MPHASE TECHNOLOGIES INC
Form 10-Q
May 21, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

FOR THE QUARTER ENDED March 31, 2015

COMMISSION FILE NO. **000-30202**

FORM 10-Q

mPhase Technologies, Inc.

(Exact name of registrant as specified in its charter)

NEW JERSEY *(State or other jurisdiction of incorporation or organization)*	**22-2287503** *(I.R.S. Employer Identification Number)*
777 PASSAIC AVENUE, SUITE 375, CLIFTON, NEW JERSEY *(Address of principal executive offices)*	**07012** *(Zip Code)*

973-256-3737

ISSUER'S TELEPHONE NUMBER

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

YES NO

THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK AS OF MAY 13, 2015 IS 15,634,035,881 SHARES, ALL OF ONE CLASS OF $.001 PAR VALUE COMMON STOCK.

mPHASE TECHNOLOGIES, INC.

INDEX

mPHASE TECHNOLOGIES, INC.

Consolidated Balance Sheets

	March 31, 2015 (Unaudited)	June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash	$25,759	$179,257
Accounts receivable, net	10,852	29,594
Inventory, net	245,491	594,320
Prepaid and other current assets	92,350	57,239
TOTAL CURRENT ASSETS	**$374,452**	**$860,410**
Property and equipment, net	7,996	3,001
Other Assets	17,109	-
TOTAL ASSETS	**$399,557**	**$863,411**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$1,184,491	$1,150,397
Accrued expenses	248,992	326,311
Due to related parties	186,184	166,183
Customer Deposits	32,802	-
Notes payable, related parties	515,787	510,345
Short term notes-discontinued operations	65,000	65,000
Current Portion, Long term convertible debentures	1,143,090	1,522,217
TOTAL CURRENT LIABILITIES	**$3,376,346**	**$3,740,453**
OTHER OBLIGATIONS CONVERTIBLE TO EQUITY		
Convertible debt derivative liability	572,349	637,543
Long term portion of Convertible debentures	656,971	40,000
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' DEFICIT		
Common stock, par value $.001, 18,000,000,000 shares authorized, 15,417,369,214 and 13,850,576,024 shares issued and outstanding at March 31, 2015 and June 30, 2014, respectively	15,417,368	13,850,575
Additional paid in capital	191,288,688	192,230,848
Accumulated Deficit	(210,912,165)	(209,636,008)
TOTAL STOCKHOLDERS' DEFICIT	**$(4,206,109)**	**$(3,554,585)**

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	**$399,557**	**$863,411**

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

mPHASE TECHNOLOGIES, INC.

Consolidated Statements of Operations

	For the Three Months Ended March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
REVENUES	$174,442	$255,113
COSTS AND EXPENSES		
Cost of Sales	115,818	150,647
Research and Development	0	501
Selling and Marketing (including non-cash stock related charges of $3,341 and $0 for the three months ended March 31, 2015 & 2014).	55,313	49,771
General and Administrative (including non-cash stock related charges of $0 and $126,340 for the three months ended March 31, 2015 & 2014).	342,785	396,946
Depreciation and Amortization	669	3,000
TOTAL COSTS AND EXPENSES	514,585	600,865
OPERATING LOSS	$(340,143)	$(345,752)
OTHER INCOME (EXPENSE)		
Interest (Expense)	(82,372)	(1,392,852)
Settlement Expense	(3,629)	-
Net Charges related to Convertible Debt	1,667	(164,035)
TOTAL OTHER INCOME (EXPENSE)	$(84,334)	$(1,556,887)
Loss From Operations, before Income Taxes	$(424,477)	$(1,902,639)
Income Taxes	-	-
Net Loss	$(424,477)	$(1,902,639)
Basic & Diluted Net income loss per share:	$(0.00)	$(0.00)
Weighted Average Number of Shares Outstanding; Basic & Diluted	15,080,180,968	7,561,827,456

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

mPHASE TECHNOLOGIES, INC.

