

Hypersolar, Inc.
Form 10-Q
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-54437

HYPERSOLAR, INC.

(Exact name of registrant as specified in its charter)

HYPERSOLAR, INC.

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PART I. Financial Information**HYPERSOLAR, INC.****CONDENSED BALANCE SHEETS**

| | March 31, 2015 (Unaudited) | June 30, 2014 |
|---|----------------------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$7,784 | \$61,628 |
| TOTAL CURRENT ASSETS | 7,784 | 61,628 |
| PROPERTY & EQUIPMENT | | |
| Computers and peripherals | 6,218 | 6,218 |
| Less: accumulated depreciation | (5,217) | (4,479) |
| NET PROPERTY AND EQUIPMENT | 1,001 | 1,739 |
| OTHER ASSETS | | |
| Deposits | 1,450 | 925 |
| Domain, net of amortization \$2,362 and \$2,097, respectively | 2,953 | 3,218 |
| Patents | 32,736 | 32,736 |
| TOTAL OTHER ASSETS | 37,139 | 36,879 |
| TOTAL ASSETS | \$45,924 | \$100,246 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$65,305 | \$92,801 |
| Accrued expenses | 260,640 | 218,478 |
| Derivative liability | 10,233,770 | 8,667,274 |
| Convertible promissory notes, net of debt discount of \$252,015 and \$176,395, respectively | 562,985 | 345,946 |
| TOTAL CURRENT LIABILITIES | 11,122,700 | 9,324,499 |
| SHAREHOLDERS' DEFICIT | | |

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| | | |
|--|---------------------|---------------------|
| Preferred Stock, \$0.001 par value; 5,000,000 authorized preferred shares | - | - |
| Common Stock, \$0.001 par value; 1,500,000,000 authorized common shares 448,562,529 and 429,348,439 shares issued and outstanding, respectively | 476,848 | 429,348 |
| Additional Paid in Capital | 5,568,303 | 5,532,679 |
| Accumulated deficit | (17,121,927) | (15,186,280) |
| TOTAL SHAREHOLDERS' DEFICIT | (11,076,776) | (9,224,253) |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | \$45,924 | \$ 100,246 |

The accompanying notes are an integral part of these unaudited condensed financial statements

HYPERSOLAR, INC.**CONDENSED STATEMENTS OF OPERATIONS****(UNAUDITED)**

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|----------------------------|-------------------|---------------------------|-------------------|
| | March 31, 2015 | March 31, 2014 | March 31, 2015 | March 31, 2014 |
| REVENUE | \$- | \$- | \$- | \$- |
| OPERATING EXPENSES | | | | |
| General and administrative expenses | 114,302 | 105,883 | 342,837 | 327,843 |
| Research and development cost | 37,073 | 21,729 | 51,563 | 78,703 |
| Depreciation and amortization | 237 | 257 | 915 | 611 |
| TOTAL OPERATING EXPENSES | 151,612 | 127,869 | 395,315 | 407,157 |
| LOSS FROM OPERATIONS BEFORE OTHER EXPENSES | (151,612) | (127,869) | (395,315) | (407,157) |
| OTHER INCOME/(EXPENSES) | | | | |
| Gain on forgiveness of debt | - | 25,293 | - | 32,831 |
| Gain/(Loss) on change in derivative liability | (1,428,357) | (12,694,787) | (1,201,496) | (13,255,320) |
| Interest expense | (119,944) | (156,313) | (338,836) | (430,121) |
| TOTAL OTHER INCOME/(EXPENSES) | (1,548,301) | (12,825,807) | (1,540,332) | (13,652,610) |
| NET LOSS | \$(1,699,913) | \$(12,953,676) | \$(1,935,647) | \$(14,059,767) |
| BASIC AND DILUTED LOSS PER SHARE | \$(0.00) | \$(0.04) | \$(0.00) | \$(0.05) |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | | | | |
| BASIC AND DILUTED | 471,778,919 | 334,908,982 | 454,505,365 | 261,328,257 |

