

Hypersolar, Inc.  
Form 10-Q  
February 14, 2013

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 DECEMBER 31, 2012

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)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

26-4298300  
(I.R.S. Employer  
Identification Number)

510 Castillo St. Suite 304  
Santa Barbara, California 93103

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (805) 966-6566

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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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 definition 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  (Do not check if a smaller reporting company)

Smaller reporting company

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

There were 168,585,170 shares of the registrant's common stock, par value \$0.001, issued and outstanding as of February 14, 2013.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## HYPERSOLAR, INC.

(A Development Stage Company)

## BALANCE SHEETS

	December 31, 2012 (Unaudited)	June 30, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$21,747	\$14,554
Prepaid expenses and other current assets	13,252	11,795
<b>TOTAL CURRENT ASSETS</b>	<b>34,999</b>	<b>26,349</b>
<b>PROPERTY &amp; EQUIPMENT</b>		
Computers and peripherals	4,198	4,198
Less: accumulated depreciation	(4,074 )	(3,374 )
<b>NET PROPERTY AND EQUIPMENT</b>	<b>124</b>	<b>824</b>
<b>OTHER ASSETS</b>		
Deposits	925	1,470
Domain, net of amortization \$1,565 and \$1,388, respectively	3,750	3,927
Patents	16,676	16,676
<b>TOTAL OTHER ASSETS</b>	<b>21,351</b>	<b>22,073</b>
<b>TOTAL ASSETS</b>	<b>\$56,474</b>	<b>\$49,246</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$105,316	\$72,092
Accrued expenses	116,921	34,530
Derivative liability	369,083	-
Convertible promissory notes, net of debt discount of \$172,306	102,194	-

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Promissory notes, net of debt discount of \$35,214	-	25,786
<b>TOTAL CURRENT LIABILITIES</b>	<b>693,514</b>	<b>132,408</b>
<b>SHAREHOLDERS' DEFICIT</b>		
Preferred Stock, \$0.001 par value; 5,000,000 authorized preferred shares	-	-
Common Stock, \$0.001 par value; 500,000,000 authorized common shares 168,585,170 and 163,328,376 shares issued and outstanding, respectively	168,586	163,328
Additional Paid in Capital	2,304,039	2,269,056
Deficit Accumulated during the Development Stage	(3,109,665)	(2,515,546)
<b>TOTAL SHAREHOLDERS' DEFICIT</b>	<b>(637,040 )</b>	<b>(83,162 )</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	<b>\$56,474</b>	<b>\$49,246</b>

The accompanying notes are an integral part of these financial statements

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HYPERSOLAR, INC.

(A Development Stage Company)

## STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended		For the Six Months Ended		From
	December 31,	December 31,	December 31,	December 31,	Inception
	2012	2011	2012	2011	on
					February
					18, 2009
					through
					December
					31, 2012
REVENUE	\$-	\$-	\$-	\$-	\$-
<b>OPERATING EXPENSES</b>					
General and administrative expenses	119,013	163,578	270,095	312,777	2,251,460
Research and development	61,352	34,020	109,345	67,596	605,941
Depreciation and amortization	438	438	877	877	5,639
<b>TOTAL OPERATING EXPENSES</b>	<b>180,803</b>	<b>198,036</b>	<b>380,317</b>	<b>381,250</b>	<b>2,863,040</b>
<b>LOSS FROM OPERATIONS BEFORE OTHER EXPENSES</b>	<b>(180,803 )</b>	<b>(198,036 )</b>	<b>(380,317 )</b>	<b>(381,250 )</b>	<b>(2,863,040)</b>
<b>OTHER INCOME/(EXPENSES)</b>					
Impairment of intangible asset	-	-	-	-	(14,727 )
Gain on forgiveness of debt	-	-	10,000	-	10,000
Loss on change in derivative	(94,583 )	-	(94,583 )	-	(94,583 )
Penalties	-	(92 )	-	(92 )	(157 )
Interest expense	(107,209 )	-	(129,219 )	-	(147,158 )
<b>TOTAL OTHER INCOME/(EXPENSES)</b>	<b>(201,792 )</b>	<b>(92 )</b>	<b>(213,802 )</b>	<b>(92 )</b>	<b>(246,625 )</b>
<b>NET LOSS</b>	<b>\$(382,595 )</b>	<b>\$(198,128 )</b>	<b>\$(594,119 )</b>	<b>\$(381,342 )</b>	<b>\$(3,109,665)</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$(0.00 )</b>	<b>\$(0.00 )</b>	<b>\$(0.00 )</b>	<b>\$(0.00 )</b>	

WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING

BASIC AND DILUTED	168,585,170	140,191,065	167,374,970	137,545,668
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The accompanying notes are an integral part of these financial statements

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HYPERMOLAR, INC.

(A Development Stage Company)

## STATEMENT OF SHAREHOLDERS' DEFICIT

	Preferred stock		Common stock		Additional	Deficit	
	Shares	Amount	Shares	Amount	Paid-in	Accumulated	Total
					Capital	during the	
						Development	
						Stage	
Balance at June 30, 2012	-	\$-	163,328,376	\$163,328	\$2,269,056	\$ (2,515,546 )	\$(83,162 )
Issuance of common stock for cash at prices ranging from \$0.015 to \$0.0175 per share (unaudited)	-	-	2,951,239	2,952	42,028	-	44,980
Issuance of common stock for services at fair value price per share ranging from \$0.03 and \$0.036 (unaudited)	-	-	305,555	306	9,694	-	10,000
Issuance of common stock for cashless exercise of warrants at fair value price per share at \$0.015 (unaudited)	-	-	2,000,000	2,000	(2,000 )	-	-
Debt discount on promissory notes (unaudited)	-	-	-	-	(14,739 )	-	(14,739 )
Net loss for the period ended December 31, 2012 (unaudited)	-	-	-	-	-	(594,119 )	(594,119 )



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Balance at December 31, 2012 (unaudited)	-	\$-	168,585,170	\$168,586	\$2,304,039	\$ (3,109,665 )	\$(637,040 )
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The accompanying notes are an integral part of these financial statements

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HYPERMOLAR, INC.

(A Development Stage Company)

## STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Period Ended December 31, 2012	December 31, 2011	From Inception on February 18, 2009  through December 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(594,119 )	\$(381,342 )	\$(3,109,665)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation & amortization expense	877	877	5,639
Common stock issued for services	10,000	-	276,794
Common stock compensation	-	11,535	44,669
Impairment of intangible asset	-	-	14,727
Forgiveness of debt	(10,000 )	-	(10,000 )
Loss on change in derivative	94,583	-	94,583
Amortization of debt discount recorded as interest expense	122,669	-	136,227
<b>Change in Assets and Liabilities:</b>			
(Increase) Decrease in:			
Prepaid expenses and other current assets	(1,457 )	21,980	(13,252 )
Deposits	545	(1,470 )	(925 )
Increase (Decrease) in:			
Accounts payable	43,224	(14,691 )	124,316
Accrued expenses	82,391	14,368	116,921
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(251,287 )</b>	<b>(348,743 )</b>	<b>(2,319,966)</b>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of fixed assets	-	-	(4,198 )
Purchase of intangible assets	-	-	(36,718 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>(40,916 )</b>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from notes payable, related party	68,500	-	284,053
Promissory notes exchanged	(122,000 )	-	(122,000 )
Proceeds from convertible notes payable	274,500	-	274,500

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Payment of notes payable, related party	(7,500 )	-	(162,053 )
Proceeds from issuance of common stock	44,980	340,000	2,108,129
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>258,480</b>	<b>340,000</b>	<b>2,382,629</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>7,193</b>	<b>(8,743 )</b>	<b>21,747</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>14,554</b>	<b>28,020</b>	<b>-</b>
<b>CASH, END OF PERIOD</b>	<b>\$21,747</b>	<b>\$19,277</b>	<b>\$21,747</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Interest paid	\$68	\$-	\$3,595
Taxes paid	\$-	\$-	\$-

**SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS**

During the period ended December 31, 2012, the Company issued 2,000,000 shares of common stock for 3,333,334 purchase warrants

through a cashless exercise.