Consolidated Statements of Operations

	For the Nine Months Ended	
	March 31, 2015 (Unaudited)	**March 31, 2014 (Unaudited)**
REVENUES	$969,415	$308,767
COSTS AND EXPENSES		
Cost of Sales	620,421	200,456
Research and Development	4,694	1,667
Selling and Marketing (including non-cash stock related charges of $17,955 and $0 for the nine months ended March 31, 2015 & 2014).	194,949	155,721
General and Administrative (including non-cash stock related charges of $0 and $179,260 for the nine months ended March 31, 2015 & 2014).	1,098,985	784,093
Depreciation and Amortization	3,341	9,000
TOTAL COSTS AND EXPENSES	1,922,390	1,150,937
OPERATING LOSS	$(952,975)	$(842,170)
OTHER INCOME (EXPENSE)		
Interest (Expense)	(244,214)	(1,549,369)
Settlement Expense	(141,048)	-
Net Charges related to Convertible Debt	62,080	(228,898)
TOTAL OTHER INCOME (EXPENSE)	$(323,182)	$(1,778,267)
Loss From Operations, before Income Taxes	$(1,276,157)	$(2,620,437)
Income Taxes	-	-
Net Loss	$(1,276,157)	$(2,620,437)
Basic & Diluted Net loss per share:	$(0.00)	$(0.00)
Weighted Average Number of Shares Outstanding; Basic & Diluted	14,637,604,866	6,208,810,268

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

mPHASE TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT

F0R THE NINE MONTHS ENDED MARCH 31, 2015

(Unaudited)

	Common Stock		**Additional**		
	Shares	**$.001 Par Value**	**Paid in Capital**	**Accumulated Deficit**	**Stockholders' Deficit**
Balance June 30, 2014	13,850,576,024	$13,850,575	$192,230,848	$(209,636,008)	$(3,554,585)
Issuance of Common Stock to accredited investors in private placements, including 50,000,000 shares to finders, net of $34,500 fees	1,533,333,333	1,533,333	(1,017,833)	-	515,500
Issuance of Common Stock for services	33,459,857	33,460	(15,505)	-	17,955
Beneficial Conversion Feature Interest Expense Charged to Additional Paid in Capital	-	-	91,178	-	91,178
Net Loss for the Nine Months Ended March 31, 2015	-	-	-	(1,276,157)	(1,276,157)
Balance March 31, 2015	15,417,369,214	$15,417,368	$191,288,688	$(210,912,165)	$(4,206,109)

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

mPHASE TECHNOLOGIES, INC.

Consolidated Statements of Cash Flows

	For the Nine Months Ended March 31, 2015 (Unaudited)	2014 (Unaudited)
Cash Flow From Operating Activities:		
Net Loss	$(1,276,157)	$(2,620,437)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,843	10,667
Non-cash charges relating to Convertible Debt Settlement	137,419	
Non-cash charges relating to issuance of common stock, common stock options and warrants	17,955	179,260
Derivative Value and Debt Discount charges (credits)	(62,080)	228,898
Other non cash charges including amortization of deferred compensation and beneficial conversion interest expense	91,178	1,340,186
Changes in assets and liabilities:		
Accounts receivable	18,742	(61,808)
Inventories	348,829	(42,819)
Prepaid expenses and Other current assets	(35,111)	(238,322)
Other	(17,109)	-
Accounts payable & Accrued expenses	112,760	95,368
Customer deposits	32,802	-
Due to/from related parties		
Microphase & Eagle	20,001	(38,896)
Officers	-	180,000
Net cash used in operating activities	**$(606,928)**	**$(967,903)**
Cash Flow from Investing Activities:		
Purchase of fixed assets	(8,838)	-
Net Cash used in investing activities	**$(8,838)**	**$0**
Cash Flow from Financing Activities:		
Proceeds from issuance of common stock, net of finders fees	515,500	981,500
Payment of short term notes & equipment loans	-	(4,580)
Issuance of Convertible Debentures	40,000	75,500
Repayment of Convertible Debentures	(93,232)	-
Net Proceeds (Repayment) from notes payable related parties	-	1,865
Net cash provided by financing activities	**$462,268**	**$1,054,285**
Net increase (decrease) in cash	**$(153,498)**	**$86,382**
CASH AND CASH EQUIVALENTS, beginning of period	**$179,257**	**$1,055**

CASH AND CASH EQUIVALENTS, end of period	**$25,759**	**$87,437**

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

F-5

mPHASE TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ending March 31, 2015 are not necessarily indicative of the results that may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K, as amended, for the year ended June 30, 2014.

