30, 2009 the Company issued 15,000,000 shares of its common stock in connection with the conversion of $241,875 of the convertible debt arrangements and accrued interest thereon discussed in NOTE 4.

Through November 2, 2009 the Company issued 1,500,000 shares of its common stock to consultants for services with an issue date value of $32,750.

**9. RESTATEMENT OF RESULTS**

The restatement involves reclassifying certain equity instruments out of additional paid in capital into other contingent liabilities for free standing warrants to issue shares at a fixed price as such warrants were issued subsequent to the Company entering into Convertible Debenture agreements which have features that may result in the obligation to issue shares in excess of authorized shares available. The contingent liability was recorded at the fair market value at the issuance date of the free standing warrants and recalculated at June 30, 2008 and again during FYE ended June 30, 2009, on the quarterly measurement date, with the net change in the contingent liability credited to the change in derivative value in the Consolidated Statement of Operations for each period in accordance with FASB standards codification topic 815 (previously known as EITF 0019). The restatements decrease the Net Loss for the fourth quarter and for the fiscal year ended June 30, 2008 by $572,900, as well as increase total liabilities and Total Stockholders Deficit at June, 30 2008 by $433,300. The restatements decrease the Net Loss for the first quarter and for the fiscal year ended June 30, 2009 by $433,300.

The contingent liability was recorded at the fair market value at the issuance date of the free standing warrants and recalculated on the quarterly measurement date, with the net change in the contingent liability credited to the change in derivative value in the Consolidated Statement of Operations for each period in accordance with FASB standards codification topic 815 (previously know as EITF 0019) resulting in the following restatement to the financial captions listed below:

| Consolidated Balance Sheets | June 30, 2008 | | | | September 30, 2009 (unaudited) | | | |
|---|---|---|---|---|---|---|---|---|
| | as originally reported | | as restated | | as originally reported | | as restated | |
| Contingent liabilities | $ | - | $ | 433,300 | $ | - | $ | - |
| Total Liabilities | $ | 5,155,686 | $ | 5,588,986 | $ | 9,016,189 | $ | 9,016,189 |
| Additional paid in capital | $ | 165,067,510 | $ | 164,061,310 | $ | 174,836,001 | $ | 173,829,801 |
| Deficit accumulated during development stage | $ | (172,268,340) | $ | (171,695,440) | $ | (188,194,961) | $ | (187,188,761) |
| TOTAL STOCKHOLDERS DEFICIT | $ | (2,804,853) | $ | (3,238,153) | $ | (3,304,083) | $ | (3,304,083) |

| Consolidated Statements of Operations-For the Three Months Ended | September 30, 2008 (unaudited) | | | | September 30, 2009 (unaudited) | | | |
|---|---|---|---|---|---|---|---|---|
| Other Income (Expense) | $ | (116,845) | $ | 316,455 | $ | 491,654 | $ | 491,654 |
| Net (Loss) | $ | (6,750,998) | $ | (6,317,698) | $ | (396,944) | $ | (396,944) |
| Loss per Share | $ | (0.01) | $ | (0.01) | $ | 0.00 | $ | 0.00 |

In addition, the Company expanded its disclosure with respect to Convertible Debentures, Certain Equity Instruments and Notes Receivable.

**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 LITIGATIONREFORM 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 19,000 shareholders and approximately 1.027 billion shares of common stock outstanding. The Company's common stock is traded on the Over the Counter Bulletin Board under the ticker symbol XDSL. We are headquartered in Norwalk, Connecticut with offices in Little Falls, NJ. mPhase shares common office space with Microphase Corporation, a privately held company. Microphase is a leader in the field of radio frequency and filtering technologies within the defense and telecommunications industry. It has been in operation for over 50 years and supports mPhase with both engineering and administrative and financial resources as needed.

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

The platform technology behind the Smart NanoBattery is a porous nanostructured material used to repel and precisely control the flow of liquids. The material has a *Smart Surface* that can potentially be designed for self-cleaning applications, water purification/desalination, liquid filtration/separation, and environmental cleanup.

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

mPhase is headquartered in Little Falls, New Jersey, with additional offices in Norwalk, Connecticut, and New York, New York.