The accompanying notes are an integral part of these financial statements

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HYPERSOLAR, INC.  
(A Development Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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 six months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. 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, 2012.

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 obtained funds from its shareholders since its inception through the period ended December 31, 2012. Management believes this funding will continue, and has also obtained funding from new investors. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its core business.

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.

Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the six months ended December 31, 2012, and had no revenues. A development stage activity is one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

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 and is in the development stage.

Cash and Cash Equivalent

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

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HYPERMOLAR, INC.  
(A Development Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 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

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, 2012, the balances reported for cash, prepaid expenses, accounts payable, accrued expenses, and derivative liability approximate the fair value because of their short maturities.

We adopted ASC Topic 820 (originally issued as SFAS 157, "Fair Value Measurements") as of January 1, 2008 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 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 December 31, 2012:

	Total	(Level 1)	(Level 2)	(Level 3)
Assets	\$ -	\$ -	\$ -	\$ -

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Total assets measured at fair value	\$ -	\$ -	\$ -	\$ -
<b>Liabilities</b>				
Derivative Liability	\$ 369,083	\$ -	\$ -	\$ 369,083
Convertible Debenture, net of discount	102,194	-	-	102,194
Total liabilities measured at fair value	\$ 471,277	\$ -	\$ -	\$ 471,277

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HYPERSOLAR, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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. A total of 69,838,762 shares for purchase warrants were not 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 period ended December 31, 2012, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

Recently adopted pronouncements

Management reviewed accounting pronouncements issued during the three months ended December 31, 2012, and adopted the following:

The Company adopted ASC 815 "Accounting for Derivative Instruments and Hedging Activities". This pronouncement addresses the accounting for derivative instruments including certain derivative instruments embedded in other contracts, and hedging activities. Derivative instruments that meet the definition of assets and liabilities should be reported in the financial statements at fair value, and any gain or loss should be recognized in current earnings. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.

3. CAPITAL STOCK

At December 31, 2012, the Company's authorized stock consisted of 500,000,000 shares of common stock, with a par value of \$0.001. The Company is also authorized to issue 5,000,000 shares of preferred stock with a par value of \$0.001 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares.

During the six months ended December 31, 2012, the Company issued 2,666,668 shares of common stock at a price of \$0.015 per share for cash of \$40,000, with warrants attached to purchase 4,666,668 shares of common stock; issued 284,571 shares of common stock at a price of \$0.0175 per share for cash of \$4,980; issued 305,555 shares of common stock for services at fair value of \$10,000. Also, the Company issued 2,000,000 shares of common stock through a cashless exercise of 3,333,333 purchase warrants.

4. STOCK OPTIONS AND WARRANTS

During the period ended June 30, 2012, the Board of Directors of the Company granted non-qualified stock options for 250,000 shares of common stock to a contractor. Each option shall be 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 are fully vested and are exercisable for a period of five years from the date of grant at an exercise price \$0.05 per share.

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HYPERSOLAR, INC.  
 (A Development Stage Company)  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2012

#### 4. STOCK OPTIONS AND WARRANTS (Continued)

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

	12/31/2012	
	Number of Options	Weighted average exercise price
Outstanding, beginning of period	250,000	\$0.05
Granted	-	-
Exercised	-	-
Forfeited/Expired	-	-
Outstanding, end of period	250,000	\$0.05
Exercisable at the end of period	250,000	\$0.05
Weighted average fair value of options granted during the period		\$-

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. We account for forfeitures as they occur. No stock-based compensation expense was recognized in the financial statements of operations during the six months ended December 31, 2012.

#### Warrants

During the six months ended December 31, 2012, the Company granted 4,666,668 purchase warrants associated with the purchase of 2,333,334 shares of common stock with an exercise price \$0.015 per share. Also, the Company issued 8,133,336 warrants as collateral associated with promissory notes in the amount of \$61,000. As of December 31, 2012, the Company had 69,838,762 warrants outstanding to purchase 69,838,762 shares of common stock.