Through March 31, 2015, the Company had incurred cumulative (a) losses totaling $210,912,165, and (b) stockholders’ deficit of $4,206,109. At March 31, 2015, the Company had $25,759 of cash and $10,852 of trade receivables to fund short-term working capital requirements. In addition, the Company relies on the continuation of funding through private placements of its common stock. The Company’s ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near term to: (1) satisfy its current obligations, (2) continue its research and development efforts, and (3) allow the successful wide scale development, deployment and marketing of its products.

INVENTORY

The Company uses the First In First Out method (FIFO) to account for inventory which is carried at cost. As of June 30, 2014, inventory consisted primarily of its various Jump products including the Jump and the mini Jump, and our remaining flashlight inventory, and was valued at $594,320. As of March 31, 2015, (unaudited) inventory consisted primarily of the Company's line of Jump products including the new Jump Plus, and our remaining flashlight inventory, and was valued at $245,491. Appropriate reserves have been taken to assure that the cost of such inventory does not exceed the expected resale value.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 8 could differ from those estimates.

LOSS PER COMMON SHARE, BASIC AND DILUTED

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net loss adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The Company had no warrants to purchase shares of its common stock and no options to purchase shares of its common stock outstanding at March 31, 2015. The Company has convertible securities held by third parties and convertible notes plus accrued interest thereon held by officers of the Company, subject to availability, convertible into approximately 362,438,196 immediately, and up to 3,397,855,772 if the forbearance agreement discussed in Note 3 is settled entirely in stock, for convertible notes and 1,289,467,475 shares respectively, for officer notes of the Company's common stock based upon the conversion terms at March 31, 2015. In periods reporting a loss the inclusion of warrants and potential common shares to be issued in connection with convertible debt have an anti-dilutive effect on diluted loss per share and have been omitted in such computation.

MATERIAL EQUITY INSTRUMENTS

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

2. SUPPLEMENTAL CASH FLOW INFORMATION

	For the nine months ended March 31,	
	2015	**2014**
Statement of Operation Information:		
Interest Accrued Unpaid	$211,533	$162,533
Extension & Conversion Fees on Convertible Debt	$21,583	$30,525
Interest Paid (net interest income)	$43,568	$32,026
Non Cash Investing and Financing Activities:		
Conversion of Convertible Debt and Accrued Interest	$-	$96,025
Beneficial Conversion of Officers' Notes	$91,178	$1,311,881
Issuances of Common Stock for services & amortization of deferred stock compensation	$17,955	$179,260
Non-cash charges relating to Convertible Debt Settlement including $118,950 increase in loan amount and $18,469 increase in corresponding Derivative Liability	$137,419	$-
Convertible Note payable of $720,157 and $172,127 of accrued interest thereon merged into forbearance obligation	$892,283	$-
Cancellation of Accrued Wages Officers'	$-	$425,918
Cancellation of Accrued Interest Officers'	$-	$262,856

3. EQUITY TRANSACTIONS AND CONVERTIBLE DEBT

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

Effective June 2005, June 2006, and June 2008, the Company received authorization to increase the number of authorized shares to 500 million, 900 million and 2 billion, respectively. On April 25, 2009, July 15, 2010, and again on November 1, 2010, the Board of Directors approved motions to further increase, subject to shareholder approval, the authorized shares of common stock to 3 billion shares, 4 billion shares and 6 billion shares, respectively. The latest increase in the number of authorized shares of common stock to 6 billion was approved at a Special Meeting of Shareholders of the Company held on June 29, 2011, so that as of September 30, 2013 the Company has 6 billion authorized shares of common stock. The Company in its annual meeting of shareholders for the fiscal year ended June 30, 2013 held on February 12, 2014 received shareholder approval to increase its authorized shares to 18 billion shares of common stock so that as of March31, 2015 the Company has said amount of authorized shares of stock.

