MPHASE TECHNOLOGIES INC
Form 10-Q
May 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

FOR THE QUARTER ENDED March 31, 2013

COMMISSION FILE NO. 000-30202

FORM 10-Q

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

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

(203) 838-2741
ISSUER'S TELEPHONE NUMBER

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

YES x NO o

THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK AS OF April 26, 2013 IS 4,898,212,729 SHARES, ALL OF ONE CLASS OF $.001 PAR VALUE COMMON STOCK.

mPHASE TECHNOLOGIES, INC.

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

		June 30, 2012		March 31, 2013 (unaudited)
ASSETS				
CURRENT ASSETS				
Cash	$	39,913	$	392
Inventory		86,494		72,324
Prepaid and other current assets		26,653		35,785
TOTAL CURRENT ASSETS	$	153,060	$	108,501
Property and equipment, net		33,141		21,162
TOTAL ASSETS	$	186,201	$	129,663
LIABILITIES AND STOCKHOLDERS' DEFICIT				
CURRENT LIABILITIES				
Accounts payable	$	826,379	$	954,947
Accrued expenses		91,591		172,263
Due to related parties		203,128		212,398
Accrued Wages Officers		68,751		206,751
Notes payable, related parties		1,189,552		1,293,755
Short term notes		65,000		65,000
Accounts Payable and Accrued Expenses-Discontinued Activities		863,594		863,594
Current Portion, Long term convertible debentures		522,980		1,177,853
Current Portion, Long term debt		12,864		7,902
TOTAL CURRENT LIABILITIES	$	3,843,839	$	4,954,463
Long term portion Equipment loan		3,451		-
OTHER OBLIGATIONS CONVERTIBLE TO EQUITY- (Note 3)				
Convertible debt derivative liability		898,734		597,153
Long term portion of Convertible debt, net of discount of $128,793 and $116,772 on June 30, 2012 and March 31, 2013, respectively		942,944		348,092
COMMITMENTS AND CONTINGENCIES -(Note 4)				
STOCKHOLDERS' DEFICIT				

Common stock, par value $.001, 6,000,000,000 shares authorized, 3,666,051,851 and 4,796,096,966 shares issued and outstanding at June 30, 2012 and March 31, 2013, respectively		3,666,051		4,796,096
Additional paid in capital		194,468,219		193,873,933
Deferred Compensation		(198,157)		(70,768)
Deficit accumulated during development stage		(203,430,907)		(204,361,333)
Less-Treasury stock, 13,750 shares at cost		(7,973)		(7,973)
TOTAL STOCKHOLDERS' DEFICIT	$	(5,502,767)		(5,770,045)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	186,201	$	129,663

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

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

	For the Three Months Ended March 31, 2012 (Unaudited)	March 31, 2013 (Unaudited)	2-Oct-96 (Date of Inception) March 31, 2013 (Unaudited)
REVENUES	$241	$372	$748,066
COSTS AND EXPENSES			
Cost of Sales	129	307	144,466
Research and Development (including non-cash stock related charges of $0, $0 and $205,733 for the three months ended March 31, 2012 & 2013 and inception to date respectively)	993	993	12,313,915
General and Administrative (including non-cash stock related charges of $42,463, $42,463 and $19,586,020 for the three months ended March 31, 2012 & 2013 and inception to date respectively)	359,040	267,776	36,003,605
Depreciation and Amortization	3,681	3,000	601,827
TOTAL COSTS AND EXPENSES	363,843	272,076	49,063,813
OPERATING LOSS	$(363,602)	$(271,704)	$(48,315,747)
OTHER INCOME (EXPENSE)			
Interest (Expense)	(72,353)	(74,922)	(3,187,428)
Net Reparation, Impairment and Other Income (Expense)	0	(92,000)	(6,801,781)
Net Credits (Charges) related to Convertible Debt	(370,324)	(46,961)	(1,517,346)
TOTAL OTHER INCOME (EXPENSE)	$(442,677)	$(213,883)	(11,506,555)
Loss From Continuing Operations, before Income Taxes	$(806,279)	$(485,587)	$(59,822,308)
Income (Loss) From Discontinued Operations, Net of Income Taxes of $0 in 2012 and 2013, offset by benefit from tax loss carryforwards of $0 in 2012 and 2013 (including non-cash stock related charges of $0, $0 and $57,515,718 for the three months ended March 31, 2012 & 2013 and inception to date respectively)	-	-	(144,539,031)

