MPHASE TECHNOLOGIES INC
Form 10-Q
May 18, 2010

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

FORM 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2010

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)

ISSUER'S TELEPHONE NUMBER, (203) 838-2741

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 MAY 13, 2010 IS 1,158,726,952 SHARES, ALL OF ONE CLASS OF $.01 STATED VALUE COMMON STOCK.

mPHASE TECHNOLOGIES, INC.

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

	June 30, 2009	March 31, 2010 (Unaudited)
ASSETS		
CURRENT ASSETS		
Cash	$ 100,138	$ 499,770
Accounts receivable	46,065	43,810
Inventory	-	64,313
Prepaid and other current assets	153,636	274556
Current Portion, Notes receivable- (Note 4)	-	2,400,000
TOTAL CURRENT ASSETS	**299,839**	**3,282,449**
Property and equipment, net	39,648	71,271
Notes receivable - (Note 4)	3,150,000	2,614,000
TOTAL ASSETS	**$ 3,489,487**	**$ 5,967,720**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 1,864,956	$ 1,640,560
Accrued expenses	482,388	529,667
Due to related parties	369,920	49,961
Notes payable, related parties	1,332,400	926,556
Short term notes	240,820	240,820
Current Portion, Long term debt	-	7,461
TOTAL CURRENT LIABILITIES	$ **4,290,484**	$ **3,395,025**
Long term portion Equipment loan	-	32,981
Convertible debt derivative liability - (Note 4)	2,380,816	2,411,905
Convertible debentures net of discount of $1,385,395 and $2,629,453 on June 30, 2009 and March 31, 2010, respectively (Note 4)	2,052,355	4,443,047
TOTAL LIABILITIES	**$ 8,723,655**	**$ 10,282,958**
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDERS' DEFICIT		
Common stock, par value $.01, 2,000,000,000 shares authorized 870,419,882 and 1,109,199,888 shares issued and outstanding at June 30, 2009 and March 31, 2010, respectively	8,704,197	11,091,997
Additional paid in capital	172,861,427	174,395,733
Deficit accumulated during development stage	(186,791,819)	(189,794,995)
Less-Treasury stock, 13,750 shares at cost	(7,973	(7,973
TOTAL STOCKHOLDERS' DEFICIT	**$ (5,234,168)**	**$ (4,315,238)**

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	**$**	**3,489,487**	**$**	**5,967,720**

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 Mar 31, 2009	For the Three Months ended Mar 31, 2010	Date of Inception to Mar 31, 2010
REVENUES	$ 44,029 $	$ 141,747	$ 22,976,740
COSTS AND EXPENSES			
Cost of Sales	0	$ 1,501	16,426,193
Research and Development (including non-cash stock related charges of $0, $0 and $2,503,719 for the three months ended Mar. 31, 2009, 2010 and inception to date respectively)	265,552	$ 712,266	62,022,012
General and Administrative (including non-cash stock related charges of $0, $0 and $67,887,964 for the three months ended Mar. 31, 2009, 2010 and inception to date respectively)	429,965	$ 452,835	120,389,002
Depreciation and Amortization	3,902	$ 7,086	3,323,821
TOTAL COSTS AND EXPENSES	699,419	1,173,688	$ 202,161,028
LOSS FROM OPERATIONS	(655,390)	(1,031,941)	(179,184,288)
OTHER INCOME (EXPENSE)			
Interest (Expense), net	(73,858)	(32,547)	(2,459,204)
Reparation, Impairment and Other (Expense) net	46,314	52,389	(8,489,564)
Change in Derivative Value and Debt Discount	(26,800)	1,906,004	337,903
TOTAL OTHER INCOME (EXPENSE)	(744)	1,925,846	(10,610,865)
NET INCOME (LOSS)	$ (656,134)	$ 893,905	$ (189,794,995)
LOSS PER COMMON SHARE, basic and diluted	$ (0.00)	$ .00	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING,			
basic	671,278,600	1,057,751,508	
diluted	671,278,600	1,534,563,992	

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

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

	For the Nine Months ended March 31, 2009 As Restated	For the Nine Months ended March 31, 2010	Date of Inception to March 31, 2010
REVENUES	$ 95,152	$ 228,122	$ 22,976,740
COSTS AND EXPENSES			
Cost of Sales	0	1,501	16,426,193
Research and Development (including non-cash stock related charges of $93,600, $0 and $2,503,719 for the nine months ended Mar. 31, 2009, 2010 and inception to date respectively)	868,848	1,805,839	62,022,012
General and Administrative (including non-cash stock related charges of $5,511,950, $43,050 and $67,887,964 for the nine months ended Mar.31, 2009, 2010 and inception to date respectively)	7,168,950	1,367,049	120,389,002
Depreciation and Amortization	30,027	19,657	3,323,821
TOTAL COSTS AND EXPENSES	8,067,825	3,190,046	202,161,028
LOSS FROM OPERATIONS	(7,972,673)	(2,961,924)	(179,184,288)
OTHER INCOME (EXPENSE)			
Interest (Expense), net	(174,561)	(755,364)	(2,459,204)
Reparation, Impairment and Other (Expense) net	(152,058)	21143	(8,489,564)
Change in Derivative Value and Debt Discount	(1,263,891)	692,969	337,903
TOTAL OTHER INCOME (EXPENSE)	(1,590,510)	(41,252))	(10,610,865)
NET (LOSS)	$ (9,563,183)	$ (3,003,176)	$ (189,794,995)
LOSS PER COMMON SHARE, basic and diluted	$ (0.02)	$ (0.00)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, basic and diluted	592,455,950	1,003,375,484	

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 Nine Months Ended March 31, 2010
(unaudited)