The accompanying notes are an integral part of these unaudited condensed financial statements

HYPERSOLAR, INC.**CONDENSED STATEMENTS OF SHAREHOLDERS' DEFICIT****FOR THE NINE MONTHS ENDED MARCH 31, 2015****(UNAUDITED)**

| | Preferred stock | | Common stock | | Additional | Accumulated | |
|---|-----------------|--------|--------------|-----------|-----------------|----------------|----------------|
| | Shares | Amount | Shares | Amount | Paid-in Capital | Deficit | Total |
| Balance at June 30, 2014 | - | \$ - | 429,348,439 | \$429,348 | \$5,532,679 | \$(15,186,280) | \$(9,224,253) |
| Issuance of common stock for conversion of debt | - | - | 47,499,633 | 47,500 | 35,624 | - | 83,124 |
| Net loss for the nine months ended March 31, 2015 | - | - | - | - | - | (1,935,647) | (1,935,647) |
| Balance at March 31, 2015 (unaudited) | - | \$ - | 476,848,072 | \$476,848 | \$5,568,303 | \$(17,121,927) | \$(11,076,776) |

The accompanying notes are an integral part of these unaudited condensed financial statements

HYPERSOLAR, INC.**CONDENSED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

| | For the Nine Months Ended | |
|--|---------------------------|-------------------|
| | March 31, | March 31, |
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income/(loss) | \$(1,935,647) | \$(14,059,767) |
| Adjustment to reconcile net income/(loss) to net cash used in operating activities | | |
| Depreciation & amortization expense | 1,003 | 611 |
| Loss on change in derivative liability | 1,201,496 | 13,255,320 |
| Amortization of debt discount and beneficial conversion feature recorded as interest expense | 289,380 | 396,838 |
| Gain on settlement and exchange of debt | - | (32,831) |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in: | | |
| Prepaid expenses and other current assets | - | 9,715 |
| Deposits | (525) | - |
| Increase (Decrease) in: | | |
| Accounts payable | (27,496) | (32,662) |
| Accrued expenses | 52,945 | 107,241 |
| NET CASH USED IN OPERATING ACTIVITIES | (418,844) | (355,535) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of fixed assets | - | (2,020) |
| Purchase of intangible assets | - | - |
| NET CASH USED IN INVESTING ACTIVITIES | - | (2,020) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from convertible notes payable | 365,000 | 397,500 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 365,000 | 397,500 |
| NET (DECREASE)/INCREASE IN CASH | (53,844) | 39,945 |
| CASH, BEGINNING OF PERIOD | 61,628 | 15,937 |
| CASH, END OF PERIOD | \$7,784 | \$55,882 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | \$134 | \$1,077 |

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| | | |
|------------|-----|-----|
| Taxes paid | \$- | \$- |
|------------|-----|-----|

SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

| | | |
|---|----------|-------------|
| Issuance of common stock upon conversion of convertible notes | \$83,124 | \$1,675,402 |
| Issuance of common stock upon cashless conversion of warrants | \$- | \$54,847 |

The accompanying notes are an integral part of these unaudited condensed financial statements

HYPERSOLAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. **BASIS OF PRESENTATION**

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. 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 normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending June 30, 2015. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended June 30, 2014.

Going Concern

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has historically obtained funds from its shareholders through the sale of its securities. Management believes that it will be able to continue to raise funds from its existing shareholders and new investors to meet the Company's obligations as they become due and to continue the development of its core business. There is no assurance that the Company will be able to continue raising the required capital.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Revenue Recognition

The Company recognizes revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. To date, the Company has had no revenues.