Income Taxes	-	-	
Net Income (Loss)	$(806,279)	$(485,587)	$(204,361,333)
Basic Net income (loss) per share from:			
Continuing Operations	$-	$-	
Discontinued Operations	$-	$-	
Diluted Net income (loss) per share from:			
Continuing Operations	$N/A	$N/A	
Discontinued Operations	$N/A	$N/A	
Weighted Average Number of Shares Outstanding;			
Basic	2,971,015,232	4,672,237,186	
Diluted	N/A	N/A	

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

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

	For the Nine Months Ended		2-Oct-96 (Date of Inception)
	March 31, 2012 (Unaudited)	March 31, 2013 (Unaudited)	March 31, 2013 (Unaudited)
REVENUES	$1,502	$2,925	$748,066
COSTS AND EXPENSES			
Cost of Sales	1,706	13,982	144,466
Research and Development (including non-cash stock related charges of $0, $0 and $205,733 for the nine months ended March 31, 2012 & 2013 and inception to date respectively)	52,381	2,979	12,313,915
General and Administrative (including non-cash stock related charges of $6,746,740, $127,389 and $19,586,020 for the nine months ended March 31, 2012 & 2013 and inception to date respectively)	7,594,323	852,364	36,003,605
Depreciation and Amortization	11,043	9,000	601,827
TOTAL COSTS AND EXPENSES	7,659,453	878,325	49,063,813
OPERATING LOSS	$(7,657,951)	$(875,400)	$(48,315,747)
OTHER INCOME (EXPENSE)			
Interest (Expense)	(187,328)	(216,336)	(3,187,428)
Net Reparation, Impairment and Other Income (Expense)	1,131	(92,000)	(6,801,781)
Net Credits (Charges) related to Convertible Debt	988,640	253,310	(1,517,346)
TOTAL OTHER INCOME (EXPENSE)	802,443	(55,026)	(11,506,555)
Income (Loss) From Continuing Operations, before Income Taxes	$(6,855,508)	$(930,426)	$(59,822,302)
Income (Loss) From Discontinued Operations, Net of Income Taxes of $0 in 2012 and 2013 offset by benefit from tax loss carryforwards of $0 in 2012 and 2013 (including non-cash stock related charges of $0, $0 and $57,515,718 for the	-	-	(144,539,031)

nine months ended March 31, 2012 & 2013 and inception to date respectively)			
Income Taxes	-	-	
Net Income (Loss)	$(6,855,508)	$(930,426)	$(204,361,333)
Net loss per share from:			
Continuing Operations-Basic	$-	$-	
Discontinued Operations-Basic	$-	$-	
Continuing Operations-Diluted	N/A	N/A	
Discontinued Operations-Diluted	N/A	N/A	
Weighted Average Number of Shares Outstanding;			
Basic	2,605,049,058	4,381,966,680	
Diluted	N/A	N/A	

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

mPHASE TECHNOLOGIES, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE NINE MONTHS ENDED MARCH 31, 2013

	Common Stock Shares	$.001 Par Value	Treasury Stock	Additional Paid in Capital	Deferred Compensation	Accumulated Deficit	Shareholders' (Deficit) Equity
Balance June 30, 2012	3,666,051,851	$ 3,666,051	$ (7,973)	$ 194,468,219	$ (198,157)	$ (203,430,907)	$ (5,502,767)
Issuance of Common Stock to accredited investors in private placements, net of $26,500 fees and $92,000 of reparation expense	1,109,750,000	1,109,750	-	(613,750)	-	-	496,000
Amortization of deferred stock compensation	-	-	-	-	127,389	-	127,389
Common Stock issued to cover the exercise of Put advances under Equity Line of Credit, net of $3,352 transacion fees	20,295,115	20,295	-	19,464	-	-	39,759
Net Income for the Nine Months Ended March 31, 2013	-	-	-	-	-	(930,426)	(930,426)
Balance March 31, 2013	4,796,096,966	$ 4,796,096	$ (7,973)	$ 193,873,933	$ (70,768)	$ (204,361,333)	$ (5,770,045)

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 Cash Flows
(Unaudited)