	Common Stock					
	Shares	**$.01 Par Value**	**Treasury Stock**	**Additional Paid in Capital**	**Accumulated Deficit**	**Total Shareholders' (Deficit) Equity**
Balance June 30, 2009	870,419,882	$ 8,704,197	$ (7,973	$ 172,861,427	$ (186,791,819	$ (5,234,168
Conversions of Convertible Debentures plus accrued interest	177,696,672	1,776,697	-	972,283	-	2,749,250
Conversions of Accounts Payable	26,666,667	266,667	-	(66,667)	-	200,000
Issuance of common stock in private placements net of offering cost ($25,000)	30,666,667	306,667	-	(81,667)	-	225,000
Issuance of Common Stock for Services	2,050,000	20,500		22,550		43,050
Issuance of Common Stock for Reparations	1,700,000	17,000		18,530		35,530
Beneficial Conversion feature of Officers' Notes Payable and conversion of accounts payable	-	-	-	669,276	-	669,276
Net Loss for the Nine Months Ended March 31, 2010	-	-	-	-	(3,003,176)	(3,003,176)
Balance March 31, 2010	1,109,199,888	$ 11,091,997	$ (7,973)	$ 174,395,733	$ (189,794,995)	(4,315,238)

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

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

	For Nine Months Ended March 31, 2009 (As restated)	For Nine Months Ended March 31, 2010	October 2, 1996 (Date of Inception) March 31, 2010
Cash Flow From Operating Activities:			
Net Income (Loss)	$ (9,563,183)	$ (3,003,176)	$ (189,794,995)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	111,080	28,396	7,428,696
(Gain) loss on debt extinguishments	(165,154)	28	(937,342)
Non-cash charges relating to issuance of common stock, common stock options and warrants	5,605,550	43,050	70,260,481
Reparation charges	316,172	35,530	8,264,264
Derivative Value and Debt Discount charges	1,263,891	(692,969)	312,090
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	(11,000)	2,255	384,066
Inventories	-	(64,313)	(574,784)
Prepaid expenses and Other current assets	76,628	(120,920)	(193,495)
Other			906,535
Accounts payable, Accrued expenses, Deferred revenue	174,039	86,884	8,396,765
Due to/from related parties	-	-	-
Microphase / Janifast//Lintel	-	(119,959)	5,389,928
Officers and Other	275,483	(135,844)	1,575,513
Net cash used in operating activities	**$ (1,916,494)**	**$ (3,271,762)**	**$ (85,253,467)**
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	495,000	225,000	82,923,879
Payments of short term notes and equipment loan	-	(4,606)	(1,286,158)
Advances from Microphase			347,840
Issuance of Convertible Debentures	75,000	500,000	766,500
Net Proceeds (Repayment) from notes payable related parties	-	(270,000)	(35,484)
Proceeds from collection of notes receivable under securities purchase agreements (note 4)	1,400,000	3,236,000	6,386,000

Sale of minority interest in Granita subsidiary			-	-	514,000
Repurchase of treasury stock at cost			-	-	-
Net cash provided by financing activities	**$**	**1,970,000**	**$ 3,686,394**	**$89,616,577**	
Net increase in cash	**$**	**(53,506)**	**$ 399,632**	**$499,770**	
CASH AND CASH EQUIVALENTS, beginning of period		15,533	100,138		
CASH AND CASH EQUIVALENTS, end of period	**$**	**69,039**	**$ 499,770**	**$499,770**	

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

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - mPhase Technologies, Inc. (the "Company") was organized on October 2, 1996 and is in the development stage, as defined by FASB ASC 915 "Development Stage Entities." The Company's present activities are focused on the development of innovative power cells and related products through the science of microfluidics, microelectromechanical systems (MEMS) and nanotechnology. Since mPhase is in the development stage, the accompanying consolidated financial statements should not be regarded as typical for normal operating periods.

BASIS OF PRESENTATION - The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine months ended March 31, 2010 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 for the year ended June 30, 2009.

Through March 31, 2010, the Company had incurred cumulative (a) development stage losses totaling approximately ($189,794,995) (b) stockholders' deficit of ($(4,315,238), and (c) negative cash flow from operations equal to ($85,283,467). At March 31, 2010, the Company had $ 499,770 of cash and $43,810 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 March 31, 2010, the Company's convertible debentures agreements are convertible into approximately 476,812,485 shares of common stock. The officers notes payable and accrued interest therein are convertible into shares of common stock, if available.

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.

2. SUPPLEMENTAL CASH FLOW INFORMATION

For the Nine Months ended March 31,

		2009		2010
Interest Accrued Unpaid	$	131,712		261,975
Non Cash Investing and Financing Activities:				
Stock issued in settlement of accrued expenses	$	0	$	200,000
Conversion of convertible debt and interest thereon	$	2,589,922	$	2,749,250
Conversion of related party obligations to notes payable	$	1,068,338	$	0
Beneficial Conversion of Officer's Notes	$	0		
and Conversion of Accounts Payable			$	669,276

3. RELATED PARTY TRANSACTIONS

MICROPHASE CORPORATION

mPhase's President and Chief Operating Officer of the Company are also officers of Microphase and mPhase's President and Chairman of the Board is a shareholder of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase, whereby mPhase uses 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 were $5,000 per month and were changed to $3,000 in July of 2008. In addition, Microphase also charges fees for specific projects on a project-by-project basis. During the nine months ended March 31, 2009 and 2010 and from inception (October 2, 1996) through March 31, 2010, $44,462, $283,210 and $9,606,682, respectively, have been charged to expense.

As a result of the foregoing transactions, as of March 31, 2010, the Company had a payable to Microphase of $49,961.

JANIFAST LTD.

The Company has in the past purchased products and incurs certain research and development expenses with Janifast Ltd., which is owned by U.S. Janifast Holdings, Ltd., a company in which three directors of mPhase are 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 adverse financial conditions globally

During the Nine Months ended March 31, 2009 and 2009 and the period from inception (October 2, 1996) to March 31, 2010, $0, $0 and $16,031,811 respectively, have been charged by Janifast Ltd 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 March 31, 2010, Mr. Biderman's affiliated firm of Palladium Capital Advisors was owed unpaid finders fees in the amount of $150,000. During the nine months ended March 31, 2010 and March 31, 2009 finders fees in the amount of $25,000 and $55,000, respectively, were recorded.

