Hypersolar, Inc.
Form 10-Q
February 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2015

TRANSITION REPORT UNDER SECTION13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER: 000-54437

HYPERSOLAR, INC.

(Name of registrant in its charter)

Nevada	**26-4298300**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

32 East Micheltorena, Suite A, Santa Barbara, CA 93101

(Address of principal executive offices) (Zip Code)

Issuer's telephone Number: **(805) 966-6566**

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of registrant's common stock outstanding, as of February 1, 2016 was 528,325,877.

HYPERSOLAR, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HYPERSOLAR, INC.

CONDENSED BALANCE SHEETS

	December 31, 2015 (Unaudited)	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash	$93,885	$39,491
TOTAL CURRENT ASSETS	93,885	39,491
PROPERTY & EQUIPMENT		
Computers and peripherals	6,218	6,218
Less: accumulated depreciation	(5,722)	(5,385)
NET PROPERTY AND EQUIPMENT	496	833
OTHER ASSETS		
Deposits	1,450	1,450
Domain, net of amortization $2,628 and $2,451, respectively	2,687	2,864
Patents	32,736	32,736
TOTAL OTHER ASSETS	36,873	37,050
TOTAL ASSETS	$131,254	$77,374
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$112,169	$97,467
Accrued expenses	327,094	279,419
Derivative liability	8,992,520	13,034,374

Convertible promissory notes, net of debt discount of $244,162 and $264,196, respectively	981,838	700,804
TOTAL CURRENT LIABILITIES	10,413,621	14,112,064
SHAREHOLDERS' DEFICIT		
Preferred Stock, $0.001 par value;		
5,000,000 authorized preferred shares, no shares issued or outstanding	-	-
Common Stock, $0.001 par value;		
1,500,000,000 authorized common shares 510,893,000 and 476,848,072 shares issued and outstanding, respectively	510,893	476,848
Additional Paid in Capital	5,593,837	5,568,303
Accumulated deficit	(16,387,097)	(20,079,841)
TOTAL SHAREHOLDERS' DEFICIT	(10,282,367)	(14,034,690)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$131,254	$77,374

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

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HYPERSOLAR, INC.

CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
REVENUE	$-	$-	$-	$-
OPERATING EXPENSES				
General and administrative expenses	122,692	111,561	244,654	228,535
Research and development cost	7,245	14,490	28,980	14,490
Depreciation and amortization	257	339	514	678
TOTAL OPERATING EXPENSES	130,194	126,390	274,148	243,703
LOSS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	(130,194)	(126,390)	(274,148)	(243,703)
OTHER INCOME/(EXPENSES)				
Net Gain/(Loss) on debt conversion and change in derivative liability	1,970,483	(2,626,193)	4,351,854	226,861
Interest expense	(204,823)	(92,405)	(384,962)	(218,892)
TOTAL OTHER INCOME/(EXPENSES)	1,765,660	(2,718,598)	3,966,892	7,969
NET INCOME (LOSS)	$1,635,466	$(2,844,988)	$3,692,744	$(235,734)
BASIC AND DILUTED LOSS PER SHARE	$0.00	$(0.01)	$0.01	$(0.00)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	508,297,956	448,562,529	492,757,707	446,056,343

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

HYPERSOLAR, INC.

CONDENSED STATEMENTS OF SHAREHOLDERS' DEFICIT

FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

	Preferred stock		Common stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance at June 30, 2015	-	-	476,848,072	476,848	5,568,303	(20,079,841)	(14,034,690)
Issuance of common stock for conversion of debt	-	-	34,044,928	34,045	25,534	-	59,579
Net income for the six months ended December 31, 2015	-	-	-	-	-	3,692,744	3,692,744
Balance at December 31, 2015 (unaudited)	-	$ -	510,893,000	$510,893	$5,593,837	$(16,387,097)	$(10,282,367)