	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2013	(Date of Inception) March 31, 2013
Cash Flow From Operating Activities:			
Net Income (Loss) From Continuing Operations	$(6,855,508)	$(930,426)	$ (59,822,302)
Net Income (Loss) From Disontinued Operations	$-	$-	$ (144,539,031)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	13,524	11,979	$ 7,490,736
(Gain) loss on debt extinguishments	-	-	$ (1,350,301)
Non-cash charges relating to issuance of common stock, common stock options and warrants	6,645,300	-	$ 77,023,989
Reparation charges	-	92,000	$ 8,356,264
Derivative Value and Debt Discount charges	(988,640)	(253,310)	$ 2,150,497
Write off of Granita Inventory/ Sovereign Investment	-	-	$ 615,910
Other non cash charges including amortization of deferred compensation and beneficial conversion interest expense	102,771	127,389	$ 2,985,524
Changes in assets and liabilities:			
Accounts receivable	-	-	$ 427,876
Inventories	2,590	14,170	$ (582,795)
Prepaid expenses and Other current assets	(2,763)	(9,132)	$ 45,276
Other	(12,500)	-	$ 894,035
Accounts payable, Accrued expenses, Deferred revenue	159,930	322,043	$ 9,773,663
Due to/from related parties			
Microphase / Janifast/Lintel	12,431	9,270	$ 5,523,457
Officers and Other	22,916	138,000	$ 1,924,497
Net cash used in operating activities	$(899,949)	$(478,017)	$ (89,082,705)
Cash Flow from Investing Activities:			
Payments related to patents and licensing rights	-	-	$ (450,780)
Purchase of fixed assets	(7,129)	-	$ (3,315,622)
Investment in Sovereign	-	-	$ (110,000)
Net Cash (used) in investing activities	$(7,129)	$-	$ (3,876,402)
Cash Flow from Financing Activities:			
Proceeds from issuance of common stock, exercises of warrants, net of finders fees	262,702	443,759	$ 83,905,566
Payment of short term notes & equipment loans	(8,492)	(8,413)	$ (1,318,698)
Advances from Microphase	-	-	$ 347,840
Issuance of Convertible Debentures	607,500	83,000	$ 1,494,500
Cash repayment of Convertible Debentures	-	(72,500)	$ (72,500)

Net Proceeds (Repayment) from notes payable related parties	45,400	(7,350)	$ (250,709)
Proceeds from the collection of Notes Receivable under securities purchase agreements	-	-	$ 8,339,500
Sale of minority interest in Granita subsidiary	-	-	$ 514,000
Net cash provided by financing activities	$907,110	$438,496	$ 92,959,499
Net increase (decrease) in cash	$32	$(39,521)	$ 392
CASH AND CASH EQUIVALENTS, beginning of period	1,744	39,913	-
CASH AND CASH EQUIVALENTS, end of period	$1,776	$392	$ 392

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

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

mPhase Technologies, Inc. (the "Company") was organized on October 2, 1996 and is in the development stage, as defined by Statement of Accounting Standards Codification ("ASC") 915-10-20, "Accounting and Reporting by Development Stage Enterprises." The Company's present activities are focused on developing new "smart surface" products through the sciences 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 them nine months ending March 31, 2013 are not necessarily indicative of the results that may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K, as amended, for the year ended June 30, 2012.

Through March 31, 2013, the Company had incurred cumulative (a) development stage losses totaling $204,361,333, (b) stockholders' deficit of $5,770,045 and (c) negative cash flow from operations equal to $89,082,705. At March 31, 2013, the Company had $392 of cash and $0 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 3). The Company's ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near term to: (1) satisfy its current obligations, (2) continue its research and development efforts, and (3) allow the successful wide scale development, deployment and marketing of its products.

INVENTORY

The Company uses the First In First Out method (FIFO) to account for inventory which is carried at cost. As of June 30, 2012, inventory consisted primarily of Emergency Flashlights and their component parts and was valued at $86,494. As of March 31, 2013, (unaudited) inventory consisted primarily of Emergency Flashlights and was valued at $72,324. Appropriate reserves have been taken to assure that the cost of such inventory does not exceed the expected resale value of each configuration of the component parts as specified for the current and pending higher end models of the Emergency Flashlight line.

USE OF ESTIMATES

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

LOSS PER COMMON SHARE, BASIC AND DILUTED

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net loss adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The Company had warrants to purchase 16,780,639 shares of its common stock and options to purchase 104,725,000 shares of its common stock outstanding at March 31, 2013, as well as convertible debentures and convertible notes plus accrued interest thereon held by officers of the Company, subject to availability, convertible into approximately 603,288,876 and 323,438,718 shares of the Company’s common stock based upon the conversion terms at March 31, 2013. In periods reporting a loss the inclusion of warrants and potential common shares to be issued in connection with convertible debt have an anti-dilutive effect on diluted loss per share and have been omitted in such computation.

MATERIAL EQUITY INSTRUMENTS

The Company has material equity instruments including convertible 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 by FASB Standards Codification Topic 815 (previously known as EITF 00-19). (SEE ALSO NOTE 3 under the caption "Other Equity".)