Since our inception in 1996 we have been a development-stage company and operating activities have related primarily to research and development, establishing third-party manufacturing relationships and developing product brand recognition among telecommunications service providers.



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

mPhase uses MEMS, to precisely control the machining of silicon-based materials at the micrometer and nanometer scales. This ability has led to the Company's proprietary membrane design that controls the wetting and movement of liquids on a solid surface. mPhase uses microfluidics to control the flow of liquid electrolyte through the porous membrane and 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 demonstratedcontrol and manipulation of fluids on superhydrophobic and superlyophobic surfaces to create a new type of battery or energy storagedevice 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 year 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.

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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.

Also 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. In terms of the battery, Bell Labs was no longer sufficient because they had no in-house means to handle lithium chemistry. mPhase/AlwaysReady continued to work with Rutgers ESRG which could work with lithium, but also engaged in work with other companies to supply essential components, fabricate prototypes, and plan manufacturing approaches. These companies included a well-respected silicon foundry and battery manufacturer.

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

In March of 2008, mPhase announced that it had been invited to submit a proposal for a Phase II STTR grant, based upon the successful work it had performed on the Phase I grant to develop a version of the Smart NanoBattey referred to as the multi-cell, micro-array reserve battery for a critical U.S. Army memory backup application. The Phase II grant in the gross amount of $750,000 (net $500,000) was granted to the Company in the middle of September of 2008 .In March of 2008, the Company also announced the successful transfer to a commercial foundry of certain processes critical to the manufacturing of its Smart NanoBattery. This will enable fabrication of the porous membranes for the multi-cell, micro-array reserve battery mentioned above. The Company successfully manufactured nanostructured membranes at the foundry that are essential to commercial production of the battery. By achieving a series of delayed activations, the shelf-life and continuous run-time of such battery is increased to a period of time in

excess of twenty years. In April of 2008, the Company announced that it had successfully activated it's 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 pouchpackage 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.

**Emergency Flashlight**

On December 5, 2008 mPhase Technologies, Inc. signed a contract with Porsche Design Gesellschaft m.b.H., Flugplatzstrasse 29, A,S700 Zell am See. Austrla [ Porsche Design Studio ], to design a premium version of the AlwaysReady Emergency Flashlight. The flashlight will contain 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.

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

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

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

**Magnetometer**

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

**IPTV**

Historically, the Company since its inception has focused upon developing innovative solutions for the delivery of Broadcast Television as part of a triple play of services that includes voice and high-speed internet for telephone service providers globally. Beginning in fiscal year 2004, the Company began developing Broadcast television delivery solutions through software/middleware designed to enable telephone service providers to deliver video data using internet protocol. The Company s middleware/software is highly scalable, potentially saving telephone service providers significant hardware deployment costs for routers and servers required for the carrier class delivery of broadcast television using internet protocol. Such solution potentially expands the content of available information from the internet into broadcast quality television. The Company s middleware is capable of delivering over copper, fiber, coax or any infrastructure representing a combination of the foregoing that is used by a telecommunications service provider. The Company has not to date been able to derive any significant revenue from our TV+ solution.

Because the roll-out of broadcast television using internet protocol has been a lengthy process for major service providers in the United States, the Company has suspended development of new features for its TV+ solution in order to conserve financial resources pending further development in the U.S. market. All inventory has been written off and all strategic alternatives relative to this business segment including the valuation and sale of assets or licensing of the technology are being evaluated.



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**FINANCIAL OVERVIEW**

**Revenues**. Since July 1,2007 and inclusive of the most current quarter, revenue has primarily been attributable to grants from the United States Army and testing arrangements involving its nanotechnology products.

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

**Research and development**. Research and development expenses have consisted principally of direct labor and payments made to Eagle Picher, Porsche Design Studio and Microphase, as well as other third party vendors involved in the development of the solution and nanotechnology products. All research and development costs are expensed as incurred.

**General and administrative.** General and administrative expenses consist primarily of salaries and related expenses for personnel engaged in its nanotechnology product line, legal and accounting personnel. Certain administrative activities are outsourced on a monthly fee basis to Microphase Corporation and mPhase leases its office in Norwalk, Connecticut from Microphase Corporation.