#### 5. RENTAL LEASE

On August 1, 2012, the Company entered into a new facility lease with monthly rentals for \$925 per month. The lease is for a one year term and commenced on September 1, 2012, which terminates on August 31, 2013.

#### 6. PROMISSORY NOTES

During the six months ended December 31, 2012, the Company entered into two additional promissory notes in the amount of \$61,000 with warrants attached to purchase 8,133,336 shares of common stock at a price of \$0.015 per share. The notes bore interest of 5% per annum over a one year period. The notes matured within one year from their

commitment dates. The aggregate balance of the notes in the amount of \$122,000, were exchanged on December 26, 2012 for convertible promissory notes.

The Company accounted for the warrants by establishing an effective interest rate and recognizing a debt discount. The debt discount of \$96,520 that was recognized in the financials was adjusted by \$62,487 during the period due to the exchange of the notes on December 26, 2012. The amortization expense recognized in the financials as interest expense was \$20,475 for the six months ended December 31, 2012.

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HYPERSOLAR, INC.  
(A Development Stage Company)  
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DECEMBER 31, 2012

7. LOAN PAYABLE

During the period ended December 31, 2012, the Chief Executive Officer loaned the Company \$7,500 for operating expenses. The loan bears interest of 5% per annum. The loan plus interest was paid off during the period for a total of \$7,568.

8. CONVERTIBLE PROMISSORY NOTES

On October 3, 2012, and December 18, 2012, the Company received funds on two securities purchase agreements entered into on September 19, 2012 and December 13, 2012 for the sale of 8% convertible promissory notes in the aggregate principal amount of \$75,000. The notes are convertible into shares of common stock of the Company at a price equal to a variable conversion price of 58% multiplied by the market price representing a discount of 42%. The market price means the average of the lowest three (3) trading prices for the common stock during a ten (10) trading day period ending on the latest complete trading day prior to the conversion date. The notes mature on June 21, 2013 and September 17, 2013.

On October 19, 2012, the Company received in consideration upon execution of two (2) notes for the aggregate sum of \$25,000 on two (2) securities purchase agreements entered into for the sale of 10% convertible promissory notes in the aggregate principal amount 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 \$0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The notes mature one (1) year from the effective date of each payment.

On October 29, 2012, the Company received in consideration upon execution of a note for the sum of \$40,000 on a securities purchase agreement entered into for the sale of a 10% convertible promissory note in the aggregate principal amount 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 \$0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The note matures one (1) year from the effective date of each payment.

On December 7, 2012, the Company received in consideration upon execution of a note for the sum of \$12,500 on a securities purchase agreements entered into for the sale of 10% convertible promissory notes in the aggregate principal amount of \$75,500. 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 \$0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The notes mature one (1) year from the effective date of each payment.

On December 26, 2012, the Company exchanged demand promissory notes in the amount of \$122,000 to convertible promissory notes. The securities purchase agreements entered into for the sale of 10% convertible promissory notes in the aggregate principal amount of \$122,000, are convertible into shares of common stock of the Company at a price equal to (a) the lesser of \$0.011 per share (b) 50% of the lowest trade price of common stock recorded on any trade day after the effective dates (c) the lowest effective price per share granted to any person or entity after the effective date. The notes mature one (1) year from the effective date of each note.

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 of \$474,648 representing the estimated present value of the conversion feature considering the historic volatility of the Company's stock, and a discount of \$274,500 representing the imputed interest associated with the embedded derivative. The discount is amortized over the life of the convertible debt, which resulted in the recognition of \$102,193 in interest expense for the six months ended December 31, 2012, and the derivative liability is adjusted periodically according to stock price fluctuations. At the time of conversion, any remaining derivative liability will be charged to additional paid-in capital.

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HYPERMOLAR, INC.  
 (A Development Stage Company)  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2012

8. CONVERTIBLE PROMISSORY NOTES

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

Stock price on the valuation dates	\$	0.01 - \$0.02	
Conversion price for the debt	\$	0.005 - \$0.0116	
Dividend yield		0.00	%
Years to Maturity		1	
Risk free rate		.09% - .18	%
Expected volatility		124.97% - 283.73	%

The value of the derivative liability at December 31, 2012 was \$369,083.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events according to the requirements of ASC TOPIC 855 and there are no subsequent events to be reported.