2. SUPPLEMENTAL CASH FLOW INFORMATION

For the nine months ended March 31,

	2012		2013	
Statement of Operation Information:				
Interest Accrued Unpaid	$	170,046	$	346,767
Extension & Conversion Fees on Convertible Debt	$	499,962	$	-
Commitment Fee Equity Line of Credit	$	124,800	$	-
Prepayment Fees on Convertible Debt Repaid in Cash	$	-	$	36,250
Non Cash Investing and Financing Activities:				
Conversion of Convertible Debt and Accrued Interest	$	1,191,354	$	-
Beneficial Conversion of Officers' Notes and	$	2,320	$	-

3. EQUITY TRANSACTIONS AND CONVERTIBLE DEBT

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

Effective June 2005, June 2006, and June 2008, the Company received authorization to increase the number of authorized shares to 500 million, 900 million and 2 billion, respectively. On April 25, 2009, July 15, 2010, and again on November 1, 2010, the Board of Directors approved motions to further increase, subject to shareholder approval, the authorized shares of common stock to 3 billion shares, 4 billion shares and 6 billion shares, respectively. The latest increase in the number of authorized shares of common stock to 6 billion was approved at a Special Meeting of Shareholders of the Company held on June 29, 2011, so that as of March 31, 2013 the Company has 6 billion authorized shares of common stock.

Private Placements

During the nine months ended March 31, 2012, the Company issued 20,000,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $80,000 and paid finder's fees in the amount of $8,000. The proceeds were used by the Company as working capital.

During the nine months ended March 31, 2013, the Company issued 1,109,750,000 shares of its common stock in connection with private placements pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, raising gross proceeds of $430,500 and incurring finder's fees in the amount of $26,500, which included 40,000,000 shares issued to effect a re-pricing of prior investments resulting in reparation expense of $92,000 for the period. The proceeds were used by the Company as working capital.

Stock Based Compensation

During the nine months ended March 31, 2012, the Company issued 1,035,000 shares of common stock to officers and directors, valued at $ 6,520,500, the entire amount of which is included in general and administrative expenses in the Consolidated Statements of Operations for that period. Also during the three months ended September 30, 2011, the Board of Directors revised the exercise price of options to purchase up to 98,000,000 shares of common stock previously granted to officers in September, 2008 (originally exercisable for 5 years with an exercise price of $.0 5 per share). The exercise price of options to purchase up to 98,000,000 shares was revised to $.0040; the incremental cost of $339,700 was recorded as deferred compensation which will be amortized to expense through September 18, 2013.

During the nine months ended March 31, 2013, the Company did not issue any stock compensation, warrants or options to officers or employees and issued no shares of its common stock to consultants.

Conversion of Debt Securities

During the nine months ended March 31, 2013, no amounts due for convertible debt and accrued interest thereon were converted into any shares of common stock.

During the nine months ended March 31, 2012, $1,191,355 of convertible debt and accrued interest thereon was converted into 373,790,093 shares of common stock.

Long Term Convertible Debentures / Notes Receivable / Debt Discount

The Company had 5 separate convertible debt arrangements with independent investors active during the quarter ended March 31, 2013.

During the nine months ended March 31, 2013 no amounts due for these convertible debt arrangements and accrued interest thereon were converted into any shares of common stock. These transactions are intended to provide liquidity and capital to the Company and are summarized below.

Arrangement #1 (JMJ Financial, Inc.)

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

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

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

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

Arrangement #2 (JMJ Financial, Inc.)

On December 15, 2009 the Company entered into a new financing agreement with JMJ Financial that consists of the following: 1) a convertible note issued by the Company in the amount of $1,500,000 plus a one-time interest factor of 12% ($180,000) and a maturity date of December15, 2012 and (2) a secured promissory note in the amount of $1,400,000 plus a one-time interest rate factor of 13.2% ($180,000) and a maturity date of December 15, 2012 due from the holder of the convertible note. To date the Company has received a total of $300,000 cash and has issued no shares of common stock to the holder upon conversions. The remaining $1,280,000 of cash to be received from the holder plus accrued and unpaid interest is convertible into shares of common stock at the option of the holder. Upon receipt, in full, of cash by the Company equaling the purchase price of the convertible note plus interest or any portion thereof payable through maturity, the holder may convert such portion of the total amount of interest funded that would accrue to maturity into additional shares of common stock.

The number of shares into which this convertible note can be converted is equal to the dollar amount of the note divided by 75% of the lowest trade price during the 20 day trading period prior to conversion. Based upon the price of the Company's common stock on June 30, 2011 of $.0073 per share the holder could convert the remaining principal amount plus interest of this convertible note into approximately 285,714,286 shares of common stock at the full contract value; of which the derivative liability associated with this arrangement is calculated.