Private Placements

During the nine months ended March 31, 2015, the Company issued 1.533 million shares of its common stock in connection with private placements including 50,000,000 shares to finders, pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $550,000 and accrued finder's fees in the amount of $34,500. The proceeds were used by the Company as working capital.

During the nine months ended March 31, 2014, the Company issued 2,557,500,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $1,023,000 and paid finder's fees in the amount of $41,500 and the Company issued 171,128,375 shares to finders. The proceeds were used by the Company as working capital.

Stock Based Compensation

During the nine months ended March 31, 2015, the Company issued 33,459,857 shares of common stock compensation to employees valued at $17,955. The Company during such period did not issue any common stock, warrants or options to officers.

During the nine months ended March 31, 2014 three officers of the Company returned a total of 885,000,000 shares of previously awarded grants of common stock for cancellation in order to provide the Company with sufficient shares prior to the recent increase of authorized shares to 18 billion shares on February 12, 2014 to sustain financing of the Company. During the nine months ended March 31, 2014, the Company issued 140,600,000 shares of common stock valued at $179,260.

Conversion of Debt Securities

During the nine months ended March 31, 2015, no conversions were made of convertible debt and accrued interest thereon into shares of common stock.

During the nine months ended March 31, 2014, $96,026 of convertible debt and accrued interest thereon was converted into 141,761,066 shares of common stock

Long Term Convertible Debentures / Debt Discount

The Company had 10 separate convertible debt arrangements with independent investors that were in effect at various times during the two fiscal years ended June 30, 2014, three of which were still active as of March 31, 2015.

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

Arrangement #1 (JMJ Financial, Inc.)

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

To date the Company has received a total of $639,500 in cash and has issued 322,187,500 shares of common stock to the holder upon conversions of $325,440 of principle and $994,766 of conversion fees. The remaining $604,600 of cash which was to be received from the holder plus accrued and unpaid interest was convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. Based upon the price of the Company's common stock on June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 222,142,857 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated. At June 1, this note was combined with arrangement #4 JMJ Financial, Inc. During the year ended June 30, 2011 the holder converted $33,750 of principal into 10,000,000 shares of common stock and amortization of debt discount amounted to $412,332, reducing the debt discount balance to $100,000.

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

Arrangement #2 (JMJ Financial, Inc.)

On December 15, 2009 the Company entered into a new financing agreement with JMJ Financial that consists of the following: 1) a convertible note issued by the Company in the amount of $1,500,000 plus a one-time interest factor of 12% ($180,000) and a maturity date of December 15, 2012 and (2) a secured promissory note in the amount of $1,400,000 plus a one-time interest rate factor of 13.2% ($180,000) and a maturity date of December 15, 2012 due from the holder of the convertible note. To date the Company has received a total of $300,000 cash and has issued no shares of common stock to the holder upon conversions. The remaining $1,280,000 of cash to be received from the holder plus accrued and unpaid interest is convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. The number of shares into which this convertible note can be converted is equal to the dollar amount of the note divided by 75% of the lowest trade price during the 20 day trading period prior to conversion. Based upon the price of the Company's common stock on June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 285,714,286 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated. The Company and the holder are presently negotiating potential amendments to this agreement, and funding and conversions have not occurred since April, 2011. For accounting purposes the note receivable has been fully reserved, and the liability is recorded, when netted against the debt discount and cumulative conversions, at the amount funded. Based upon the price of the Company's common stock on June 30, 2011, the net liability of this note is convertible into approximately 38,095,238 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was $542,714 and the debt discount was valued at $642,714. As of June 30, 2011, this value was calculated to be $607,994. During the year ended June 30, 2011, amortization of debt discount amounted to $418,552, reducing the balance to $100,000. During the fiscal year ended June 30, 2012, the Company reduced the note payable and debt discount by $79,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $8,573 reducing the balance to $12,427. As of June 30, 2012, this convertible note has $321,000 outstanding which was combined with arrangement #3 JMJ Financial, Inc.

Arrangement #3 (JMJ Financial, Inc.)