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

HYPERSOLAR, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended	
	December 31, 2015	December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$3,692,744	$(235,734)
Adjustment to reconcile net income to net cash used in operating activities		
Depreciation & amortization expense	514	678
(Gain) on change in derivative liability	(4,351,854)	(226,861)
Amortization of debt discount recorded as interest expense	330,034	188,161
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Deposits	-	(525)
Increase (Decrease) in:		
Accounts payable	14,702	(9,345)
Accrued expenses	58,254	34,220
NET CASH USED IN OPERATING ACTIVITIES	(255,606)	(249,406)
NET CASH FLOWS FROM INVESTING ACTIVITIES:	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible notes payable	310,000	250,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	310,000	250,000
NET INCREASE IN CASH	54,394	594
CASH, BEGINNING OF PERIOD	39,491	61,628
CASH, END OF PERIOD	$93,885	$62,222
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$70	$134
Taxes paid	$-	$-
SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS		
Issuance of common stock upon conversion of convertible notes	$59,579	$33,625

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

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HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2015

1. BASIS OF PRESENTATION

The accompanying unaudited condensed 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 six months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the year ending June 30, 2016. 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, 2015.

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 through private placement offerings of equity and debt. Management believes that it will be able to continue to raise funds by sale of its securities to its existing shareholders and prospective new investors to provide the additional cash needed to meet the Company’s obligations as they become due, and will allow 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 HyperSolar, Inc. 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.

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.

Property and Equipment

Property and equipment are stated at lost and are depreciated by straight line method over their estimated useful life. These include computers and related equipment depreciated over 5 years.

Intangible Assets

Intangible assets consist of patents that are initially measured at the lower of cost or fair value. The patents are deemed to have an indefinite life and are not amortized. The patents are assessed annually for impairment, or whenever conditions indicate the asset may be impaired, and any such impairment will be recognized in the period identified.

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 six months ended December 31, 2015, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss. The Company excluded $500,000 of options, and the shares issuable from convertible debt of $1,226,000 for the six months ended December 31, 2015.

Stock based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

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HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

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 December 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.

We adopted ASC Topic 820 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

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 1measurements) 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 December 31, 2015 (See Note 6):

	Total	(Level 1)	(Level 2)	(Level 3)
Liabilities				
Derivative liability	8,992,520	-	-	8,992,520
Total liabilities measured at fair value	$8,992,520	$ -	$ -	$8,992,520

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

Balance as of July 1, 2015	$13,034,374
Fair value of derivative liabilities issued	431,354
Gain on change in derivative liability	(4,473,208)
Balance as of December 31, 2015	$8,992,520

Accounting for Derivatives

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses a probability weighted average series Black-Scholes-Merton option pricing models to value the derivative instruments at inception and on subsequent valuation dates.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Recently issued pronouncements

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.

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HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 six months ended December 31, 2015, the Company issued 34,044,928 shares of common stock upon conversion of $49,000 in principal, plus $10,579 in accrued interest on an outstanding convertible note.

4. STOCK OPTIONS

Options

As of December 31, 2015, there were 500,000 non-qualified common stock options outstanding. Each option is exercisable to the nearest whole share, in installments or otherwise, as the respective agreements may provide. Each Option expires on the date specified in the Option agreement, which date is not later than the fifth (5th) anniversary from the grant date of the options. As of December 31, 2015, 250,000 options are fully vested and are exercisable at an exercise price $0.04 per share; 250,000 stock options are not currently exercisable and are subject to vesting conditions which provide that fifty (50%) percent of the options vest on March 31, 2016 and the remaining fifty (50%) vests on March 31, 2017. These stock options 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:

	12/31/2015	
	Number	Weighted average

	of Options	exercise price
Outstanding, beginning of period	500,000	$ 0.03
Granted	-	-
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		$ -

5. CONVERTIBLE PROMISSORY NOTES

On August 9, 2013, the Company entered into 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 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 effective price per share granted to any person or entity, after the effective date, to acquire common stock. Upon execution of the securities purchase agreement, the Company received an advance of $15,000. The Company received additional advances in the aggregate amount of $85,000 for a total aggregate principal sum of $100,000. The Note provided for a maturity date of July 9, 2015, which was extended to April 9, 2016. During the six months ended December 31, 2015, the Company issued 34,044,928 shares of common stock upon conversion of $49,000 in principal, plus accrued interest of $10,579. The remaining balance as of December 31, 2015 was $51,000.