Cash and Cash Equivalent

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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 amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimate of useful lives of intangible assets, and the deferred tax valuation allowance. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Disclosures about fair value of financial instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of March 31, 2015, the amounts reported for cash, accrued interest and other expenses, notes payables, and derivative liability approximate the fair value because of their short maturities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
 Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
 Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at March 31, 2015:

| | Total | (Level 1) | (Level 2) | (Level 3) |
|--|--------------|-----------|-----------|--------------|
| Liabilities | | | | |
| Derivative liability | 10,233,770 | - | - | 10,233,770 |
| Total liabilities measured at fair value | \$10,233,770 | \$ - | \$ - | \$10,233,770 |

The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value:

| | |
|---|-------------|
| Beginning balance as of July 1, 2014 | \$8,667,274 |
| Fair value of derivative liabilities issued | 1,800,221 |

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| | |
|--|--------------|
| Gain on conversion of notes payable | (1,166,385) |
| Loss on change in derivative liability | 932,660 |
| Ending balance as of March 31, 2015 | \$10,233,770 |

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per Share Calculations

Loss per Share dictates the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. No shares for the convertible notes were used in the calculation of the loss per share as they were all anti-dilutive. The Company's diluted loss per share is the same as the basic loss per share for the nine months ended March 31, 2015, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

Income Taxes

The Company uses the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. The measurement of deferred tax assets and liabilities is based on provisions of applicable tax law. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance based on the amount of tax benefits that, based on available evidence, is not expected to be realized.

Stock based Compensation

Share-based Payment applies to transactions in which an entity exchanges its equity instruments for goods or services and also applies to liabilities an entity may incur for goods or services that are to follow a fair value of those equity instruments. The Company will be required to follow a fair value approach using an option-pricing model, such as the Black Scholes option valuation model, at the date of a stock option grant. The deferred compensation calculated under the fair value method would then be amortized over the respective vesting period of the stock option.

Recently issued pronouncements

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The Board received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards (IFRS), which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts

Statement No. 6, Elements of Financial Statements, which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Company is currently evaluating the effects of adopting this ASU, if it is deemed to be applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently issued pronouncements (Continued)

On August 27, 2014, the Company adopted the amendment to ASU 2014-15 on *Presentation of Financial Statements Going Concern (Subtopic 205-40)*. The amendment provides for guidance to reduce diversity in the timing and content of footnote disclosures. The amendment requires management to assess the Company's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The Company has to define the term of substantial doubt, which has to be evaluated every reporting period including interim periods. Management has to provide principles for considering the mitigating effect of its plan, and disclose when substantial doubt is alleviated as well as when it is not alleviated. The Company is required to assess managements plan for a period of one year after the financial statements are issued (or available to be issued). The amendment is effective for annual periods ending after December 15, 2016. Early adoption is permitted. The Company does not believe the accounting standards currently adopted will have a material effect on the accompanying condensed financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed financial statements.

3. CAPITAL STOCK

During the nine months ended March 31, 2015, the Company issued 47,499,633 shares of common stock upon conversion of \$72,341 in principal and \$10,783 in accrued interest on an outstanding note.

4. STOCK OPTIONS

Options

On March 31, 2015, the Company granted 250,000 non-qualified stock options to an employee. As of March 31, 2015, 500,000 non-qualified common stock options were outstanding. Each option is exercisable to the nearest whole share, in installments or otherwise, as the respective agreements may provide. Notwithstanding any other provisions of the Option agreement, each Option expires on the date specified in the Option agreement, which date shall not be later than the fifth (5th) anniversary from the grant date of the options. The stock options outstanding as of June 30, 2014 are fully vested and are exercisable for a period of five years from the date of grant at an exercise price \$0.04 per share. The stock options granted on March 31, 2015 shall become exercisable after fifty (50%) percent of the options

vest on the one year anniversary and the remaining fifty (50%) on the second anniversary, which are exercisable for a period of five years from the date of grant at an exercise price of \$0.02245 per share.