On April 5, 2010, the Company entered into a new financing agreement with JMJ Financial that consists of the following: 1) a convertible note issued by the Company in the principal amount of $1,200,000 plus a one-time interest factor of 12% ($144,000) and a maturity date of December 15, 2012, and (2) a secured promissory note from the holder of the convertible note in the amount of $1,100,000 plus a one-time interest rate factor of 13.2% ($144,000 each) and a maturity date of December 15, 2012. To date the Company has received a total of $100,000 cash and has issued no shares of common stock to the holder upon conversions. The remaining $1,144,000 of cash to be received from the holder plus accrued and unpaid interest is convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock. The number of shares into which this convertible note can be converted is equal to the dollar amount of the note divided by 75% of the lowest trade price during the 20 day trading period prior to conversion. Based upon the price of the Company's common stock on June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 228,571,429 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated. For accounting purposes the note receivable has been fully reserved, and the liability is recorded, when netted against the debt discount and cumulative conversions, at the amount funded. Based upon the price of the Company's common stock on June 30, 2011, the net liability of this note is convertible into approximately 19,047,619 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was $421,891 and the debt discount was valued at $521,891. As of June 30, 2011, this value was calculated to be $486,795. During the year ended June 30, 2011, amortization of debt discount amounted to $378,761, reducing the balance to $ 100,000. During the fiscal year ended June 30, 2012, the Company reduced the note payable and debt discount by $91,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $3,674 reducing the balance to $5,326.

As of June 30, 2012, this convertible note has $109,000 outstanding, which when combined with arrangements #8 and #9 totaled $802,060, which the Company entered into an amended agreement on June 1, 2012 whereby the Company agreed to make payments of principle and interest of $37,018 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company's common stock would be available to the holder. Also as of June 30, 2012 the derivative value of the embedded conversion feature of this arrangement when combined with arrangements #2 and #3 totaled $0; which when compared to the combine value of $1,567,512 created a non-cash credit to earnings of $1,567,512 in fiscal 2012. As of, June 30, 2014, and March 31, 2015, the combined arrangements with JMJ on this note would be convertible into 237,807,785 and 252,950,843 at the conversion floor price of $.004; and only so if the Company does not make the scheduled payments pursuant to the June 1, 2012 amended agreement. The Company has not made any payments of the $37,018 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance.

Arrangement #4 (John Fife dba St. George Investors)/Fife Forbearance

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

A second tranche of the Convertible Note in the amount of $200,000 cash is funded upon the filing by the Company of a Registration Statement on Form S-1 with the Securities and Exchange Commission providing for the registration of 185,400,000 shares of common stock that may be converted into from time to time by the holder of the Convertible Note. The instrument is convertible into the Company’s common stock at 75% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 20 day trading period immediately preceding such conversion. Absent an effective Registration Statement, the holder of the Convertible Note may not sell any common stock prior to 6 months from the date of funding of each of the respective tranches of such instrument under Rule 144 of the Securities Act of 1933.

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

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

The company entered into an amended agreement on June 1, 2012, when principle of $557,500 accrued interest of $66,338 and $95,611 of contractual charges totaled $719,449; with this noteholder whereby the Company agreed to make payments of principle and interest of $33,238 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company’s common stock would be available to the holder. As of September 30, 2012 this note would be convertible into 789,645,351 shares of common stock at the original terms. The Company has not made any payments of the $33,238 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance (see note 4). On November 20, 2012, mPhase Technologies, Inc. (the “Company”) formally received an Event of Default and Redemption Notice dated November 16, 2012 with respect to an 8% Convertible Note dated September 13, 2011 issued by the Company to St. George Investments LLC and assigned to John Fife. The notice included alleged defaults with respect to payments owed by the Company under the Convertible Note and the failure to convert the