On December 16, 2013, the Company entered into a securities purchase agreement entered for the sale of a 10% convertible promissory note in the aggregate principal amount of up to $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) 50% of the lowest trading price since the original effective date of each respective advance: c) or the lowest effective price per share granted to any person or entity, after the effective date, to acquire common stock. Upon execution of the securities purchase agreement, the Company received an advance of $26,000.The Company received additional advances in the amount of $74,000 for an aggregate sum of $100,000. The Note provided for a maturity date of May 16, 2015, which was extended to February 16, 2016.

On March 5, 2014, the Company entered into a securities purchase agreement into for the sale of a 10% convertible promissory note in the aggregate principal amount of up to $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) 50% of the lowest trading price since the original effective date of each respective advance: c) or the lowest effective price per share granted to any person or entity, after the effective date, to acquire common stock. Upon execution of the securities purchase agreement, the Company received an advance of $30,000. 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 provided for a maturity date of September 5, 2015 which was extended to June 5, 2016.

HYPERSOLAR, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2015

5. CONVERTIBLE PROMISSORY NOTES (Continued)

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. 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) 50% of the lowest trading price since the original effective date of each respective advance: c) or the lowest effective price per share granted to any person or entity, after the effective date, to acquire common stock. Upon execution of the securities purchase agreement, the Company received an advance of $50,000.The Company received additional advances in the amount of $415,000 for an aggregate sum of $465,000. The Note provided for a maturity date on May 23, 2015 which was extended to February 23, 2016. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of $128,521 during the six months ended December 31, 2015.

On April 9, 2015, the Company entered into a securities purchase agreement into for the sale of a 10% convertible promissory note in the aggregate principal amount of up to $500,000. 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) $0.01 per share or fifty percent (50%); b) of the lowest trading price since the original effective date of each respective advance: c) or the lowest effective price per share granted to any person or entity, after the effective date, to acquire common stock. Upon execution of the securities purchase agreement, the Company received an advance of $50,000. The Company received additional advances in the amount of $410,000 for an aggregate sum of $460,000. The note matures nine (9) 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 $201,515 during the six months ended December 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 (the "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 six months ended December 31, 2015, as a result of the Notes issued that were accounted for as derivative liabilities, we determined that the fair value of the conversion feature of the convertible notes at issuance was $633,287, based upon a Black-Sholes-Model calculation. We recorded the full value of the derivative as a liability at issuance with an offset to valuation discount, which will be amortized over the life of the Notes.

During the six months ended December 31, 2015, approximately $49,000 in principal of the Notes were converted. As a result of the conversion of these Notes, and the change in fair value of the remaining Notes, the Company recorded a net gain in change in derivative of $4,351,854 in the statement of operations for the six months ended December 31, 2015. At December 31, 2015, the fair value of the derivative liability was $8,992,520.

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	0.14% - 0.65%
Stock volatility factor	23.70% - 110.22%
Weighted average expected option life	1 month - 9 months
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 reported the following events:

On January 22, 2016, the Company issued 17,432,877 shares of common stock upon partial conversion of the Note dated August 9, 2013 in the principal amount of $24,500, plus accrued interest of $6,008.

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 within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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. 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 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.

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. On September 15, 2015, we announced that we had surpassed the critical voltage (1.5 Volts) threshold to split water molecules for renewable hydrogen fuel production. We believe this is an extremely important step towards commercialization, as 1.5 V is the minimum voltage needed to produce hydrogen in real world systems.

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.

Currently, our strategy of partnering with both the University of Iowa and University of California, Santa Barbara (“UCSB”), has advanced our technology significantly. In November of 2014, the University of Iowa was added to the research and development team, giving us the support of two leading universities as we continue our pursuit of commercially viable renewable hydrogen. In December of 2015, we extended our agreement with the University of California, Santa Barbara until June 30, 2016. As the technology progresses, the University of Iowa team will continue to focus on increasing the voltage of the technology, while the UCSB team will focus more on the technology’s production aspects and cost models for scaled up systems. We anticipate continuing this strategy of leveraging our existing relationship, as well as potentially exploring relationships with other leading universities, to continue developing our technology.