A summary of the Company's stock option activity and related information follows:

| | Number of Options | Weighted average exercise price |
|--|-------------------------|--|
| Outstanding, beginning of period | 250,000 | \$ 0.04 |
| Granted | 250,000 | 0.02 |
| Exercised | - | - |
| Forfeited/Expired | - | - |
| Outstanding, end of period | 500,000 | \$ 0.03 |
| Exercisable at the end of period | 250,000 | \$ 0.04 |
| Weighted average fair value of options granted during the period | | \$ 0.02 |

5. CONVERTIBLE PROMISSORY NOTES

On May 9, 2013, the Company entered into a securities purchase agreement for the sale of a 10% convertible promissory note entered into for the extinguishment of a previous note in the aggregate principal amount of \$127,841. The lender converted \$55,500 of the note leaving a remaining balance of \$72,341 as of June 30, 2014. During the nine months ended March 31, 2015, the Company issued 47,499,633 shares of common stock upon conversion of the remaining principle balance of \$72,341, plus accrued interest of \$10,783.

On August 9, 2013, the Company received funds of \$15,000 in consideration for issuance of a securities purchase agreement entered into for the sale of a 10% convertible promissory note in the aggregate principal amount of up to \$100,000. The Company received additional advances in the aggregate amount of \$85,000 for a total aggregate principal sum of \$100,000. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of a) \$0.0048 per share; b) fifty percent (50%) of the lowest trading price after the effective date of each respective advance or c) the lowest conversion price offered by the Company with respect to any financing occurring before or after the date of each respective advance. The note matured, and each advance was extended for another six (6) months. The note matured on January 9, 2014, and was extended to January 9, 2015. Before the note expired, the note was extended to July 9, 2015.

5. CONVERTIBLE PROMISSORY NOTES (Continued)

On December 16, 2013, the Company received funds of \$26,000 in consideration for issuance of a securities purchase agreement entered into for the sale of a 10% convertible promissory note in the aggregate principal amount of up to \$100,000. The Company received additional advances in the amount of \$74,000 for an aggregate sum of \$100,000. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.0048 per share or fifty percent (50%) of the lowest trading price after the effective date of each respective advance. The note matured on May 16, 2014, and was extended to May 16, 2015. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$6,437 during the nine months ended March 31, 2015.

On March 5, 2014, the Company received funds of \$30,000 in consideration for issuance of a securities purchase agreement entered into for the sale of a 10% convertible promissory note in the aggregate principal amount of up to \$100,000. On April 15, 2014, the lender and borrower agreed to amend the note to increase the principle sum to \$150,000. The Company received additional advances in the amount of \$120,000 for an aggregate sum of \$150,000. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.0048 per share or fifty percent (50%) of the lowest trading price after the effective date of each respective advance. The note matured six (6) months from the effective dates of each respective advance. On September 4, 2014, the note was extended to September 5, 2015. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$75,833 during the nine months ended March 31, 2015.

On May 23, 2014, the Company entered into a securities purchase agreement for the sale of a 10% convertible promissory note in the aggregate principal amount of up to \$500,000, \$50,000 of which was funded simultaneously with entry into the securities purchase agreement. The Company received additional advances in the amount of \$415,000 for an aggregate sum of \$465,000. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.0048 per share or fifty percent (50%) of the lowest trading price after the effective date of each respective advance. The note matures six (6) months from the effective dates of each respective advance. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$207,110 during the nine months ended March 31, 2015.

ASC Topic 815 provides guidance applicable to convertible debt issued by the Company in instances where the number into which the debt can be converted is not fixed. For example, when a convertible debt converts at a discount to market based on the stock price on the date of conversion, ASC Topic 815 requires that the embedded conversion option of the convertible debt be bifurcated from the host contract and recorded at their fair value. In accounting for derivatives under accounting standards, the Company recorded a liability representing the estimated present value of the conversion feature considering the historic volatility of the Company's stock, and a discount representing the imputed interest associated with the embedded derivative. The discount is amortized over the life of the convertible debt, and the derivative liability is adjusted periodically according to stock price fluctuations.

6. DERIVATIVE LIABILITIES

The convertible notes issued and described in Note 5 do not have fixed settlement provisions because their conversion prices are not fixed. The conversion features have been characterized as derivative liabilities to be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

During the nine months ended March 31, 2015, approximately \$72,341 in convertible notes plus interest were converted. As a result of the conversion of these notes, and the revaluation of the derivatives, the Company recognized a net gain of \$233,725 to account for the change in fair value of the derivative liabilities. At March 31, 2015, the fair value of the derivative liability was \$10,233,770.