Note into shares of the Company's common stock. The alleged amount owed according to the notice is approximately $902,279. On June 30, 2013, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2013, this estimated liability had decreased to $138,696, a decrease this period of $689,007, creating a non-cash credit to earnings for the year ended June 30, 2013 of that amount. During the year ended June 30, 2013, amortization of debt discount amounted to $55,903, reducing the combined balance to $0. As of June 30, 2013 this note would have been convertible into 700,806,707 shares of common stock at the original terms. On June 30, 2014, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2014, this estimated liability had increased to $548,906, an increase this period of $410,210, creating a non-cash charge to earnings for the year ended June 30, 2014 of that amount. As of June 30, 2014 this note would have been convertible, at the original terms, into 1,392,162,326 shares of common stock. On September 30, 2014, given the changes in the Company's stock price during the 20 day look-back period for September 30, 2014, this estimated liability had decreased to $400,130, a decrease for that quarter of $148,775 and this note would have been convertible, at the original terms, into 1,815,638,396 shares of common stock.

On December 15, 2014, a Memorandum Opinion and Order was issued by the United States District Court Northern District of Illinois Eastern Division granting the motion of John Fife, plaintiff ("Plaintiff"), for summary judgment against mPhase Technologies, Inc. (the "Company") for breach of contract (the "Opinion"). All other claims and counterclaims were dismissed. The Company commenced settlement negotiations with the Plaintiff after we explored options with regard to an appeal and other alternatives, which there is no guarantee of success. As discussed in Note 7, effective February 10, 2015, the Company entered into a Forbearance Agreement with the Holder. The agreement provides that the Holder would forego his right to enforce its remedies pursuant to the judgment, which include demand for immediate payment of approximately $1.6 million, provided the Company satisfy its forbearance obligation of $1,003,943, and after accounting for a payment of $15,000 the Company paid, under the terms of the agreement.

The terms of the agreement provide for interest to accrue on the unpaid portion at 9% per annum with monthly payments in cash or conversions into common stock of the Company; commencing with an initial $15,000 payment due on February 15, 2015, and thereafter on or before the 15th of each month the Company agrees to pay monthly payments until the balance with accrued interest is satisfied of; six (6) monthly payments of $30,000 per month commencing March 15, 2015; six (6) monthly payments of $35,000 per month commencing September 15, 2015, and; $50,000 per month until the forbearance obligation is paid in full. The conversion amount, at the election of the Company, or if the monthly cash payment is not made, in full or in part, at the election of the holder for the cumulative amount of unpaid monthly payments, would be calculated to be 80% of the 3 lowest intra-day trading prices for the twenty trading day preceding the conversion notice.

The value of the forbearance obligation on March 31, 2015 is $971,334. At March 31, 2015, given the changes in the Company's stock price during the 20 day look-back period for June 30, 2014, this estimated liability had decreased to $546,611, decrease from the December 31, 2014 of $557,138 totaling $10,527, which was a non-cash credit to earnings for the quarter ended March 31, 2015. The Forbearance agreement requires the Company to place, and the Company has done so, 1,000,000,000 shares in reserve with its transfer agent, to satisfy the conversion provisions for any unpaid monthly cash payments. The agreement also provides that the Company file a Proxy statement before June 1, 2015 should additional shares be needed for the conversion reserve.

As of March 31, 2015 this forbearance obligation would only be convertible for monthly obligations the Company elects to/or does not pay in cash in part or in full, for: (i) up to 93,749,959 shares, for the satisfaction of the next required monthly payment, (ii) up to 1,065,718,081 shares, for the satisfaction of the next 12 required monthly payments; and (iii) up to 3,035,417,576 shares of our common stock should the entire obligation be converted.

Arrangement #5 (Black Arch Opportunity Fund L.P.)

On January 14, 2013, the Company issued to Black Arch Opportunity Fund L.P., Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $30,000 in gross proceeds. The instrument is in the principal amount of $30,000 and matures on November 9, 2013. Interest only is payable at the rate of 12% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 45% discount (60% while the Company's stock is "chilled" by the DTC) based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security was calculated to be $70,001 and the loan discount totaled $70,001. On June 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to $43,508, a decrease this period of $26,423 creating a non-cash credit to earnings of that amount. During the year ended June 30, 2013, amortization of debt discount amounted to $70,001, reducing the balance to $0. Based upon the price of the Company's common stock on June 30, 2013, this Note is convertible into approximately 57,668,070 shares of common stock. During the three months ended September 30, 2013, the Company issued 53,313,811 shares of common stock to repay this note in full together with $1,811 accrued interest and $9,054 prepayment fees thereon. The estimated liability for the embedded conversion fee was reduced by $43,508, creating a non cash credit to earnings for this period as the note was paid in full.