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### ITEM 2. Management's Discussion and Analysis 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," "estimate," "predict," "potential," or "continue", the negative of the terms or other comparable terminology. Unless the context otherwise requires, references in this Form 10-Q to "we," "us," "our," or the "Company" refer to Hypersolar, Inc. 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 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.

#### Overview

Inspired by the photosynthetic process that plants use to harness the power of the sun to create energy molecules, Hypersolar, Inc. we are developing a novel solar-powered nanoparticle 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. Our technology will allow free hydrogen to be reacted with carbon dioxide to produce methane, the primary component in natural gas.

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. Although there are currently no fuel cell vehicles available for commercial sale, carmakers are hopeful that hydrogen fuel cells and infrastructure technologies will be developed in the future. (<http://world.honda.com/FuelCell/>)

#### Market Opportunity

Hydrogen has 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 and Nissan bring hydrogen powered cars to market.

Hydrogen production is a large and growing industry. Market size of global hydrogen production was estimated to be 53 million metric tons in 2010, of which 12% was shared by merchant hydrogen and rest with captive production (Markets and Markets Research; Hydrogen Generation Market). With decreasing sulfur level in petroleum products, lowering crude oil quality and rising demand of hydrogen operated fuel cell applications, global hydrogen production volume is forecasted to grow by compound annual growth rate of 5.6% from 2011 to 2016. The hydrogen production market in terms of value was estimated to be approximately \$82 billion in 2011. (Markets and Markets Research; Hydrogen Generation Market)

#### 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.



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### Revenue Recognition

Revenue on product sales is recognized when persuasive evidence of an arrangement exists, such as when a purchase order or contract is received from the customer, the selling price is fixed, title to the goods has changed and there is a reasonable assurance of collection of the sales proceeds. We obtain written purchase authorizations from our customers for a specified amount of product at a specified price and consider delivery to have occurred at the time of shipment. Revenue is recognized at shipment and we record a reserve for estimated sales returns, which is reflected as a reduction of revenue at the time of revenue recognition.

### 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, collectibility 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, 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 accounting pronouncements, and the following pronouncement was adopted during the period.

The Company adopted ASC 815 "Accounting for Derivative Instruments and Hedging Activities". This pronouncement addresses the accounting for derivative instruments including certain derivative instruments embedded in other contracts, and hedging activities. Derivative instruments that meet the definition of assets and liabilities should be reported in the financial statements at fair value, and any gain or loss should be recognized in current earnings. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.

### Liquidity and Capital Resources

As of December 31, 2012, we had a working capital deficit of \$(657,538) as compared to \$(106,059) as of June 30, 2012. This increase of \$(551,479) was due primarily to an increase in prepaid expenses, accounts payable, accrued expense, derivative and convertible promissory notes for the current period.

Cash flow used in operating activities was \$(251,287) for the six months ended December 31, 2012 and \$(348,743) for the prior period ended December 31, 2011. The decrease in cash used by operating activities was primarily due to a decrease in deposits and an increase in prepaid expenses, accounts payable, and accrued expenses. Also, the increase in net loss was due to the increase in non-cash amortization of discount and change in derivative. The Company is in its development stage and has had no revenues.

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Cash used in investing activities for the six months ended December 31, 2012 and 2011, was \$0, respectively. There were no purchases made during the respective periods for tangible or intangible assets.

Cash provided by financing activities during the six months ended December 31, 2012 was \$258,480 and \$340,000 for the prior period ending December 31, 2011. The decrease of \$(81,520) in financing activities was due to decrease in equity financing and an increase in convertible promissory notes from investors during the current period.

Our financial statements as of December 31, 2012 have been prepared under the assumption that we will continue as a going concern from inception (February 18, 2009) through December 31, 2012. Our independent registered public accounting firm has issued their report dated September 28, 2012, that 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.