For purpose of determining the fair market value of the derivative liability for the embedded conversion, the Company used Black Scholes option valuation model. The significant assumptions used in the Black Scholes valuation of the derivative are as follows:

| | |
|---------------------------------------|------------------|
| Risk free interest rate | 0.03% - 0.26% |
| Stock volatility factor | 23.89% - 318.08% |
| Weighted average expected option life | 1 month - 1 year |
| Expected dividend yield | None |

7. SUBSEQUENT EVENTS

Management evaluated subsequent events as of the date of the financial statements pursuant to ASC TOPIC 855, and there are no events to report

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

The information in this discussion may contain forward-looking statements. These forward-looking statements involve risks and uncertainties, including statements regarding our capital needs, business strategy and expectations. Any statements that are not of historical fact may be deemed to be forward-looking statements. These forward-looking statements involve substantial risks and uncertainties. In some cases you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue", the negative of the terms or other comparable terminology. Forward-looking statements in this Report may also include references to anticipated sales volume and product margins, efforts aimed at establishing new or improving existing relationships with customers, other business development activities, anticipated financial performance, business prospects and similar matters. Actual events or results may differ materially from the anticipated results or other expectations expressed in the forward-looking statements. In evaluating these statements, you should consider various factors, including the risks included from time to time in other reports or registration statements filed by the Company with the United States Securities and Exchange Commission. These factors may cause our actual results to differ materially from any forward-looking statements. We disclaim any obligation to publicly update these statements, or disclose any difference between actual results and those reflected in these statements.

Unless the context otherwise requires, references in this Form 10-Q to "we," "us," "our," or the "Company" refer to Hypersolar, Inc.

Overview

Inspired by the photosynthetic process that plants use to harness the power of the sun to create energy molecules, we are developing a novel solar-powered particle system that mimics photosynthesis to separate hydrogen from water. On November 15, 2011, we filed a patent application to protect the intellectual property rights to the production of renewable hydrogen and natural gas using sunlight, water, and carbon dioxide. This patent is currently in the review stage.

Hydrogen is the lightest and abundant chemical element, constituting roughly 75% of the universe's chemical elemental mass (Palmer, D. (13 September 1997). "[Hydrogen in the Universe](#)".NASA). However, naturally occurring elemental hydrogen is relatively rare on earth and hydrogen gas is most often produced using fossil fuels. Industrial production is mainly from the steam reforming of natural gas and is usually employed near its production site, with

the two largest uses being crude oil processing (hydrocracking) and ammonia production, mostly for the fertilizer market. We are developing what we believe is a cleaner and greener way to produce this high value product.

In addition to the many industrial uses of hydrogen, one of the most intriguing uses, is for fuel cells for transportation. A fuel cell is a device that converts the chemical energy from a fuel into electricity through a chemical reaction with oxygen or another oxidizing agent, using hydrogen as the most common fuel. In 2013, many automotive manufacturers announced plans to develop hydrogen vehicles including Toyota, Honda, Hyundai, and BMW. Source:

(http://www.driveclean.ca.gov/Search_and_Explore/Technologies_and_Fuel_Types/Hydrogen_Fuel_Cell.php)

On May 20, 2014 the first Hyundai fuel cell vehicles (FCEV's) rolled onto U.S. soil marking the first delivery of mass-produced fuel cell hydrogen vehicles in the U.S. market. (Source: <http://www.hyundainews.com/us/en-us/Media/PressRelease.aspx?mediaid=40852&title=hyundais-first-mass-produced-tucson>)

Our research is centered on developing a low-cost and submersible hydrogen production particle that can split water molecules under the sun, emulating the core functions of photosynthesis. Each particle is a complete hydrogen generator that contains a novel high voltage solar cell bonded to chemical catalysts by a proprietary encapsulation coating. We are striving to reach an open circuit voltage (OCV) goal of 1.5 to effectively split the water molecules to produce hydrogen with our technology. On December 9, 2014, we announced that we had reached open circuit voltage of 1.25. We are currently working on increasing the OCV to 1.5 and building a larger proof of concept prototype of our technology.