Arrangement #6 (Asher Enterprises, Inc. V)

On January 31, 2013, the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $50,000 in gross proceeds, net of $3,000 closing fees. The instrument is in the principal amount of $53,000 and matures on November 4, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $57,418 and the loan discount totaled $60,418. On June 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to $29,729, a decrease this period of $27,689 creating a non-cash charge to earnings of that amount. During the year ended June 30, 2013, amortization of debt discount amounted to $48,787 reducing the balance to $0. During the three months ended September 30, 2013, the Company issued 88,447,255 shares of common stock to repay this note in full, together with $2,120 accrued interest. The estimated liability for the extended conversion fee of $29,729 at June 30, 2013 was reduced to zero at September 30, 2013, creating a non cash credit to earnings for this period as the loan was repaid in full.

Arrangement #7 (Asher Enterprises, Inc. VI)

On July 2, 2013, the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $37,500 in gross proceeds, net of $2,500 closing fees. The instrument is in the principal amount of $37,500 and matures on March 28, 2014. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $28,216 and the loan discount totaled $30,626. On September 30, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to $36,212, an increase this period of $8,086 creating a non-cash charge to earnings of that amount. During the three months ended September 30, 2013, amortization of debt discount amounted to $30,626 reducing the balance to $0. Based upon the price of the Company's common stock on September 30, 2013, this Note was convertible into approximately 57,688,070 shares of common stock.

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

Arrangement #8 (MH Investment trust I)

On December 27, 2013, the Company issued to the MH Investment Trust. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 which was executed funded with $40,000 in gross proceeds on January 7, 2014. The instrument is in the principal amount of $40,000 and matures on October 1, 2014. Interest only is payable at the rate of 12% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion, or 65 % when the trading price exceeds $.0020 for the five days before such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $35,556 and the company recorded no loan discount as the quantity of shares was considered indeterminable at the date of funding. On June 30, 2014, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to $88,637, an increase for this period of $53,081 creating a non-cash charge to earnings of that amount. Based upon the price of the Company's common stock on June 30, 2014 this Note is convertible into approximately 100,952,381 shares of common stock. During July of 2014 this note was repaid, in full, together with $2,632 of accrued interest and $14,916 of prepayment fees.

Arrangement #9 (MH Investment trust II)

On August 26, 2014, the Company issued to the MH Investment Trust. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 which was executed funded with $40,000 in gross proceeds on September 1, 2014. The instrument is in the principal amount of $40,000 and matures on May 1, 2015. Interest only is payable at the rate of 12% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion, or 65 % when the trading price exceeds $.0020 for the five days before such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $37,778 and the company recorded a loan discount of the same amount. During the nine months ended March 31, 2015 the Company amortized $37,778 to loan discount expense and the unamortized loan discount was reduced to $0. As of March 31, 2015, which given the changes in the Company's stock price during the 10 day look-back period for this date the estimated liability had decreased to $25,738, a decrease for this period of $12,040 and creating a non-cash credit to earnings of that amount. Based upon the price of the Company's common stock and and a partial payment in the current quarter of $13,333; on March 31, 2015 this Note is convertible into approximately 109,487,354 shares of common stock.

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

	March 31, 2014 (Unaudited)	June 30, 2014
Arrangement #3 - JMJ Financial, Inc	$ 802,060	$ 802,060
Arrangement #4 - St. George Investments/Fife Forbearance Obligation	971,334	720,157
Arrangement #8-MH Investment trust I	-	40,000
Arrangement #9 -MH Investment trust II	26,667	-
Total notes payable	$ 1,800,061	$ 1,562,217
less: unamortized debt discount	-	-
Convertible Notes payable, net of discount	1,800,061	1,562,217
Convertible Notes payable-short term portion	1,143,090	1,522,217
Convertible Notes payable-long term portion	$ 656,971	$ 40,000

Included in accrued expenses is $211,543 and $285,275 interest accrued on these notes at March 31, 2015 and June 30, 2014, respectively.