**Non-Cash compensation charges**. The Company makes extensive use of stock, stock options and warrants as a form of compensation to employees, directors and outside consultants. We incurred non-cash compensation charges totaling $70,217,431 from inception (October 2, 1996) through September 30, 2009.

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

**Cumulative losses, net worth and capital needs**

The Company has incurred cumulative development stage losses of $187,188,761 and negative cash flow from operations of $82,879,548 from inception through September 30, 2009. The auditors report for the fiscal year ended June 30, 2009 includes the statement that "there is substantial doubt of the Company's ability to continue as a going concern". As of September 30, 2009, the Company had a negative net worth of ($3,304,083) compared to a negative net worth of ($5,234,167) as of June 30, 2009 as a result of continuing net losses. The Company has Convertible Debentures funded with JMJ Financial, Inc that should enable the Company to raise significant working capital for the next fiscal year. Draws under this facility in the current fiscal quarter ended Sept, 30, 2009 amounted to $1,500,000 (accounted for as a pay-down of notes receivable). The Company expects to be able to receive approximately $300,000 per month through August of 2012 under its current Convertible Debentures with JMJ Financial, Inc. While the Company believes these facilities will fund short term capital needs it may from time to time need to supplement such funding.. In the longer term, we estimate that the Company will need to raise approximately $5-15 million of additional capital above the funds through June 30, 2010 in order to fund commercialization of its products. The Company does not expect to derive any material revenue from its Nanotechnology product development until the third quarter of fiscal year 2010.

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**THREE MONTHS ENDED September 30, 2009 VS. September 30, 2008**

**REVENUE**

Total revenues were $51,837 for the three months ended September 30, 2009 compared to $6,266 for the three months ended September 30, 2008. Revenues derived in the current quarter was related to billings under a Phase II U.S. Army Grant of $750,000 (net to the Company of $500,000) which began September 2008.

**RESEARCH AND DEVELOPMENT**

Research and development expenses were $514,326 for the three months ended September 30, 2009 as compared to $387,676 during the comparable period in 2008 or an increase of $126,650. This increase in spending is a result of acceleration of work to bring its emergency flashlight using its mechanically activated reserve batter to market . In connection with such efforts the Company paid major vendors such as Eagle Pitcher $125,000, Porsche Design Studio $42,914, MKE $42,336 and Microphase Corporation $250,000, respectively, for the quarter ended September 30, 2009. Fees paid to Microphase Corporation included $200,000 that was converted into the Company s common stock at $.0075 per share.

Subject to available funds, the Company expects to increase its research and development efforts throughout fiscal year 2009. Such research is expected to also include products such as the Phase II Army Reserve Battery that is being developed using the science of nanotechnology . The initial applications for the nano power cell technology will address the need to supply emergency and reserved power to a wide range of electronic devices for both commercial and defense applications.

**GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative (G&A) expenses were $420,824 for the three months ending September 30, 2009 down from $6,239,260 or a decrease of $5,818,436 from the comparable period in 2008. The decrease in G&A expense is primarily the result of non-cash charges relating to the issues of common stock and options to employees and consultants that amounted to $5,605,550 during the quarter ended September 30, 2008 compared to $0 for the quarter ended September 30, 2009. In addition, the Company engaged in significant salary reductions for its employees in late

September of 2008 that has continued and the Company has reduced the size of its staff to 8 full time employees.

**OTHER (EXPENSE) AND INCOME**

Included in the quarter ended September 30, 2008, as restated, are non-cash gains and costs associated with convertible debt that include a non-cash credit for the change in derivative value of $1,333,198 , offset by amortization of debt discount costs of $779,318, resulting in a net gain of $553,880 from derivative liabilities.

**NET INCOME AND (LOSS)**

The Company recorded a net loss of $396,944 for the three months ended September 30, 2009 as compared to a loss of $6,317,698 for the three months ended September 30, 2008. This represents a net loss per common share of $.00 and loss per share of $.01 for the three month periods ended September 30, 2009 and 2008 respectively. The decrease in net loss is attributable to the significant reduction in non-cash compensation to officers, employees and consultants and the net gain from derivative liabilities associated with the Company s convertible debt recorded for the three months ended September 30, 2009.

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**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 principals 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."