Now that we have surpassed the 1.5 V threshold required for hydrogen fuel production in real world systems, we will identify the next steps in terms of scaling up the technology. Following this breakthrough, we will focus our efforts on increasing the hydrogen production efficiencies of these particles by bonding the ideal fuel production catalyst to the low-cost, high-voltage solar cell. In order to achieve this, the Company is currently exploring two parallel approaches. The first is to identify materials that interface with well-known hydrogen production catalysts, such as the platinum on solar particles, to improve sunlight-to-hydrogen conversion efficiency. The second is to pursue methods that further increase photo voltages of solar particles to greater than 1.7 V that allow integration of cheaper earth abundant catalysts without significant loss in hydrogen production efficiency. We believe this will bring us closer to developing a prototype or pilot. In December 2015, the University of Iowa team led by Dr. Syed Mubeen Hussaini identified a sulfide-based photocatalyst comprised of an earth abundant, non-toxic cheap material that it believed would rival platinum, a well-known catalyst material. The preliminary data following a series of laboratory tests indicates success in meeting these objectives.

We believe the ramifications of this breakthrough are significant, particularly the solar-to-hydrogen conversion efficiency. Historically, the key commercial barrier to renewable-produced (solar and wind) hydrogen fuel has been the expense of various system components. We believe the initial successes of utilizing this earth abundant photocatalyst clearly demonstrates its potential to compete with platinum, therefore significant reducing overall system cost.

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 net revenue, collectability of accounts receivable, useful lives and impairment of tangible and intangible assets, accruals, income taxes, inventory realization, 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

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 December 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.

We adopted ASC Topic 820 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Recently Issued Accounting Pronouncements

In August 2014, FASB issued ASU 2014-15, "Presentation of Financial Statements Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ". Currently, there is no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments in this ASU provide that guidance. In doing so, the amendments are intended to reduce diversity in the timing and content of footnote disclosures. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for public and nonpublic entities for annual periods ending after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-15 on the Company's financial statements.

Management reviewed currently issued pronouncements during the nine months ended December 31, 2015, and 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.

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

Operating Expenses

Operating expenses for the three months ended December 31, 2015 were $130,194 and $126,390 for the prior period ended December 31, 2014. The net increase of $3,804 in operating expenses consisted primarily of the decrease in research and development cost of $7,245 associated with outside consulting services, with an overall increase in general and administrative expenses of $11,049.

Other Income/(Expenses)

Other income and (expenses) for the three months ended December 31, 2015 were $1,765,660 and $(2,718,598) for the prior period ended December 31, 2014. The increase of $4,484,258 in other income and (expenses) was the result of an increase in net gain on debt conversion and change in fair value of the Company's derivative instruments of $4,596,676, with an increase in interest expense of $112,418, which includes $100,314 of amortization of debt discount.

Net Income

For the three months ended December 31, 2015, our net income was $1,635,466 as compared to a net loss of $(2,844,988) for the prior period December 31, 2014. The increase of $4,480,454 in net income was related primarily to other income and (expenses) due to an increase in non-cash cost associated with the fair value of the Company's convertible notes, and an increase in operating expenses. The Company has not generated any revenues.

Results of Operations for the Six Months Ended December 31, 2015 compared to Six Months Ended December 31, 2014.

Operating Expenses

Operating expenses for the six months ended December 31, 2015 were $274,148 and $243,703 for the prior period ended December 31, 2014. The net increase of $30,445 in operating expenses consisted primarily of the increase in research and development cost of $14,490 associated with outside consulting services, with an overall increase in general and administrative expenses of $15,955.