The Company and the holder are presently negotiating potential amendments to this agreement, and funding and conversions have not occurred since April, 2011. For accounting purposes the note receivable has been fully reserved, and the liability is recorded, when netted against the debt discount and cumulative conversions, at the amount funded. Based upon the price of the Company's common stock on June 30, 2011, the net liability of this note is convertible into approximately 38,095,238 shares of common stock. At the commitment date, the derivative value of the embedded conversion feature of such security was $542,714 and the debt discount was valued at $642,714. As of June 30, 2011, this value was calculated to be $607,994. During the year ended June 30, 2011, amortization of debt discount amounted to $418,552, reducing the balance to $100,000.

During the fiscal year ended June 30, 2012, the Company reduced the note payable and debt discount by $79,000 in proportion with the amount funded to the total original funding commitment and amortization of debt discount amounted to $8,573 reducing the balance to $12,427. As of June 30, 2012, this convertible note has $321,000 outstanding which was combined with arrangement #3 JMJ Financial, Inc.

Arrangement #3 (JMJ Financial, Inc.)

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

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

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

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

As of June 30, 2012, this convertible note has $109,000 outstanding, which when combined with arrangements #8 and #9 totaled $802,060, which the Company entered into an amended agreement on June 1, 2012 whereby the Company agreed to make payments of principle and interest of $37,018 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company’s common stock would be available to the holder. Also as of June 30, 2012 the derivative value of the embedded conversion feature of this arrangement when combined with arrangements #2 and #3 totaled $0; which when compared to the combine value of $1,567,512 created a non-cash credit to earnings of $1,567,512 in fiscal 2012. As of June 30, 2012 and March 31, 2013, the combined arrangements with JMJ in this note would be convertible into 200,515,000 at the conversion floor price of $.004; and only so if the Company does not make the scheduled payments pursuant to the June 1, 2012 amended agreement. The Company has not made any payments of the $37,018 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance.

Arrangement #4 (John Fife)

On March 5, 2010, the Company entered into an new financing agreement with J. Fife that consist of a convertible note issued by the Company in the principal amount of $550,000 bearing interest at 7.5% per annum in which the Company received $495,000 cash up front. The Convertible Note had a maturity date of one year from the date of issuance. In addition, the Company had committed to issue in the future 2 additional promissory notes each in the principal amount of $275,000 each with an interest rate of 7.5% each upon the receipt of $250,000 of cash funding in exchange for such notes. The issuance of each of such notes was expected to take place upon the full conversion of the holder of its previous note into common stock of the Company. Conversion of each of the Convertible Notes into common stock of the Company is at the option of the holder at a price equal to the dollar amount of the note being converted divided by 75% of the three lowest volume weighted average prices during the 20 day trading period immediately preceding the date of conversion.

On October 22, 2010, the Company entered into a Forbearance Agreement with this convertible note holder in which the lender agreed not to convert any additional amounts under the convertible notes until January 15, 2011 in exchange for increasing the original principal amount of those notes by 10% from $550,000 to $605,000 resulting in a charge of $55,000 for debt extension fees corresponding with the addition to the note principal. At the time of the October 22, 2010 transaction, the embedded conversion feature of this security for this incremental liability and loan discount was calculated to be $20,005. This note, which was originally scheduled to mature on March 4, 2011, was extended to June 30, 2012 on September 13, 2011. These increases in the convertible note will also be convertible into common stock of the Company at the option of the holder at a price equal to the dollar amount of the note being converted divided by 75% of the three lowest volume weighted average prices during the 20 day trading period immediately preceding the date of conversion.

At the time of the transaction (March 5, 2010) the derivative value of this security was calculated to be $193,767 and the debt discount was valued at $243,767. As of June 30, 2011 and 2012 this liability was estimated to be $78,059 and $0, respectively, creating a non-cash credit to earnings of $78,059 in fiscal 2012. During the year ended June 30, 2011 the holder converted $398,245 of principal into 65,280,866 shares of common stock and amortization of debt discount amounted to $ 227,621, reducing the balance of the debt discount to $ 0. During the year ended June 30, 2012 the holder converted the remaining principal of $234,755, contractual charges of $74,848 and accrued interest of $77,895 into 161,041,617 shares of common stock and $0 remained outstanding at June 30, 2012.

Arrangement #5 (Jay Wright)

On August 11, 2011 the Company issued to Jay Wright a Convertible Note plus a Warrant in a Private Placement pursuant to Section 42) of the Securities Act of 1933 and received $25,000 in gross proceeds. The purpose for this transaction was to provide working capital for the Company to use for a portion of the interim financing needed by Energy Innovative Products during the course of due diligence by the Company of a proposed acquisition of EIP. The acquisition was subsequently terminated by EIP in January of 2012.