**OPTIONS, WARRANTS AN OTHER CONVERTIBLE EQUITY INSTRUMENTS**

**STOCK BASED COMPENSATION**

On July 1, 2005, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 123R, "Share-Based Payment" (SFAS 123R). SFAS 123R revised SFAS 123, "Accounting for Stock Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires companies to measure and recognize 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 fair value of options granted in fiscal year ended June 30, 2008 and 2009 was estimated as of the date of grant using the Black-Sholes stock option pricing model, based on the following weighted average assumptions: annual expected return of 0%, an average life of 5 years, annual volatility of 71% and 80.3% and a risk-free interest rate 2.25% and 3.0%in the years 2008 and 2009 respectively.

**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 EITF 00-19 (SEE ALSO NOTE 8 "Stockholders Equity" 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 contingent liabilities.

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

**DERIVATIVE FINANCIAL INSTRUMENTS**

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" require all derivatives to be recorded on the balance sheet at fair value. The beneficial conversion features of the convertible debentures are embedded derivatives and are separately valued and accounted for on our balance sheet with changes in fair value recognized during the period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model we use for determining fair value of our derivatives is the Black-Scholes Pricing Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. "

***MICROPHASE CORPORATION***

mPhase's President, Chief Operating Officer and Chairman of the Board of the Company are also officers of Microphase and mPhase's President and Chairman of the Board are shareholders of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase, whereby it will use office space as well as the administrative services of Microphase, including the use of accounting personnel. This agreement was for $5,000 per month and was on a month-to-month basis. In July 1998, the office space agreement was revised to $10,000, in January 2000 to $11,050 per month, in July 2001 to $11,340 per month, in July 2002 to $12,200 per month, in January 2003 to $10,000 per month, and in July 2003 to $18,000 per month. Additionally, in July 1998, mPhase entered into an agreement with Microphase, whereby mPhase reimburses Microphase $40,000 per month for technical research and development. In January 2003 the technical research and development agreement was revised to $20,000 per month, and in July 2003 it was further revised to $5,000 per month 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. In addition, Microphase also charges fees for specific projects on a project-by-project basis. During the three months ended September 30, 2009, $200,000 of accounts payable to Microphase Corporation was converted into 26,666,667 shares of common stock at a converstion price of $.0075, which was comparable to private placements during that quarter. During the quarter ended September 30, 2009, the company recorded $586,667 interest expense for this beneficial conversion feature. During the three months ended September 30, 2008 and 2009 and from inception (October 2, 1996), $12,644, $126,846 and $9,434,213 respectively, have been charged to expense. As a

result of the foregoing transactions as of September 30, 2009, the Company had a $76,875 payable to Microphase $25,000 of which is included in Accounts Payable.



**JANIFAST LTD.**

The Company historically has purchased products and incurs certain research and development expenses with Janifast Ltd., with offices in Hong Kong and with manufacturing facilities in the Peoples Republic of China. Janifast Ltd was owned by U.S. Janifast Holdings, Ltd., a company in which three directors of mPhase were significant shareholders and one is an officer, in connection with the manufacturing of POTS Splitter shelves and component products including cards and filters sold by the Company. In March of 2009 Janifast Ltd ceased operations owing to financial distress and adverse global financial and credit conditions.

During the three months ended September 30, 2008 and 2009 and the period from inception (October 2, 1996), $0, $0 and $16,031,811 respectively, have been charged by Janifast to inventory or is included in operating expenses in the accompanying statements of operations.

***OTHER RELATED PARTIES***

Mr. Abraham Biderman was employed until September 30, 2003 by our former investment-banking firm Lipper & Company On Sept.30, 2009, Mr. Biderman's affiliated firm of Palladium Capital Advisors was owed unpaid finders fees in the amount of $150,000. During the three months ended September 30, 2009 finders fees in the amount of $20,000 were recorded and paid.

**Transactions with Officers**

At various points during the current quarter and at various points during the past fiscal year 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. In addition, during the three months ended September 30, 2009, the Company issued to employees and consultants a total of 61,700,000 shares of common stock and 104,650,000, 5 year options to purchase Company stock at 5 cents per share. 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 tock at the discretion of the holder provided such shares are authorized and available at a conversion price of $.0075 per share, which was comparable to private placements done during that quarter. During the quarter ended September 30, 2009, the Company recorded $82,609 interest expense on the accrued interest for this beneficial conversion feature.