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.

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 Nine Months Ended March 31, 2010

	Durando	Dotoli	Smiley	Biderman	Microphase	Total
Consulting / Salary	$ 150,000	$ 135,000	$ 131,250			$ 416,250
Interest	$ 47,439	$ 33,636	$ 19,880			$ 100,954
Rent					$ 27,000	$ 27,000
G&A					$ 6,210	$ 6,210
R&D					$ 250,000	$ 250,000
Finders Fees				$ 25,000		$ 25,000
Stock based compensation (shares issued)*						$ 0
Stock based compensation (options issued)*						$ 0
Total compensation	**$ 197,439**	**$ 168,636**	**$ 151,130**	**$ 25,000**	**$ 283,210**	**$ 835,414**

Summary of payables to related parties as of March 31, 2010

	Durando	Dotoli	Smiley	Microphase
Notes payable	$ 301,479	$ 241,306	$ 119,030	
Due to Officers / Affiliates	$ 0	$ 0	$ 0	$ 49,961
Interest Payable	$ 108,912	$ 96,149	$ 59,680	
Total Payable to related parties as of March 31, 2010	**$ 410,391**	**$ 337,455**	**$ 178,710**	**$ 49,961**

Summary of Compensation to related parties for the Nine Months Ended March 31, 2009

	Durando	Dotoli	Smiley	Biderman	Microphase	Total
Consulting / Salary	$ 225,718	$ 184,000	$ 137,500			$ 547,218
Interest	42,945	$ 48,992	1,679			$ 93,616
Rent				$	27,000	$ 27,000
G&A				$	17,462	$ 17,462
Finders Fees				$ 55,000		$ 55,000
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	**$ 2,833,663**	$ **1,762,992**	$ **1,075,179**	**$ 289,000**	$ **44,462**	**$ 6,005,296**
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

Summary of payables to related parties as of March 31, 2009

	Durando	Dotoli	Smiley	Microphase	Janifast	Total
Notes payable	$ 617,582	$ 450,756	$ 264,225			$ 1,332,563
Deferred Compensation	$ 0	$ 0				$ 0
Due to Officers / Affiliates	$ 17,000	$ 17,000		$ 68,846	($19,336)	$ 83,510
Interest Payable	42,945	48,992	$ 1,679			$ 93,615
Total Payable to Officers	**$ 677,528**	**$ 516,748**	**$ 265,903**	**$ 68,846**	**($19,336)**	**$ 1,509,688**

*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.

4. EQUITY TRANSACTIONS AND CONVERTIBLE DEBT

Private Placements

During the nine months ended March 31, 2010, the Company issued 30,666,667 shares of its common stock at $.0075 and $.0125 per share in private placements generating gross proceeds of $250,000 with placement costs of $25,000, netting $225,000.

During the nine months ended March 31, 2009, the Company issued 39,000,000 shares of its common stock at $.05 and $.01per share in private placements generating net proceeds of $495,000 after placement costs of $55,000. Related to these transactions was the issuance of 11,522,000 shares as reparations shares to effect re-pricing costing an estimated $316,172.

Stock Based Compensation

During the nine months ended March 31, 2010, the Company issued 2,050,000 shares of common stock to employees and consultants valued at $43,050.

During the nine months ended March 31, 2009, 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 nine months ended March 31, 2010, $2,749,250 of convertible debt and accrued interest thereon was converted into 177,696,672 shares of Common stock.

During the nine months ended March 31, 2010, $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. The Company recorded $82,609 interest expense on the beneficial conversion feature of officers notes during the nine months ended March 31, 2010.

During the nine months ended March 31, 2009, $ 2,589,922 of convertible debt was converted into 193,776,400shares of common stock**.**

Long Term Convertible Debentures / Note Receivable / Debt Discount

The Company currently has six separate convertible debt arrangements with independent investors outstanding at March 31, 2010. During the Nine Months ended March 31, 2010, $2,749,250 of convertible debt and accrued interest thereon was converted into 177,696,672 shares of Common stock. These transactions are intended to provide liquidity and capital to the Company and are summarized below.

General

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

The form of the transactions may generally be described as follows:

- The receipt of cash
- The issuance of a note payable from mPhase.
- The issuance of a note receivable due to mPhase
- A Securities Purchase Agreement
- The note payable contains conversion features which permit the holder to convert debt into equity. Such debt was eligible to be converted into the Company s common stock immediately, thus requiring the recording of the entire liability upfront. Finally, to encourage conversion, a discount from market value was offered.
- The aggregate amount of notes payable exceeded the amount of cash received. As Consideration for this difference the Company took back a secured Note Receivable. Security is generally liquid investments of the investor.
- The note receivable provides a commitment to fund mPhase operations at particular points in time. It was this commitment that required us to record on our books the note payable and the note receivable separately versus netting the balances.

Derivative Value and Debt Discount

It was determined that the value of the note payable to the holder (investor) was primarily due to the favorable conversion features of the note. In accordance with FASB ASC 815-15-25-1, the conversion feature requires the bifurcation of the embedded derivative from the host document and separate reporting of the embedded conversion feature at fair value determined by a Black-Scholes calculation. The value of the agreement includes the conversion feature and the variable amount of shares that may be converted at any particular point in time. As such and under GAAP, our Balance Sheet reflects the value of the embedded conversion feature as Derivative Value and the corresponding contra account to Notes Payable called Debt Discount.

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

A summary of our arrangement is as follows:

Arrangement #1 (LaJolla 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 an interest rate of 7 1/4% and a maturity date of September 30, 2011 and 3) a Secured Note

Receivable in the amount of $1,800,000, with an interest rate of 8 1/4% and maturity date of September 30,2011 due from the 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 Prices during a 20 day trading period. At the time of the transaction (September 11, 2008) the derivative value of this security was calculated to be $1,176,471. The agreement also provides for the Company to decline advances when the Company stock price falls below $.04.