Interest only is payable under the original terms of the Convertible Note at the rate of 1% per month by the Company to the holder. The Convertible Note was originally convertible at a price of $.0068 per share subject to a downward adjustment if the Company issues common stock below such price as long as the Convertible Note is outstanding (anti-dilution protection). The Warrant gives the holder the right to purchase up to 3,676,471 shares of the Company’s common stock at a price of $.0068 per share subject also to a downward adjustment for anti-dilution protection.

The Company and the holder had negotiations with respect to a final repayment arrangement of the Convertible Note. The Company has issued the holder 18 million shares of its common stock for repayment through a conversion and the holder has accepted the conversion and the amount of shares issued in satisfaction of the obligation.

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

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $4,660 and the debt discount totaled the same.

The Company has taken the position that this note was converted in full during the fiscal year ended June 30, 2012 together with accrued interest of $1,900 for 18,000,000 shares of common stock. On February 11, 2013, the Holder formally accepted the 18,000,000 shares of common stock as payment in full of the Convertible Note and agreed to cancel the Warrant.

Arrangement #6 (John Fife dba St. George Investors)

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

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

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

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

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

During the twelve month period ended June 30, 2012 amortization of debt discount amounted to $185,456 reducing the combined balance to $55,903. On March 31, 2013, given the changes in the Company's stock price during the 20 day look-back period for March 31, 2013, this estimated liability had decreased to $441,965, a decrease this period of $329,114, creating a non-cash credit to earnings for the nine months ended March 31, 2013 of that amount. During the nine month period ended March 31, 2013, amortization of debt discount amounted to $55,903, reducing the combined balance to $0.

The company entered into an amended agreement on June 1, 2012, when principle of $557,500 accrued interest of $66,338 and $95,611 of contractual charges totaled $719,449; with this noteholder whereby the Company agreed to make payments of principle and interest of $33,238 per month commencing October 1, 2012 through September 1, 2014 at 8% interest and so long as the payments are not in default then no conversions into the Company's common stock would be available to the holder. As of September 30, 2012 this note would be convertible into 789,645,351 shares of common stock at the original terms. The Company has not made any payments of the $33,238 installment payments commencing October 1, and the holder has continued to accrue interest on the outstanding balance (see note 4). On November 20, 2012, mPhase Technologies, Inc. (the “Company”) formally received an Event of Default and Redemption Notice dated November 16, 2012 with respect to an 8% Convertible Note dated September 13, 2011 issued by the Company to St. George Investments LLC and assigned to John Fife. The notice included alleged defaults with respect to payments owed by the Company under the Convertible Note and the failure to convert the Note into shares of the Company’s common stock. The alleged amount owed according to the notice is approximately $902,279. The Company believes it has affirmative defenses to the actions of the holder of the Convertible Note as well as counterclaims against the Holder. As of March 31, 2013, this note would be convertible into 327,729,741 shares of common stock at the original terms.

Arrangement #7 (Asher Enterprises, Inc.)

On November 17, 2011 the Company issued to Asher Enterprises, Inc. a Convertible Note plus a Warrant in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $53,000 in gross proceeds, net of $3000 closing fees. The instrument is in the principal amount of $53,000 and matures on November 17, 2012. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $47,970 and the loan discount totaled $50,970. During the fiscal year ended June 30, 2012, this Convertible Note was converted, in full, into 162,749,128 shares of common stock.

Arrangement #8 (Asher Enterprises, Inc II)

On January 5, 2012 the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $35,000 in gross proceeds, net of $2,500 closing fees. The instrument is in the principal amount of $35,000 and matures on January 5, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital. On July 11, 2012, the Company prepaid, in full, in cash, this Convertible Note, together with $1,388 of interest and a $17,500 prepayment fee charged to expense during the nine months ended March 31, 2013.

Arrangement#9- (Asher Enterprises, Inc. III)

On May 5, 2012 the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $37,500 in gross proceeds, net of $2,500 closing fees. The instrument is in the principal amount of $33,000 and matures on January 5, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $18,137 and the loan discount totaled the same. On June 30, 2012, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had increased to $66,029, an increase this period of $47,892 creating a non-cash charge to earnings of that amount. During the twelve month period ended June 30, 2012 amortization of debt discount amounted to $3,601 reducing the balance to $14,536. Based upon the price of the Company's common stock on June 30, 2012, this note was convertible into approximately 115,030,675 shares of common stock.