Total compensation (including the value of stock awards) to related parties and payables to officers are summarized below.

**Summary of compensation to related parties for the Three Months Ended September 30, 2009**

| | Durando | Dotoli | Smiley | Biderman | Microphase | Total |
|---|---|---|---|---|---|---|
| Consulting / Salary | $ 50,000 | $ 45,000 | $ 43,750 | | | $ 138,750 |
| Interest | $ 18,523 | $ 13,523 | $ 7,927 | | | $ 39,972 |
| Rent | | | | | $ 9,000 | $ 9,000 |
| G&A | | | | | $ 1,846 | $ 1,846 |
| R&D | | | | | $ 125,000 | $ 125,000 |
| Finders Fees | | | | $ 20,000 | | $ 20,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Stock based compensation (shares issued)* | | | | | | $ 0 |
| Stock based compensation (options issued)* | | | | | | $ 0 |
| **Total compensation** | **$ 68,523** | **$ 58,523** | **$ 51,677** | **$ 20,000** | **$ 135,846** | **$ 334,568** |

**Summary of payables to related parties as of September 30, 2009**

| | Durando | Dotoli | Smiley | Microphase |
|---|---|---|---|---|
| Notes payable | $ 617,420 | $ 450,756 | $ 264,224 | |
| Due to Officers / Affiliates | $ 0 | $ 5,550 | | $ 76,875 |
| Interest Payable | $ 79,995 | $ 76,037 | $ 14,890 | |
| **Total Payable to related parties as of September 30, 2009** | **$ 697,415** | **$ 532,343** | **$ 279,114** | **$ 76,875** |

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**Summary of compensation to related parties for the three months ended September 30, 2008**

| | Durando | Dotoli | Smiley | Biderman | Microphase | Total |
|---|---|---|---|---|---|---|
| Consulting / Salary | $ 98,400 | $ 70,500 | $ 50,000 | | | $ 218,900 |
| Interest | | | $ 4,291 | | | $ 4,291 |
| Rent | | | | | $ 9,000 | $ 9,000 |
| R&D | | | | | $ 3,644 | $ 3,644 |
| Finders Fees | | | | $ 20,000 | | $ 20,000 |
| Stock based compensation (shares issued)* | $ 1,215,000 | $ 720,000 | $ 450,000 | $ 180,000 | | $ 2,565,000 |
| Stock based compensation (options issued) | $ 1,350,000 | $ 810,000 | $ 486,000 | $ 54,000 | | $ 2,700,000 |
| **Total compensation** | **$ 2,663,400** | **$ 1,600,500** | **$ 990,291** | **$ 254,000** | **$ 12,644** | **$ 5,520,835** |
| Common stock issued* | 27,000,000 | 16,000,000 | 10,000,000 | 4,000,000 | | 57,000,000 |
| Options issued (5years @5 cents) | 50,000,000 | 30,000,000 | 18,000,000 | 2,000,000 | | 100,000,000 |

*Shares issued to officers are pursuant to agreements dated August 8, 2008 between the Company and the Messrs Durando, Dotoli and Smiley. The agreements state that the stock granted may not be sold until the earlier of two (2) years **or** when the stock price for 60 consecutive days closes at a price of $.25 per share or greater and the average trading volume during such 60 day period is not less than 1,000,000 shares per day.

**Summary of payables to related parties as of September 30,2008**

| | Durando | Dotoli | Smiley | Microphase | Janifast | Total |
|---|---|---|---|---|---|---|
| Notes payable | | $ 8,000 | $ 216,538 | | | $ 224,538 |
| Deferred Compensation | $ 278,000 | $ 323,500 | | | | $ 601,500 |
| Due to Officers / Affiliates | $ 295,890 | $ 88,756 | | $ 40,650 | ($19,336) | $ 405,960 |
| Interest Payable | | | $ 23,043 | | | $ 23,043 |
| Total Payable to Officers | $ 573,890 | $ 420,256 | $ 239,581 | $ 40,650 | ($19,336) | $ 1,255,041 |

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**LIQUIDITY AND CAPITAL RESOURCES**