As of June 30, 2009 the derivative value of this security was calculated to be $1,080,343. As of December 31, 2009 this value had increased to $1,076,482. On March 31, 2010, given the changes in the stock price, this value had decreased to $467,728, a $608,753 decrease this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $214,938 reducing the balance to $359,498. As of March 31, 2010 the note receivable had a balance of $1,800,000 and the note payable had a balance of $1,810,000; for which the Company recorded a reserve for utilization against each of $300,000.

Arrangement #2 JMJ Financial

On March 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, with a one time interest factor of 12% and a maturity date of December 31, 2011 and 2) a Secured Note Receivable in the amount of $1.0 million, with a one time interest factor of 13.2 % and maturity date of December 31, 2012 due from the same party who is the holder of the Convertible Debenture. Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the Lowest Trading Price during the 20 day trading period prior to conversion. For the nine months ended March 31, 2010 the Company received $900,000 of cash draws under the Debenture and the holder had converted into 122,776,037 common stock principal and accrued interest thereon in the amount of $1,891750.

On June 30, 2009 the derivative value of this security was calculated to be $444,552. On September 30, 2009, that amount was 195,721 and on December 31, 2009 that value was decreased to $55,595 given the changes in the stock price combined with the fact that the principle plus interest due under the debenture had material conversions in satisfaction of the debt liability, reducing the outstanding debt to $79,025; and this note was reduced futher to zero by March 31, 2010. The decrease in the derivative liability for the three months ended March 31, 2010 was $55,595. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $508,821 reducing the debt discount balance also to zero.

Arrangement#3 (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 partys who is the holder 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 derivative liability for the embedded conversion feature of such security was $1,054,395 and the debt discount was valued at $1,224,395. . For the nine months ended March 31, 2010 the Company the holder had converted into 54,920,635 shares of common stock principal and accrued interest thereon in the amount of $857,500.

On September 30, 2009 the derivative liability had decreased to $759,333. and on December 31, 2009, this value had increased to$1,076,482. On March 31, 2010, given the changes in the stock price this value had decreased to $467,728, a $608,753 decrease this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $765,574 reducing the balance to $458,821.

Arrangement#4 (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 party who is the holder 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. 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 of September 23, 2009, the embedded conversion feature of such security was $480,000 and the debt discount was valued at $580,000.

On September 30, 2009, the derivative liability had increased to $487,272, and on December 31, 2009, this value had increased to $844,221, On March 31, 2010, given the changes in the stock price this value decreased to $429,268, a $414,953 decrease for this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $144,999 reducing the balance to $435,001.

Arrangement#5 (JMJ Financial, Inc.)

On November 17, 2009, the Company received a total of $186,000 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 party who is the holder 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 derivative value of the embedded conversion feature of such security was $536,000 and the debt discount was valued at $636,000.

On December 31, 2009, this value had increased to $844,221.On March 31, 2010, given the changes in the stock price this value had decreased to $429,268., a $414,953 decrease this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $70,667 reducing the balance to $565,333.

Arrangement#6 (JMJ Financial, Inc.)

On December 22, 2009, the Company received a total of $300,000 of proceeds in connection with another agreement with JMJ Financial. This transaction involves 1) a Convertible Debenture 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 Note in the amount of $1,400,000 plus a one time interest rate factor of 13.2% ($180,000 each) and a maturity date of December 15, 2012 due from the same party who is the holder 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. In addition, the Company has received a commitment from JMJ Financial to enter into similar financing arrangement which involves 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 December 15, 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 December 15, 2012, such financing to commence not later than February 15, 2009. 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.

On December 31, 2009, this value had increased to $1,055,276.On March 31, 2010, given the changes in the stock price this value had decreased to $536,585, a $518,691 decrease this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $70,603 reducing the balance to $572,111.

Arrangement#7 (J. Fife)

On March 5, 2010, the Company received gross proceeds of $500,000, net of legal fees of $5,000, under a Securities Purchase Agreement from John Fife. This transaction involves the following related agreements: 1) a Securities Purchase Agreement governing the sale of a $550.000 7.5 % Convertible Note and two additional $275,000 Convertible Notes to be funded in the future each with maturity dates 3 years from the issuance thereof; 2) a Convertible Note totaling $550,000, with an interest rate of 7.5% and a maturity date of March 3, 2011 3) two Secured Notes Receivable in the amount of $250,000 each with an interest rate of 7.5% per annum and a maturity date of 4 years from the date of issuance and a Security Agreement from the same party who is the holder of the Convertible Notes. Conversion of outstanding debentures into shares of common stock is at the option of the holder at a price equal to the dollar amount of the debenture divided by 75% of the three lowest Volume Weighted Average Prices during a 20 day trading period. At the time of the transaction (March 5, 2010) the derivative value of this security was calculated to be $193,767 and the debt discount was valued at $243,767. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $5,078 reducing the balance to $238,689.

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 liabilities. Contracts for warrants to purchase 11,111,112 shares of the Company s common stock at $.14 per share were reclassified to permanent equity in May of 2009, and contracts for warrants to purchase 1,604,168 shares of the Company s common stock at fixed prices ranging from $.13 to $.15 per share were reclassified to permanent equity in September, 2009. At the issuance dates during the fiscal year ended June 30, 2008 the estimated value of the 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 liability approximated $433,300, and during the nine months ended March 31, 2009 the estimated value of the liability was determined to no longer be material. The net change in the 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).

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

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 was 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 to 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. During the nine month period ended March 31, 2010, Granita Media Inc did not conduct any operations and management is considering all alternatives.

6. 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 March 31, 2010 and 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivative Liability	
	March 31, 2010	March 31, 2009
Balance at July 1	$ 2,380,816	$ 1,183,451
Decrease in Derivative Liability	(2,775,787)	(1,360,346)
Debt discounts	2,806,816	1,798,693
Balance at December 31	$ 2,411,905	$ 1,621,798

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 March 31, 2010, the carrying value of all the notes payable and accrued interest, including convertible debentures and officers', was approximately $7,990,000. The JMJ Convertible Notes, which are due at various times through December 2012, yield an interest rate of 12%. Refer to Note 3 & 4 of these financial statements for more information about the Company s notes payable.