On September 30, 2012, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to $17,038, an decrease this period of $48,991 creating a non-cash credit to earnings of that amount. During the three month period ended September 30, 2012 amortization of debt discount amounted to $6,201 reducing the balance to $8,335. On December 5, 2012 the Company prepaid, in full, in cash, this Convertible Note, together with $1,479 of interest and an $18,750 prepayment fee charged to expense during the nine months ended March 31, 2013.

Arrangment #10 (Asher Enterprises, Inc. IV)

On December 8, 2012, the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $37,500 in gross proceeds, net of $2,500 closing fees. The instrument is in the principal amount of $33,000 and matures on January 5, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company’s common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $24,966 and the loan discount totaled $27,466. On December 31, 2012, given the changes in the Company’s stock price during the 10 day look-back period for this estimated liability had increased to $36,943, an increase this period of $9,477 creating a non-cash charge to earnings of that amount. During the nine month period ended March 31, 2013, amortization of debt discount amounted to $7,636 reducing the balance to $17,330. Based upon the price of the Company’s common stock on March 31, 2013, this Note is convertible into approximately 20,364,973 shares of common stock.

Arrangement #11(Black Arch Opportunity Fund L.P.)

On December 8, 2012, the Company issued to Black Arch Opportunity Fund L.P., Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $30,000 in gross proceeds, The instrument is in the principal amount of $30,000 and matures on January 5, 2013. Interest only is payable at the rate of 12% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 45% discount (60% while the Company's stock is "chilled" by the DTC) based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security was calculated to be $70,001 and the loan discount totaled $70,001. On March 31, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to $66,723, a decrease this period of $3,278 creating a non-cash credit to earnings of that amount. During the three month period ended March 31, 2013, amortization of debt discount amounted to $17,793, reducing the balance to $52,208. Based upon the price of the Company's common stock on March 31, 2013, this Note is convertible into approximately 26,268,474 shares of common stock.

The following table summarizes notes payable under convertible debt and debenture agreements as of June 30, 2012 and March 31, 2013 (unaudited):

Arrangement #12 (Asher Enterprises, Inc. V)

On January 31, 2013, the Company issued to Asher Enterprises, Inc. a Convertible Note in a Private Placement pursuant to Section 4(2) of the Securities Act of 1933 and received $50,000 in gross proceeds, net of $3,000 closing fees. The instrument is in the principal amount of $33,000 and matures on January 5, 2013. Interest only is payable at the rate of 8% per annum by the Company to the holder until maturity. The instrument is convertible into the Company's common stock at 60% of the volume weight average price of the stock based upon the average of the three lowest trading days in the 10 day trading period immediately preceding such conversion. All proceeds received in connection with the above financing have been used by the Company as working capital.

At the time of the transaction, the embedded conversion feature of this security and the warrant was calculated to be $57,418 and the loan discount totaled $57,418. On March 31, 2013, given the changes in the Company's stock price during the 10 day look-back period for this estimated liability had decreased to $51,522, a decrease this period of $5,896 creating a non-cash charge to earnings of that amount. During the three month period ended March 31, 2013, amortization of debt discount amounted to $10,184 reducing the balance to $47,234. Based upon the price of the Company's common stock on March 31, 2013, this Note is convertible into approximately 28,401,564 shares of common stock.

The following table summarizes notes payable under convertible debt and debenture agreements as of June 30, 2012 and March 31, 2013 (unaudited):

	June 30, 2012 Amount	March 31, 2013 (unaudited) Amount
Arrangement #3 - JMJ Financial, Inc	$ 802,060	$ 802,060
	$ 720,157	$ 720,157

Arrangement #6 - St. George Investments				
Arrangement #8 -Asher Enterprises, Inc. # II	$	35,000	$	-
Arrangement #9-Asher Enterprises, Inc. III	$	37,500	$	-
Arrangement #10-Asher Enterprises, Inc. IV	$	-	$	37,500
Arrangement #11-Black Arch Opportunity Fund L.P.	$	-	$	30,000
Arrangement #12 -Asher Enterprises V	$	-	$	53,000
total notes payable	$	1,594,717	$	1,642,717
less: unamortized debt discount	$	(128,793)	$	(116,772)
Convertible Notes payable, net of discount	$	1,465,924	$	1,525,945
Convertible Notes payable-short term portion	$	522,980	$	1,177,853
Convertible Notes payable-long term portion	$	942,944	$	348,092

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DERIVATIVE LIABILITY

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

EQUITY LINE OF CREDIT

The Company entered into a $10,000,000 equity line of Credit with Dutchess Opportunity Fund II, LLC in December of 2011. Under the equity line, the Company is eligible to "PUT" to the fund, 20,000,000 shares of its common stock during any pricing period. The Company has registered a total of 250,000,000 shares of its common stock on a Form S-1 Registration Statement with the Securities and Exchange Commission that was declared effective on January 17, 2012 in connection with the Dutchess Equity Line. As of March 31, 2013, the Company has received $185,187 of proceeds under the Equity Line relating to the resale of 109,882,562 shares of the Company's common stock, net of $17,352 transaction fees, of which $6,000 was received in April. The amount of proceeds to be received under the Equity Line will depend upon the stock price of the Company at the various points in time it exercises the Put Option.