Other Income/(Expenses)

Other income and (expenses) for the six months ended December 31, 2015 were $3,966,892 and $7,969 for the prior period ended December 31, 2014. The increase of $3,958,923 in other income and (expenses) was the result of an increase in net gain on debt conversion and change in fair value of the Company's derivative instruments of $4,124,993, with an increase in interest expense of $166,070, which includes $141,874 of amortization of debt discount.

Net Income

For the six months ended December 31, 2015, our net income was $3,692,744 as compared to a net loss of $(235,734) for the prior period December 31, 2014. The increase of $3,928,478 in net income was related primarily to other income and (expenses) due to an increase in non-cash cost associated with the fair value of the Company's convertible notes, and an increase in operating expenses. The Company has not generated any revenues.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

As of December 31, 2015, we had a working capital deficit of $10,319,736 as compared to $14,072,573 as of June 30, 2015. This decrease in working capital deficit of $3,752,837 was due primarily to an increase in cash, accounts payable, accrued expenses, convertible notes, offset with a decrease in non-cash derivative liability.

Cash flow used in operating activities was $255,606 for the six months ended December 31, 2015 and $249,406 for the prior period ended December 31, 2014. The increase in cash used by operating activities was primarily due to an increase in accounts payable, accrued expenses, amortization of debt discount, with a decrease in deposits and non-cash loss on change in derivative liability. The Company has had no revenues.

Cash provided by financing activities during the six months ended December 31, 2015 was $310,000 and $250,000 for the prior period ended December 31, 2014. The increase in financing activities was due to equity financing with convertible notes through private placements during the current period.

The condensed 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 condensed financial statements do not reflect any adjustments that might result if we are unable to continue as a going concern. During the six months ended December 31, 2015, we did not generate any revenues, and used cash of $255,606 in operations. As of December 31, 2015, we had a working capital deficiency of $10,319,736 and a shareholders' deficit of $10,282,367. These factors, among others raise substantial doubt about our ability to continue as a going concern. Our independent auditors, in their report on our audited financial statements for the year ended June 30, 2015 expressed substantial doubt about our ability to continue as a going concern. Our ability of us to continue as a going concern and suitability of using the going concern basis is dependent upon, among other things, additional cash infusion. Historically, we have obtained funds from our shareholders. In the six months ended December 31, 2015, we obtained funding through the sale of our securities. Management believes that we will be able to continue to raise funds through the sale of our securities to existing and new investors. Management believes that funding from existing and prospective new investors and future revenue will provide the additional cash needed to meet our obligations as they become due, and will allow the development of our core business 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. We expect to incur additional expenses in prosecuting our primary patent.

We believe that working with both the University of Iowa and University of California, Santa Barbara ("UCSB"), gives us the support of two leading universities as we continue our pursuit of commercially viable renewable hydrogen. As the technology progresses, the University of Iowa team will continue to focus on increasing the voltage of the technology, while the UCSB team will focus more on the technology's production aspects and cost models for scaled up systems. We anticipate continuing this strategy of leveraging our existing relationship, as well as potentially exploring relationships with other leading universities, to continue developing our technology.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, result of operations, liquidity or capital expenditures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for Smaller Reporting Companies.

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, or persons performing similar functions, 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

We are not currently a party to, nor is any of our property currently the subject of, any pending legal proceeding that will have a material adverse effect on our business.

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors previously disclosed in our annual report on Form 10-K filed with the SEC on September 28, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended December 31, 2015, the Company issued 17,053,147 shares of common stock upon conversion of $24,500 in principal, plus accrued interest of $5,343.

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

ITEM 4. MINE SAFETY DISCLOSURES

No disclosure required.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	**Description**
10.1	Contract between Hypersolar, Inc. and the University of Iowa dated as of October 15, 2015 (filed herewith).
31.1	Certification by Chief Executive Officer and Acting Chief Financial Officer pursuant to Sarbanes-Oxley Section 302 (filed herewith).

32.2	Certification by Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 3, 2016 **HYPERSOLAR, INC.**

By: /s/ Timothy Young
Timothy Young

Chief Executive Officer and Acting Chief Financial Officer

(Principal Executive Officer and Principal

Financial Officer and Accounting Officer)