7. COMMITMENTS AND CONTINGENCIES

The Company has a lease obligation for the rental of office space in Little Falls New Jersey until May 31, 2010. The annual obligation under such lease requires rent of $26,940 for the year beginning June 1, 2009 and ending May 31, 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 received technical assistance in developing the commercialization of its Digital Video and Data Delivery System. Cost incurred by the Company for GTRC technical assistance with respect to its research and development activities has totaled $13,539,952 from the period from inception through September 30, 2008, all of which was incurred prior to 2005.

Legal Proceedings

From time to time the Company may be involved in legal proceedings in the ordinary course of business.

8. SUBSEQUENT EVENTS

As of May13, 2010, Long term convertible debt and accrued interest thereon in the aggregate amount of $ 621,375 has been converted into 50,000,000 shares of common stock on convertible agreements outstanding as of March 31, 2010.

Additionally during April , 2010, the Company entered into 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 December15, 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 December 15, 2012 due from the same party who is the holder of the Convertible Debenture. The Company has received a $100,000 advance on this arrangement during the quarter ended March 31, 2010, which is included in notes payable.

9. RESTATEMENT OF RESULTS

The restatement involves reclassifying certain equity instruments out of additional paid in capital into other 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 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 fiscal year ended June 30, 2009, on the quarterly measurement dates, with the net change in the liability credited to the change in derivative value in the Consolidated Statement of Operations for each period in accordance with FASB standards classification 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 fiscal year ended June 30, 2009 by $433,300.

The 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 resulting in the following restatement to the financial captions listed below:

Consolidated Balance Sheets		June 30, 2009 as originally reported		June 30, 2009 as restated
Contingent liabilities	$	-	$	-
Total Liabilities	$	8,723,655	$	8,723,655
Additional paid in capital	$	173,867,627	$	172,861,427
Deficit accumulated during development stage	$	(187,798,01)	$	186,791,819
TOTAL STOCKHOLDERS DEFICIT	$	(5,234,168)	$	5,234,168

Consolidated Statements of Operations-For the Nine Months Ended		March 31, 2009 (unaudited)	
Other Income (Expense)	$	(2,038,810)	(1,590,510)
Net (Loss)	$	(9,996,483)	(9,563,183)
Loss per Share	$	(.02)	(.02)

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 LITIGATION REFORM ACT OF 1995:

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

RESULTS OF OPERATIONS

OVERVIEW

mPhase, a New Jersey corporation, founded in 1996 is a publicly-held company with over 19,000 shareholders and approximately 1.1 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 Norwalk,Connecticut, with additional offices in Little Falls, New Jersey and New York, New York.

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

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

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 its first Smart NanoBattery prototype by electrowetting using a hard-wired configuration and a remotely-activated device. Remote activation plays a key role in providing power to wireless sensors systems and RFID tags.

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

Emergency Flashlight

On December 5, 2008, the Company signed a contract with Porsche Design Studio to design a premium emergency flashlight (the mPower Emergency Illuminator). The flashlight has initially been sold into the consumer market containing mPhase s proprietary mechanically-activated lithium reserve battery designed by Eagle Picher. The reserve battery has a potentially infinite shelf-life since it remains in an inert state prior to initial activation. The emergency flashlight is designed for two primary batteries and a secondary back-up battery. The Company is in the process of transitioning the backup battery from the Eagle Picher reserve battery to a cost-reduced modified primary battery with an extended shelf life. On May 14, 2010, the Company announced that both the mPower Emergency Illuminator and its Power on Command Reserve Battery technology (the Eagle Picher battery) have passed a series of rigorous tests necessary to obtain a CE mark that is a mandatory conformity mark enabling both products to be sold into European Economic Area, that includes member and non-members of the European Union. Together with the United States, Europe represents a key market for the flashlight product as part of the Company s roll-out of the product. The Company is in the process of performing extensive similar testing on the cost-reduced version of its battery to be used as a secondary backup source of power in the mPower Emergency Illuminator.

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 shelved 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. No active development of the product has occurred since fiscal year 2007.

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 temporarily 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 $74,565,481 from inception (October 2, 1996) through March 31, 2010.

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 $189,794,995 and negative cash flow from operations of ($85,253,467) from inception through March 31, 2010. 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 March 31, 2010, the Company had a negative net worth of ($4,315,238) compared to a negative net worth of ($5,234,168) 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 during the nine months ended March 31, 2010 amounted to $ 3,236,000 (accounted for as a pay-down of notes receivable) and accrued interest thereon. 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, 2011 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 2011.

THREE MONTHS ENDED MARCH 31, 2010 VS. MARCH 31, 2009

REVENUE

Total revenues were $141,747 for the three months ended March 31, 2010 compared to $44,029 for the three months ended March 31, 2009. Revenue 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) that began September 2008.

RESEARCH AND DEVELOPMENT

Research and development expenses were $712,266 for the three months ended March 31, 2010 as compared to $265,552 during the comparable period in 2009 or an increase of $446,714. This increase in spending is a result of acceleration of work to bring its emergency flashlight using its mechanically activated reserve battery to market . In connection with such efforts the Company incurred increased research and development expenses with major vendors including Eagle Pitcher totaling $149,185, Porsche Design Studio $38,154and Microphase Corporation $75,000, respectively, for the quarter ended March 31, 2010.

Subject to available funds, the Company expects to increase its research and development efforts throughout fiscal year 2010. 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 $452,835 for the three months ending March 31, 2010 up from $429,965 or an increase of $22,870 from the comparable period in 2009. The increase in G&A expense is primarily the result of increased expenditures in marketing for its emergency flashlight.

OTHER (EXPENSE) AND INCOME

Included in the current quarter are non-cash charges and costs associated with convertible debt that include a non-cash credit for the change in derivative value due to a decrease of $2,734,140 in the derivative liability, reduced by amortization of debt discount costs of $828,136, resulting in net income of $1,906,004 from derivative liabilities associated with the Company's convertible debt in the three months ended March 31, 2010 as opposed to a net charge from derivative liabilities of $26,800 for the same period in the prior year and is not indicative of operating results.