On March 17, we jointly filed a full utility patent application with the University of California, Santa Barbara ("UCSB") for the "method of manufacture of multi-junction artificial photosynthetic cells."

Market Opportunity

Hydrogen has a number of applications from chemical processing, petroleum recovery and refining, metal production and fabrication, aerospace, and fuel cells. The sectors with the greatest demand for hydrogen are petroleum refineries for hydrocracking and ammonia production for fertilizer. Transportation fuel is an emerging sector which we believe has an enormous potential in the future. We believe fuel cell technology will be the major growth driver of hydrogen in the future as many major automobile manufacturers such as Honda, Hyundai, BMW and Toyota bring hydrogen powered cars to market.

The Hydrogen Generation Market will grow from an estimated \$103.5 Billion in 2014 to \$138.2 Billion by 2019, with a CAGR of 5.9%. (Markets and Markets Research; Hydrogen Generation Market).

As hydrogen fuel technology continues to garner attention from the mainstream consumer as well as industrial sectors, the industry is set to become as competitive as solar and wind energies.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of property, plant and equipment, intangible assets, deferred tax assets and fair value computation using the Black Scholes option pricing model. We base our estimates on historical experience and on various other assumptions, such as the trading value of our common stock and estimated future undiscounted cash flows, that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

Use of Estimates

In accordance with accounting principles generally accepted in the United States, management utilizes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates and assumptions relate to recording useful lives and impairment of tangible and intangible assets, accruals, stock-based compensation expense, Black Scholes valuation model inputs, derivative liabilities and other factors. Management believes it has exercised reasonable judgment in deriving these estimates. Consequently, a change in conditions could affect these estimates.

Fair Value of Financial Instruments

The Company's cash, accounts payable, accrued interest, and note payable are stated at cost which approximates fair value due to the short-term nature of these instruments.

Recently Adopted Accounting Pronouncements

Management reviewed the recently issued accounting pronouncements during the nine months ended March 31, 2015, as disclosed in the Notes to the financial statements included in this report.

Results of Operations for the Three Months Ended March 31, 2015 compared to Three Months Ended March 31, 2014.

Operating Expenses

Operating expenses for the three months ended March 31, 2015 were \$151,612 and \$127,869 for the prior period ended March 31, 2014. The net increase in operating expenses consisted primarily of the research and development cost associated with outside testing.

Other Income/(Expenses)

Other income and (expenses) for the three months ended March 31, 2015 were \$(1,548,301) and \$(12,825,807) for the prior period ended March 31, 2014. The decrease in other income and (expenses) was the result of a decrease in net loss on change in fair value of the derivative instruments of \$11,266,430, gain on forgiveness of debt of \$25,293, and amortization of debt discount of \$43,748, with an increase in interest expense of \$7,379. The net decrease in other income and (expenses) was due to the loss in change in derivative liability.

Net Loss

For the three months ended March 31, 2015, our net loss was \$1,699,913 as compared to \$12,953,676 for the prior period March 31, 2014. The decrease in net loss was related primarily to other income and (expenses) due to a decrease in non-cash cost associated with the derivatives. The Company has not generated any revenues.

Results of Operations for the Nine Months Ended March 31, 2015 compared to Nine Months Ended March 31, 2014.

Operating Expenses

Operating expenses for the nine months ended March 31, 2015 were \$395,315 and \$407,157 for the prior period ended March 31, 2014. The net decrease in operating expenses consisted primarily of the research and development cost associated with outside testing. The decrease was due to a reduction in cost associated with outside consultants.

Other Income/(Expenses)

Other income and (expenses) for the nine months ended March 31, 2015 were \$(1,540,332) and \$(13,652,610) for the prior period ended March 31, 2014. The decrease in other income and (expenses) was the result of a decrease in net loss on change in fair value of the derivative instruments of \$12,053,824, gain on forgiveness of debt of \$32,831, and amortization of debt discount of \$107,459, with an offset of interest expense of \$16,174. The net increase in other income and (expenses) was due to the loss in change in derivative liability.