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We believe our current cash balance as of February 12, 2013 will fund our operations for the next thirty days as we continue working to develop a prototype of our technology. As a result of our inability to raise sufficient financing in the second fiscal quarter, the CEO and certain vendors have not been fully compensated for their services. We are seeking further financing through the sales of additional equity securities. The sale of additional equity securities could result in additional 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. Financing may not 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. 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 May of 2012, we completed a lab scale prototype of our technology that can be seen on our website at [www.hypersolar.com](http://www.hypersolar.com). This prototype demonstrates hydrogen production from small scale solar devices coated with our unique, low-cost polymer coating, and submerged in waste water from a pulp and paper mill. This prototype will be used for demonstration purposes only and is not meant for commercial deployment. We are currently underway in the development of a larger field-scale demonstration prototype. We do not expect to purchase any significant plant and equipment for completing the prototype.

In addition to working on a field-scale prototype, we intend to explore other utilizations of our most recently filed patent. This invention is related to coatings, processes, and systems for stable operation of electrical, electrochemical, photoelectrochemical and photosynthetic devices with increased efficiency, unprecedented long term operational stability, and low cost. The present invention provides a stable functional coating material which when disposed on an electroactive device stabilizes it from electrical/chemical/electrochemical/photo degradation providing exceptional operational performance. We are exploring several possible systems that could benefit including “stabilization of a solar battery” and “enhancement and possible replacement for platinum in a fuel cell.” We will be working with our research partner, University of California Santa Barbara, to further explore the potentially valuable opportunities from this invention.

### Operating Expenses

Operating expenses for the six months ended December 31, 2012 were \$379,340 and \$381,250 for the prior period December 31, 2011. The net change in operating expenses consisted primarily of a net decrease in general and administrative expenses with an increase in research and development.

### Net Loss

For the six months ended December 31, 2012, our net loss was \$(593,142) and \$(381,342) for the prior period December 31, 2011. The change in net loss was related primarily to a reduction in operating expenses of \$1,910, an increase in other income and expenses of \$(213,710), which consisted of interest expense and penalties of \$(6,459), non-cash expense of a loss on change in derivative of \$(94,583), amortization of debt discount of \$(122,668), and forgiveness of debt for \$10,000. We recently began operating our business, and no revenues were generated to cover our operating costs, since we are in the development stage of our Company.



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ITEM 3. Quantitative and Qualitative Disclosure 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.

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PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

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, 2012.

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

On October 3, 2012, and December 18, 2012, the Company received funds on two securities purchase agreements entered into on September 19, 2012 and December 13, 2012 for the sale of 8% convertible promissory notes in the aggregate principal amount of \$75,000. The notes are convertible into shares of common stock of the Company at a price equal to a variable conversion price of 58% multiplied by the market price representing a discount of 42%. The market price means the average of the lowest three (3) trading prices for the common stock during a ten (10) trading day period ending on the latest complete trading day prior to the conversion date. The notes mature on June 21, 2013 and September 17, 2013.

On October 19, 2012, the Company received in consideration upon execution of two (2) notes for the aggregate sum of \$25,000 on two (2) securities purchase agreements entered into for the sale of 10% convertible promissory notes in the aggregate principal amount 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 \$0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The notes mature one (1) year from the effective date of each payment.

On October 29, 2012, the Company received in consideration upon execution of a note for the sum of \$40,000 on a securities purchase agreement entered into for the sale of a 10% convertible promissory note in the aggregate principal amount 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 \$0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The note matures one (1) year from the effective date of each payment.

On December 7, 2012, the Company received in consideration upon execution of a note for the sum of \$12,500 on a securities purchase agreements entered into for the sale of 10% convertible promissory notes in the aggregate principal amount of \$75,500. 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 \$0.01 per share or fifty percent (50%) of the lowest trading price of the previous 25 trading days. The notes mature one (1) year from the effective date of each payment.

The Company relied on an exemption pursuant to Section 4(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. (Removed and Reserved)

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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HYPERSOLAR, INC.

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.

February 14, 2013

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