NET INCOME AND (LOSS)

The Company recorded net income of $893,905 for the three months ended March 31, 2010 as compared to a loss of $656,134 for the three months ended March 31, 2009. This represents a net gain per common share of $.00 (based upon weight average shares of 1,057,751,508) and loss per share of $.01(based upon weight average shares of 671,278,600) for the three month periods ended March 31, 2010 and 2009 respectively. The decrease in net loss is attributable to significant non-operating income resulting from non-cash changes from derivative liabilities associated with the Company s convertible debt recorded for the three months ended March 31, 2010.

NINE MONTHS ENDED MARCH 31, 2010 VS MARCH 31, 2009

REVENUE

Total revenues were $228,122 for the nine months ended March 31, 2010, compared to $95,152 for the nine months ended March 31, 2009. Revenue for this period is primarily associated with a Phase II Grant from the U.S. Army for developing a standby or backup battery for electronics based upon the technology of its nanotechnology battery.

RESEARCH AND DEVELOPMENT

Research and development expenses were $ 1,805,839 for the nine months ended March 31, 2010, as compared to $ 868,848 during the comparable period in 2009, or an increase of $936,991. During the most recent period the Company had incurred most of its research and development expenses with strategic vendors such as Porsche Design Studio, MKE and Eagle Picher in connection with the development of an emergency flashlight using the Company s mechanically-activated battery product for both commercial and military applications. The overall increase in expense from the prior period is primarily a result of increased research and development efforts regarding its battery technology.

GENERAL AND ADMINISTRATIVE EXPENSES

General and Administrative expenses were $1,363,049 for the nine months ended March 31, 2010, decreasing from $7,168,950, or a $5,805,901 decrease from the comparable period in 2009. The decrease is primarily due to significant non-cash charges relating to the issuance of common stock and options to employees and consultants, which amounted to $5,511,950 during the nine month period ended on March 31, 2009. This decrease is augmented by an additional $294,109 reduction of other General and Administrative expenses primarily due to the fact that 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 INCOME (EXPENSE)

Other Income and (Expense) was $(41,252) for the nine months ended March 31, 2010, compared to expense of ($1,590,510) for the comparable period ended March 31, 2009. This change is primarily due to a net credit to income for the the change in derivative value due to a decrease of $2,775,787 in the derivative liability, reduced by amortization of debt discount costs of $2,082,818, resulting in net income of $692,969 from derivative liabilities in the nine months ended March 31, 2010; as opposed to a net charge to income from derivative liabilities totalling $1,263,891 for the same period in the prior year; and an increase in interest expense (including beneficial conversion interest charges) totaling $580,803 offset by a reduction of reparation expenses of $173,201 in the current period.

NET LOSS

The Company recorded a net loss of ($3,003,176) for the Nine Months ended March 31, 2010, as compared to a loss of ($9,563,183) for the nine months ended March 31, 2009. This represents a loss per common share of ($.00) for the nine month period ended March 31, 2010 , as compared to a loss per common share of ($0.02) for the nine months ending March 31, 2009, based upon weighted average common shares outstanding of 1,003,375,484 and 592,455,950, respectively. Overall, the decreased loss is a result of non cash charges related to the issuance of common stock and the decrease in cost associated with convertible debt securities. This is offset in part by a significant reduction in personnel expense.

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 4. EQUITY TRANSACTIONS AND CONVERTIBLE DEBT under the caption "Other Equity"). The Company utilized a sequencing method prescribed by FASB Standards Codification Topic 815 (previously known EITF 00-19), based upon applying shares available to contracts with the earliest inception date first. During the fiscal year ended June 30, 2008 the Company reclassified contracts for warrants to purchase 12,604,168 shares at fixed prices ranging from $.13 to $.15 per share to liabilities. The liability was recorded at the fair market value, 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 the nine months ended March 31, 2009, the estimated value was determined to no longer be material. The net change in the liability was credited to the change in derivative value in the Consolidated Statement of Operations for the Fiscal years ended June 30, 2008 and 2009 for $572,900 and $433,300, respectively, for each of these periods in accordance FASB Standards Codification Topic 815 (previously known EITF 00-19). Effective May, 2009, warrants to purchase 11,111,112 shares, and effective September, 2009, warrants to purchase 1,493,056 shares; representing all of the contracts for warrants to purchase 12,604,168 shares that were reclassified to liabilities during the fiscal year ended June 30, 2008, were reclassified to permanent equity. Subsequent to September 30, 2009 the Company has not entered into, and presently the Company does not have, any have contracts for warrants or other equity instruments subject to reclassification to liabilities as prescribed by FASB Standards Codification Topic 815 (previously known EITF 00-19),

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 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. "

MATERIAL RELATED PARTY TRANSACTIONS

MICROPHASE CORPORATION

mPhase's Presidentand Chief Operating Officer of the Company are also officers of Microphase and mPhase's President and Chairman of the Board is a shareholder of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase, whereby mPhase uses 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 were $5,000 per month and were changed to $3,000 in July 2008. In addition, Microphase also charges fees for specific projects on a project-by-project basis. During the nine months ended March 31, 2009 and 2010 and from inception (October 2, 1996) through March 31, 2010, $44,462, $283,210 and $9,606,682, respectively, have been charged to expense.

As a result of the foregoing transactions, as of March 31, 2010, the Company had a payable to Microphase of $49,961

JANIFAST LTD.

The Company has historically purchased products and incurs certain research and development expenses with Janifast Ltd., which is owned by U.S. Janifast Holdings, Ltd., a company in which two directors of mPhase are 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 that were discontinue in 2007. In March of 2009, Janifast Ltd. ceased operations owing to adverse financial conditions globally. During the Nine Months ended March 31, 2009 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.