The Company has incurred cumulative development stage losses of $187,188,761, and negative cash flow from operations of $82,879,548. The auditors report for the fiscal year ended June 30, 2009 includes the statement that "there is substantial doubt of the Company's ability to continue as a going concern". As of September 30, 2009, the Company had a negative net worth of ($3,304,083) compared to a negative net worth of ($5,234,168) as of June 30, 2009 as a result of continuing net losses. The Company received $1,500,000 in connection with issuance and periodic installment payments received from Convertible Debentures for the three month period that ended September 30, 2009. In addition, the Company has several convertible debentures with JMJ Financial, Inc. in which the Company expects to fund approximately $300,000 per month through August of 2010. While the Company believes these facilities will fund short term capital needs it may from time to time need to supplement such funding. In the longer term, we estimate that the Company will need to raise approximately $5-15 million of additional capital above the funds anticipated from the monthly conversion JMJ, to meet longer term liquidity needs through June 30, 2010. Such monies would be necessary primarily to fund expenditures for commercialization and distribution of its emergency flashlight product which includes the Company s mechanically-activated reserve battery contained therein. The Company does not expect to derive any material revenue from its Nanotechnology product development until the third quarter of fiscal year 2010.

**MANAGEMENT'S PLANS**

The Company has shifted its focus to the development of its emergency flashlight product containing its mechanically-activated reserve battery and products using the science of Nanotechnology. The Company does not expect to derive any material revenue from its Nanotechnology product development until the third quarter of fiscal year 2010. In addition, the Company relies on the continuation of funding under certain convertible securities agreements (See Note 4) 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, 2009.

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**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, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 2. CHANGES IN SECURITIES**

**Private Placements**

During the quarter ended September 30, 2009, the Company issued 2,666,667 shares of its common stock at $.0075 per share in private placements generating gross proceeds of $200,000 with placement costs of $20,000, netting $180,000.

**Stock Based Compensation**

During the quarter ended September 30, 2009, the Company did not issue any stock-based compensation, warrants or options to officers, employees or consultants. Subsequently, through November 2, 2009 the Company issued 1,500,000 shares of its common stock to consultants for services with an issue date value of $32,750.

**Conversion of debt securities and Strategic vendor payables**

During the three months ended September 30, 2009, $1,277,750 of convertible debt and accrued interest thereon was converted into 82,531,821 shares of Common stock. Subsequently, through October 30, 2009 the Company issued 15,000,000 shares of its common stock in connection with the conversion of $241,875 of the convertible debt arrangements and accrued interest thereon.

During the three months ended September 30, 2009, $200,000 of accounts payable to Microphase Corporation was converted into 26,666,667 shares of Common stock. The Company recorded $586,667 interest expense for this beneficial conversion feature.

**Long Term Convertible Debentures / Note Receivable / Debt Discount**

The Company currently has four separate convertible debt arrangements with independent investors. During the three months ended September 30, 2009, $1,277,750 of these convertible debt arrangements and accrued interest thereon

was converted into 82,531,821 shares of Common stock. These transactions are intended to provide liquidity and capital to the Company and are summarized below.

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

On Sept 11, 2008, the Company received proceeds of $200,000 under a Securities Purchase Agreement from La Jolla Cove Investors, Inc. This transaction involves three related agreements: 1) A Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to $2,000,000 of funds; 2) A Convertible Debenture totaling $2,000,000, with a interest rate of 7 1/4% and a maturity date of September 30, 2011 and 3) A Secured Note Receivable in the amount of $1,800,000, with a interest rate of 8 1/4% and maturity dates of September 30,2011 due from the same parties who are the holders of the Convertible Debentures. Conversion of outstanding debentures into common shares is at the option of the holder at a price equal to the dollar amount of the debenture divided by the lesser of $.35 per share or 80% of the three lowest Volume Weighted Average Price during a 20 day trading period. At the time of the transaction (September 11, 2008) the derivative value of this security was calculated to be $1,176,471.On June 30, 2009 the derivative value of this security was calculated to be $1,080,343. On September 30, 2009, given the changes in the stock price, this value had decreased to $519,044, a $561,299 decrease this quarter creating a non-cash credit to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $71,646 reducing the balance to $502,790.