Net Loss

For the nine months ended March 31, 2015, our net loss was \$1,935,647 as compared to \$14,059,767 for the prior period March 31, 2014. The decrease in net loss was related primarily to other income and (expenses) due to a decrease in non-cash cost associated with the derivatives. The Company has not generated any revenues.

Liquidity and Capital Resources

As of March 31, 2015, we had a working capital deficit of \$11,114,916 as compared to \$9,262,871 as of June 30, 2014. This increase in working capital deficit of \$1,852,045 was due primarily to an increase in accrued expenses, convertible notes, and non-cash derivative liability, offset with a decrease in cash and accounts payable.

Cash flow used in operating activities was \$418,844 for the nine months ended March 31, 2015 and \$335,535 for the prior period ended March 31, 2014. The increase in cash used by operating activities was primarily due to a decrease in prepaid expenses, deposits, accounts payable, accrued expenses, amortization of debt discount and loss on change in derivative liability. The Company has had no revenues.

Cash used in investing activities for the nine months ended March 31, 2015 was \$0, compared to \$2,020 for the prior period ended March 31, 2014.

Cash provided by financing activities during the nine months ended March 31, 2015 was \$365,000 and \$397,500 for the prior period ended March 31, 2014. The increase in financing activities was due to equity financing with convertible notes through private placements during the current period.

Our financial statements as of March 31, 2015 have been prepared under the assumption that we will continue as a going concern for the year ended June 30, 2015. HJ Associates & Consultants LLP, in their report dated September 23, 2014, on our financial statements, included an explanatory paragraph expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our ability to continue as a going concern ultimately is dependent on our ability to generate a profit which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We believe our current cash balance as of May 13, 2015 will fund our operations for the next sixty days as we continue working to develop a prototype of our technology. As a result of our inability to raise sufficient financing in our third fiscal quarter, our CEO and certain vendors have not been fully compensated for their services. The sale of additional equity securities could result in additional dilution to our stockholders. There can be no assurance that financing will be available in amounts and on terms acceptable to us, or at all. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. If we are unable to obtain additional financing, we may be forced to curtail our operations.

PLAN OF OPERATION AND FINANCING NEEDS

Our plan of operation within the next twelve months is to further research, develop, and protect our technology.

In tandem with work on our self-contained particles, we will be working on the system side of the H2 Generator and production unit and larger prototype.

Our financing needs consist of general operating expenses, sponsorship agreements with academic institutions, patent prosecution and IP protection and paying consultants.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

N/A

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change to our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risks Factors

There are no material changes from the risk factors previously disclosed in our annual report on Form 10-K/A filed with the SEC on September 21, 2014.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended March 31, 2015, the Company issued 28,285,543 shares of common stock upon conversion of \$72,341 in principal, plus accrued interest of \$10,783.

The Company relied on an exemption pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended in connection with the sale and issuances of its shares of common stock described above.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

| Exhibit No. | Description |
|-------------|--|
| 31.1* | Certification of the Chief Executive Officer and Chief Financial Officer of Hypersolar, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of the Chief Executive Officer and Chief Financial Officer of Hypersolar, Inc., furnished pursuant to Section 1350 of Chapter 63 of 18 U.S.C. as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| EX-101.INS* | XBRL Instance Document |
| EX-101.SCH* | XBRL Taxonomy Extension Schema Document |
| EX-101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| EX-101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| EX-101.LAB* | XBRL Taxonomy Extension Labels Linkbase |
| EX-101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

* Filed herewith

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SIGNATURE

Pursuant to the requirements 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.

HYPERSOLAR, INC.

May 14, 2015 By: /s/ Timothy Young
Timothy Young
Chief Executive Officer and
Acting Chief Financial Officer
(Principal Executive Officer and
Principal Financial and Accounting Officer)