Transactions with Officers

At various points during past fiscal years Messrs. Durando, Dotoli and Smiley provided bridge loans to the Company, evidenced by individual promissory notes and deferred compensation so as to provide working capital to the Company. All of the notes are payable on demand.. During the 9 months ended March 31, 2010 interest accrued at 12% on such notes was $74,194and $230,000 of such notes were repaid. This compared to interest accrued at 12% on such notes of $8,582 and a net increase in the principal amount of such notes to $115,087 during the nine months ended March 31, 2009.

OTHER RELATED PARTIES

Mr. Abraham Biderman was employed until September 30, 2003 by our former investment-banking firm Lipper & Company. On March 31, 2010, Mr. Biderman's affiliated firm of Palladium Capital Advisors was owed unpaid finders fees in the amount of $150,000. During the nine months ended March 31, 2010 and March 31, 2009 finders fees in the amount of $25,000 and $55,000, respectively, were recorded.

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

Summary of compensation to related parties for the Nine Months Ended March 31, 2010

	Durando	Dotoli	Smiley	Biderman	Microphase	Total
Consulting / Salary	$ 150,000	$ 135,000	$ 131,250			$ 416,250
Interest	$ 47,439	$ 33,636	$ 19,880			$ 100,954
Rent					$ 27,000	$ 27,000
G&A					$ 6,210	$ 6,210
R&D					$ 250,000	$ 250,000
Finders Fees				$ 25,000		$ 25,000
Stock based compensation (shares issued)*						$ 0
Stock based compensation (options issued)*						$ 0
Total compensation	**$ 197,439**	**$ 168,636**	**$ 151,130**	**$ 25,000**	**$ 283,210**	**$ 825,414**

Summary of payables to related parties as of March 31, 2010

	Durando	Dotoli	Smiley	Microphase
Notes payable	$ 301,479	$ 241,306	$ 119,030	
Due to Officers / Affiliates	$ 0	$ 0	$ 0	$ 49,961
Interest Payable	$ 108,912	$ 96,149	$ 59,680	
Total Payable to related parties as of March 31, 2010	**$ 410,391**	**$ 337,455**	**$ 178,710**	**$ 49,961**

Summary of Compensation to related parties for the Nine Months Ended March 31, 2009

	Durando	Dotoli	Smiley	Biderman	Microphase	Total
Consulting / Salary	$ 225,718	$ 184,000	$ 137,500			$ 547,218
Interest	42,945	$ 48,992	1,679			$ 93,616
Rent					$ 27,000	$ 27,000
G&A					$ 17,462	$ 17,462
Finders Fees				$ 55,000		$ 55,000
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	**$ 2,833,663**	$ **1,762,992**	$ **1,075,179**	**$ 289,000**	$ **44,462**	**$ 6,005,296**
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

Summary of payables to related parties as of March 31, 2009

	Durando	Dotoli	Smiley	Microphase	Janifast	Total
Notes payable	$ 617,582	$ 450,756	$ 264,225			$ 1,332,563
Deferred Compensation	$ 0	$ 0				$ 0
Due to Officers / Affiliates	$ 17,000	$ 17,000		$ 68,846	$ (19,336)	$ 83,510
Interest Payable	42,945	48,992	$ 1,679			$ 93,615

Total Payable to Officers	**$ 677,528**	**$ 516,748**	**$ 265,903**	**$ 68,846**	$ **(19,336)**	**$ 1,509,688**

*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.

LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred cumulative development stage losses of ($189,794,995) and negative cash flow from operations of ($85,253,467). The auditors report for the fiscal year ended June 30, 2009 includes the statement that "there is substantial doubt of the Company's ability to continue as a going concern". As of March 31, 2010, the Company had a negative net worth of ($ 4,315,238) compared to a negative net worth of ($(5,234,168) as of June 30, 2009 as a result of continuing net losses. The Company has convertible debt outstanding that is subject to additional funding which potentially allows the Company access to additional funding of approximately $6.6 million Such facilities should enable the Company to raise significant working capital for the next fiscal year. Draws under these arrangements for the nine months March 31, 2010 amounted to $3,236,000. 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 may need to raise approximately $5 million of additional capital above the funds anticipated from the note receivable. Such monies would be necessary primarily to roll-out its Emergency Flashlight produce and fund future expenditures for commercialization of its SmartBattery products. The Company does not expect to derive any material revenue from its Nanotechnology product development until the first quarter of fiscal year 2010.

MANAGEMENT'S PLANS

The Company has shifted its focus to the development of products using the science of Nanotechnology. The Company does not expect to derive any material revenue from its Emergency Flashlight product until the first quarter of fiscal year 2010.

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 March 31, 2010.

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 March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company may be involved in legal actions in the ordinary course of business.

normal course of business.

ITEM 2. CHANGES IN SECURITIES

Private Placements

During the nine months ended March 31, 2010, the Company issued 30,666,667 shares of its common stock at $.0075 and $.0125 per share in private placements generating gross proceeds of $250,000 with placement costs of $25,000, netting $225,000.

During the nine months ended March 31, 2009, the Company issued 39,000,000 shares of its common stock at $.05 and $.01per share in private placements generating net proceeds of $495,000 after placement costs of $55,000. Related to these transactions was the issuance of 11,522,000 shares as reparations shares to effect re-pricing costing an estimated $316,172.

Stock Based Compensation

During the nine months ended March 31, 2010, the Company issued 2,050,000 shares of common stock to employees and consultants valued at $43,050.

During the nine months ended March 31, 2009, 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 nine months ended March 31, 2010, $2,749,250 of convertible debt and accrued interest thereon was converted into 177,696,672 shares of Common stock.

During the nine months ended March 31, 2010, $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. The Company recorded $82,609 interest expense on the beneficial conversion feature of officers   notes during the nine months ended March 31, 2010.