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

In April, 2008, the Company received proceeds of $300,000 under a Securities Purchase Agreement. This transaction involves three related agreements: 1) A Securities Purchase Agreement which may under certain circumstances permit the Company to draw up to $1,000,000 of funds; 2) Two Convertible Debentures totaling $1,450,000, with a one time interest factor of 12% and a maturity date of March 25, 2011 and 3) A Secured Note Receivable in the amount of $1.0 million, with a one time interest factor of 13.2 % and maturity dates of March 25, 2012 due from the same parties who are the holders of the Convertible Debentures .

Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75%- 80% of the 3 lowest Volume Weighted Average Prices during a 20 day trading period. At the time of the transaction the derivative value of this security was calculated to be $2,493,212. In total 2 million shares were issued in connection with the convertible debentures with a relative fair value of $160,000 included in debt discount.

On June 30, 2009 the derivative value of this security was calculated to be $444,552. On September 30, 2009, given the changes in the stock price combined with the fact that the principle amount of the two convertible debentures was converted in full satisfaction during the three months ended September 30, 2009, this value had decreased to $0, a $444,552 decrease this quarter creating a non-cash credit to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $322,070 reducing the balance to $0.

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

On December 31, 2008, the Company entered into a second agreement with JMJ Financial. This transaction involves; 1) A Convertible Debenture in the amount of $1.1 million, plus a one time interest factor of 12% ($132,000) and a maturity date of December 31, 2011 and 2) A Secured Note Receivable in the amount of $1.0 million, plus a one time interest factor of 13.2 % ($132,000) and maturity date of December 31, 2012 due from the same parties who are the holders of the Convertible Debentures. No cash was exchanged relative to this agreement.

Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest Price during the 20 day trading period prior to conversion. At the commitment date the embedded conversion feature of such security was $586,667 and the debt discount valued at $586,667.

On June 30, 2009 the derivative value of this security was calculated to be $855,921. On September 30, 2009, given the changes in the stock price and conversions reducing the principle balance to 482,000, this value had decreased to $195,721 a $660,200 decrease this quarter creating a non-cash credit to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $241,689 reducing the balance to $247,200.

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

On August 19, 2009, the Company received proceeds of $250,000 in connection with a third agreement with JMJ Financial. This transaction involves 1) a Convertible Debenture in the amount of $1,870,000, plus a one time interest factor of 12% ($224,400) and a maturity date of August 10, 2012 and 2) A Secured Note Receivable in the amount of $1,700,000 plus a one time interest factor of 13.2% ($224,400) and a maturity date of August 10, 2012 due from the same parties who are the holders of the Convertible Debenture.

Conversion of outstanding into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest trade price

during the 20 day trading period prior to conversion. At the commitment date the embedded conversion feature of such security was $1,054,395 and the debt discount valued at $1,224,395.

On September 30, 2009, given the changes in the stock price this value had decreased to $759,333 a $295,062 decrease this quarter creating a non-cash credit to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $102,333 reducing the balance to $1,122,362.

**Arrangement#5 (JMJ Financial, Inc.)**

On September 30, 2009, the Company received a total of $150,000 of proceeds in connection with another agreement with JMJ Financial. This transaction involves 1) A Convertible Debenture 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 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 same parties who are the holders of the Convertible Debentures.

Conversion of outstanding into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the lowest trade price during the 20 day trading period prior to conversion. In addition, the Company has received a commitment from JMJ Financial to enter into an identical financing not later than 60 days from September 23, 2009. At the commitment date the embedded conversion feature of such security was $480,000 and the debt discount valued at $580,000.

On September 30, 2009, given the changes in the stock price this value had increased to $487,272 a $7,272 increase this quarter creating a non-cash charge to earnings for the quarter ended September 30, 2009 of that amount. During the three month period ended Sept 30, 2009, amortization of debt discount amounted to $48,333 reducing the balance to $531,667.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

None.

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

| EXHIBITS. | DESCRIPTION. |
|---|---|
| 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. |

**REPORTS ON FORM 8K**

On August 19, 2009 the Company filed a Form 8K announcing that it had received $250,000 of additional funding from JMJ Financial, Inc under the terms of a Convertible Note.

**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: May 11, 2010

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