DERIVATIVE LIABILITY

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

EQUITY LINE OF CREDIT

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

Through February 13, 2015 and June, 2014, the Company has received $231,744 of proceeds under the Equity Line relating to the resale of 135,990,000 shares of the Company’s common stock, net of $22,920 transaction fees. The amount of proceeds to be received under the Equity Line will depend upon the stock price of the Company at the various points in time it exercises the Put Option. As of June 30, 2014, the Company has received $145,428, $80,053 and $6,263 in Fiscal Years Ended June 30, 2012, 2013 and 2014, under the Equity Line relating to the resale of 89,587,447, 42,412,553 and 3,990,000 shares of the Company's common stock in Fiscal Years Ended June 30, 2012, 2013 and 2014. The amount of proceeds to be received under the Equity Line will depend upon the stock price of the Company at the various points in time it exercises the Put Option. As of February 13, 2015 the Equity line of Credit expired and the Company may no longer draw any funds under such equity line.

BENEFICIAL CONVERSION FEATURE

In April 2009, the Board of Directors authorized the right for the officers to convert into shares of the Company's common stock officers' loans discussed in Note 9, plus accrued interest thereon, at any time for the next five years providing such shares are issued, outstanding and available, at a conversion price of $.0075. This conversion price was amended in August 2011 to $.0040. During the fiscal year ended June 30, 2014, the officers' were authorized by the board of directors' to enter into agreements to convert certain officer notes, previously convertible at $.004 from 2009 through April 2014, based upon the then concurrent terms of private placements with accredited investors; at $.0004, representing the now current terms of private placements with accredited investors. On June 30, 2014, these Notes are convertible into approximately 1,275,863,375 shares of common stock, if available. During the nine months ended March 31, 2015 the Company recorded $60,685 beneficial conversion feature interest expense regarding the convertibility of these notes. As of March 31, 2015 these Notes are convertible into approximately 1,289,467,500 shares of common stock if available.

4. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Our corporate headquarters is located at an office in Clifton, New Jersey for an average monthly cost of $4,020 on a lease that expires on August 15, 2015.

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

CONTINGENCIES

The Company had been in litigation with John Fife with respect to a Convertible Note originally issued on September 13, 2011 in the principal amount of $557,000. Fife sought damages on a Motion for Summary Judgment in the amount in excess of $1,300,000 attorney's fees. On December 15, 2014 the federal district court in the North East District of Illinois found in favor of Fife on a motion for Summary Judgment. The Company has entered into a Forbearance Agreement with Fife as a result of negotiations to settle such Judgment.

The value of the forbearance obligation on March 31, 2015 is $971,334. At March 31, 2015, the derivative liability was estimated to be $546,611, and as such a total of $1,517,945 liabilities have been recorded in the financial statements to reflect this obligation, $341,030 included in current liabilities and $1,176,915 non current. The value of the judgment totaled approximately $1.56 million as of March 31, 2015 and bears a punitive interest rate of 16%, and would become payable in full if the Company defaults under the forbearance obligation. The Forbearance agreement requires the Company to place, and the Company has done so, 1,000,000,000 shares in reserve with its transfer agent, to satisfy the conversion provisions for any unpaid monthly cash payments.

As of March 31, 2015 this forbearance obligation would only be convertible for monthly obligations the Company elects to/or does not pay in cash in part or in full, for: (i) up to 1,065,718,081 shares, for the satisfaction of the next required monthly payment, (ii) up to 93,749,959 shares, for the satisfaction of the next 12 required monthly payments; and (iii) up to 3,035,417,576 shares of our common stock should the entire obligation be converted.

F-14

5.FAIR VALUE MEASUREMENTS

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

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.

The table below presents reconciliation for liabilities measured at fair value on a recurring basis at March 31, 2015 and 2014:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivative Liability	
	March 31, 2015	**March 31, 2014**
Balance at July 1,	$ 637,543	$ 212,023
Increase (Decrease) in Derivative and associated liabilities	(102,972)	228,898