OTHER EQUITY

During the years ended June 30, 2009, the Company reevaluated warrants contracts to purchase 13,104,168 shares at fixed prices ranging from $.05 to $.15 per share originally issued during fiscal year ended June 30, 2008 pursuant to FASB Standards Codification Topic 815 (previously known as EITF 00-19), which reevaluation was to review if the Company should record an additional Derivative Liability. Such liability would be recordable if the other convertible instruments the Company had outstanding, primarily the convertible debentures and notes 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 as EITF 00-19), namely warrants discussed above and the convertible debenture and convertible note agreements. The Company utilized a sequencing method prescribed by FASB Standards Codification Topic 815 (previously known as EITF 00-19) based upon applying shares available to contracts with the earliest inception date first.

During the fiscal year ended June 30, 2008, the Company reclassified contracts for warrants to purchase 12,604,168 shares at fixed prices ranging from $.13 to $.15 per share to contingent liabilities. 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.

The liability was recorded at the fair market value, which estimated value was based upon the contractual life of the free standing warrants, using the Black Scholes pricing model, based on the following weighted average assumptions: annual expected return of 0%, an average life of 5 years, annual volatility of 81% and a risk-free interest rate of 2.25% . At the issuance date of the free standing warrants, which warrants were issued during the fourth quarter of fiscal June 30, 2008, the estimated value approximated $1,006,200 and, as recalculated on the quarterly measurement dates, at June 30, 2008 the estimated value approximated $433,300. During the fiscal year ended 2009, the estimated value was determined to no longer be material. The net change in the contingent liability was credited to the change in derivative value in the Consolidated Statement of Operations for the fiscal years ended June 30, 2008 and 2009 in the amounts of $572,900 and $433,300, respectively, for each of these periods in accordance FASB Standards Codification Topic 815 (previously known as EITF 00-19).

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

4. COMMITMENTS AND CONTINGENCIES

The Company has offered and sold convertible notes to JMJ Financial in the aggregate principal amount plus accrued interest of $10,270,400 through March 31, 2013. Such convertible notes provide cash funding to the Company of up to $9,500,600. Through March 31, 2012, approximately $6,472,000 of cash has been received by the Company, $5,990,606 of which has been converted by JMJ Financial into a substantial number of shares of common stock without registration under the Securities Act of 1933, as amended, or qualification under state securities laws. The Company believes that any sales of common stock by JMJ are in full compliance with Rule 144 of the Securities Act of 1933, as amended, and has obtained an opinion of outside counsel regarding such compliance.

Nevertheless, it is possible such compliance could be challenged in the future by either regulatory agencies or shareholders. In particular, questions regarding the economic risk of JMJ Financial with respect to the collateral required under the secured note delivered by JMJ Financial in payment of the purchase price for the Company’s convertible note could be raised since the secured note contains a prepayment provision allowing JMJ to prepay such note, in full, by returning the convertible note. If a court of law determines that any offer or sale of common stock of the Company received in a conversion by JMJ Financial was not in compliance with Rule 144 then JMJ could be deemed to be an underwriter. The result would be that the Company would have been engaged in a primary offering of common stock through an underwriter in violation of the registration requirements of the Securities Act of 1933, as amended.

The Securities Act of 1933, as amended, requires that any claim for rescission is brought within one year of the violation. The time periods within which claims for rescission must be brought under state securities laws vary and may be two years or more from the date of the violation. At March 31, 2013, no shares of our outstanding common stock issued in respect to our convertible note transactions with JMJ Financial could still be subject to rescission with a potential liability remain.

5. FAIR VALUE MEASUREMENTS

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

The table below presents reconciliation for liabilities measured at fair value on a recurring basis at March 31, 2012 and 2013:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivative Liability	
	March 31, 2012	March 31, 2013
Balance at July 1	$ 1,664,575	$ 898,734
Decrease in Derivative Liability	(1,791,357)	(253,310)
Debt Discounts	263,170	48,271
Balance at March 31	$ 136,388	