During the nine months ended March 31, 2009, $ 2,589,922 of convertible debt was converted into 193,776,400 shares of common stock**.**

A summary of our arrangement is as follows:

Arrangement #1 (LaJolla 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 an interest rate of 7 1/4% and a maturity date of September 30, 2011 and 3) a Secured Note Receivable in the amount of $1,800,000, with an interest rate of 8 1/4% and maturity date of September 30,2011 due from the 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 Prices during a 20 day trading period. At the time of the transaction (September 11, 2008) the derivative value of this security was calculated to be $1,176,471. The agreement also provides for the Company to decline advances when the Company stock price falls below $.04.

As of December 31, 2009 this value had increased to $1,076,482. On March 31, 2010, given the changes in the stock price, this value had decreased to $467,728, a $608,753 decrease this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $214,938 reducing the balance to $359,498. As of March 31, 2010 the note receivable had a balance of $1,800,000 and the note payable had a balance of $1,810,000; for which the Company recorded a reserve for utilization against each of $300,000.

Arrangement #2 JMJ Financial

On March 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, with a one time interest factor of 12% and a maturity date of December 31, 2011 and 2) a Secured Note Receivable in the amount of $1.0 million, with a one time interest factor of 13.2 % and maturity date of December 31, 2012 due from the same party who is the holder of the Convertible Debenture. Conversion of outstanding debentures into common shares is at the option of the holder. The number of shares into which this debenture can be converted is equal to the dollar amount of the debenture divided by 75% of the Lowest Trading Price during the 20 day trading period prior to conversion. For the Nine Months ended March 31, 2010 the Company received $900,000 of cash draws under the Debenture and the holder had converted into 122,776,037 common stock principal and accrued interest thereon in the amount of $1,891750.

On June 30, 2009 the derivative value of this security was calculated to be $444,552. On September 30, 2009, that amount was 195,721 and on December 31, 2009 that value was decreased to $55,595 given the changes in the stock price combined with the fact that the principle plus interest due under the debenture had material conversions in satisfaction of the debt liability, reducing the outstanding debt to $79,025; and this note was reduced futher to zero by March 31, 2010. The decrease in the derivative liability for the three months ended March 31, 2010 was $55,595. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $508,821 reducing the debt discount balance also to zero.

Arrangement#3 (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 partys who is the holder 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 derivative liability for the embedded conversion feature of such security was $1,054,395 and the debt discount was valued at $1,224,395. . For the Nine Months ended March 31, 2010 the Company the holder had converted into 54,920,635common stock principal and accrued interest thereon in the amount of $857,500.

On September 30, 2009 the derivative liability had decreased to $759,333. and on December 31, 2009, this value had increased to$1,076,482. On March 31, 2010, given the changes in the stock price this value had decreased to $467,728, a $608,753 decrease this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $765,574 reducing the balance to $458,821.

Arrangement#4 (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 party who is the holder 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. 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 of September 23, 2009, the embedded conversion feature of such security was $480,000 and the debt discount was valued at $580,000.

On September 30, 2009, the derivative liability had increased to $487,272, and on December 31, 2009, this value had increased to $844,221, On March 31, 2010, given the changes in the stock price this value decreased to $429,268, a $414,953 decrease for this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $144,999 reducing the balance to $435,001.

Arrangement#5 (JMJ Financial, Inc.)

On November 17, 2009, the Company received a total of $186,000 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 party who is the holder 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 derivative value of the embedded conversion feature of such security was $536,000 and the debt discount was valued at $636,000.

On December 31, 2009, this value had increased to $844,221.On March 31, 2010, given the changes in the stock price this value had decreased to $429,268., a $414,953 decrease this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $70,667 reducing the balance to $565,333.

Arrangement#6 (JMJ Financial, Inc.)

On December 22, 2009, the Company received a total of $300,000 of proceeds in connection with another agreement with JMJ Financial. This transaction involves 1) a Convertible Debenture 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 Note in the amount of $1,400,000 plus a one time interest rate factor of 13.2% ($180,000 each) and a maturity date of December 15, 2012 due from the same party who is the holder 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. In addition, the Company has received a commitment from JMJ Financial to enter into similar financing arrangement which involves 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 December 15, 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 December 15, 2012, such financing to commence not later than February 15, 2009. 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.

On December 31, 2009, this value had increased to $1,055,276.On March 31, 2010, given the changes in the stock price this value had decreased to $536,585, a $518,691 decrease this quarter creating a non-cash credit to earnings for the quarter ended March 31, 2010 of that amount. During the nine month period ended March 31, 2010, amortization of debt discount amounted to $70,603 reducing the balance to $572,111.

Arrangement#7 (J. Fife)

On March 5, 2010, the Company received $495,000 after payment of $5,000 in legal fees under a Securities Purchase Agreement from John Fife. This transaction involves the following related agreements: 1) a Securities Purchase Agreement governing the sale of a $550.000 7.5 % Convertible Note and two additional $275,000 Convertible Notes to be funded in the future each with maturity dates 3 years from the issuance thereof; 2) a Convertible Note totaling $550,000, with an interest rate of 7.5% and a maturity date of March 3, 2011 3) two Secured Notes Receivable in the amount of $250,000 each with an interest rate of 7.5% per annum and a maturity date of 4 years from the date of issuance and a Security Agreement from the same party who is the holder of the Convertible Notes. Conversion of outstanding debentures into shares of common stock is at the option of the holder at a price equal to the dollar amount of the debenture divided by 75% of the three lowest Volume Weighted Average Prices during a 20 day trading period. At the time of the transaction (March 5, 2010) the derivative value of this security was calculated to be $193,767.

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 liabilities. Contracts for warrants to purchase 11,111,112 shares of the Company s common stock at $.14 per share were reclassified to permanent equity in May of 2009, and contracts for warrants to purchase 1,604,168 shares of the Company s common stock at fixed prices ranging from $.13 to $.15 per share were reclassified to permanent equity in September, 2009. At the issuance dates during the fiscal year ended June 30, 2008 the estimated value of the 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 liability approximated $433,300, and during the nine months ended March 31, 2009 the estimated value of the liability was determined to no longer be material. The net change in the 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).

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

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

Form 8k dated March 5, 2010 relating to the issuance of a $550,000 Convertible Debenture by the Company

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.

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 17 , 2010

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